Current tech boom is no dot-com bubble, experts say

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Silicon Valley's tech cup runneth over. Job growth is humming, coders are being lionized on HBO, Uber and its shared-economy cohorts are on fire, disrupted innovation is unfolding on every corner. And everyone from downtown San Jose to Oakland's Uptown to San Francisco's South of Market is partying like it's 1999.

Luckily, it's not - at least according to those who say today's boom and the exuberance of the dot-com craze are like night and day.

"Back around 2000, the IPOs were characterized by having only a few years' track record and little in the way of profits," says Brett Trueman, professor of accounting at the UCLA Anderson School of Management. "What's happening today is much different, because a lot of these companies have been around for longer periods of time, and they're more likely to be earning money than the startups during the dot-com boom. That's a clear indication that the froth isn't there now like it was in 2000."

Still, Silicon Valley knows froth. And the urge to compare the current craziness with the heady days of the past and fret about another bubble is understandable. You want froth? The SV 150, the San Jose Mercury News' ranking of the largest companies in Silicon Valley based on revenue, shows the region lately has been a veritable cash machine: 2014 was the most profitable year since the SV150 began 29 years ago, with a 23.8-percent jump in overall profits, an 11.7-percent rise in sales, and a 7.1-percent increase in job growth.

So is it sustainable?

In a nutshell - yes, says Beacon Economics founding partner Chris Thornberg, albeit with a small caveat.

"We're seeing record profits today, unlike in the '90s when you had huge valuations but nobody making the money to justify them," he said. "Back then, people were selling the IT and investors were buying it, but it wasn't being integrated into our lives very well."

Economists point to Uber, valued at more than $40 billion, as a prime example of the paradigm shift underway in tech, where an innovative service is changing the way we think about everything from car ownership to insurance to urban planning.

"Today," said Thornberg, information technology, or IT, "is something companies invest in and then make a lot of money off of it. So the guys now selling that IT are also making tons of money."

And the caveat? "The only place you might get into trouble," said Thornberg, "is if the labor markets heat up and corporate profits start going to the employees (for salaries). But it's way too early to call that."

A large chorus of Silicon Valley pundits insist that despite the heat of the moment, what's happening in the today is not "Pets.com, The Sequel."

Yes, the tech-heavy Nasdaq is finally approaching its dot-com high of 5,048. But it's been a long, slow - and some would say healthy - ascent that suggests its tech components remain on relatively solid footing. And sure, the "weighting" of IT companies in the S&P 500 index has grown from 6.3 percent in 1990 to nearly 20 percent today, perhaps suggesting a troubling dominance on tech. But consider that IT's share of that index hit more than 29 percent in 1999, just before things went bust so today's share is relatively modest.

While it's true that the SV150 now has the highest market-cap-to-sales ratio (3.8) since the dot-com bubble, meaning that it is valued by investors at nearly four times the annual revenue of those 150 firms, that's still less than half of the 8.1 sales ratio in 1999.

And then there's the Apple effect. The world's most-valuable company recently joined the Dow Jones Industrial Average, becoming one of five tech companies on the Dow 30, three of them based in Silicon Valley. Its inclusion confirms the Cupertino tech giant's crucial role in keeping the tech-boom momentum going. And the price-earnings, or PE, ratios for today's tech giants, which sit in the midteens, are seemingly conservative when viewed beside the 100-plus numbers of AOL and others back before the bottom fell out.

Despite all the comforting news, there's no way a rising tech-boom tide can lift all boats.

"Are there too many tech startups chasing too few things? Yes," says Brent Thill, managing director and senior analyst at the research division of USB Investment Bank. "Not all of them will survive, and you'll start to see the leaders in each category taking more commanding leads.

"This tech boom is sustainable for select companies," said Thill, pointing to Uber. "I don't guarantee Uber's numbers, but I personally use Uber every single day and for me it's become as common as sending a text or making a phone call; Uber has changed the way I view transportation."

But Thill cautions that even while today's boom seems to have legs, that's not to suggest there could still be the occasional stumble.

"There are too many companies out there that think they deserve a billion-dollar valuation, but it's not logical," he said. "They shouldn't assume that, because there can only be so many."

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Comparing the times

Dot-com 2000 exuberance vs. today's tech boom.

Then: Many IPOs had little track record and no profits to show.

Now: Many startups boast real profits while their VC funders are much more cautious about going public too quickly.

Then: A tech-heavy Nasdaq hit its all-time high of 5048 just before things crashed.

Now: After making a long, slow - and some would say healthy - ascent, Nasdaq has still not reached its earlier high.

-Source: Mercury News reporting