In reminder of '90s, LinkedIn has big first day

May 20 2011, By MICHAEL LIEDTKE , AP Technology Writer

Reid Hoffman, left, the founder of LinkedIn, and Jeff Weiner, the company's CEO, celebrate the listing of LinkedIn, Thursday, May 19, 2011, on the New York Stock Exchange. LinkedIn, based in Mountain View, Calif., is an internet-based social networking rolodex for business people. (AP Photo/Mark Lennihan)

(AP) -- There was an unmistakable echo of the dot-com boom Thursday on Wall Street. LinkedIn, a trailblazer in the online networking craze, went public with a roaring stock offering. Within minutes, shares were trading at twice the value set by the company.

Buyers crowded the floor of the New York Stock Exchange, and financial news networks flashed LinkedIn's stock price urgently all day. By the closing bell, the company had a market value of $9 billion, the

highest for any Internet company since Google had its initial public offering seven years ago. Millionaires and even one billionaire were made, at least on paper.

The stock, issued at $45, went as high as $122.70 just before noon and closed at $94.25 on a trading volume of 30 million shares. All this for a company that skeptics say amounts to an online Rolodex, a place on the Internet for professionals to post resumes and connect with one another and potential employers.

It was enough to remind some people on Wall Street of the heady late 1990s and the debuts of companies like Netscape Communications - and, more infamously, long-forgotten names like Pets.com and Webvan. Investors wondered whether LinkedIn will be a precursor to another financial frenzy in Silicon Valley.

"I definitely think this will be a catalyst," said longtime technology investor and analyst Michael Moe, CEO of Global Silicon Valley Asset Management. "Investors who like growth stocks have been stuck in a desert for a long time, and now it's like they have found this great pitcher of water."

LinkedIn is already worth $9 billion, or 18 times its projected revenue this year. Major Internet companies, including Google, trade at an average of about five times projected revenue, according to an analysis by Capital IQ.

Using another measure, price-to-earnings ratio, which compares a company's market value with its profit, LinkedIn finished the day at a staggering 554 - a number reminiscent of the late 1990s tech bubble. By comparison, the average P/E ratio of technology companies in the Standard & Poor's 500 index like Google and Apple is 15.

Two-thirds of LinkedIn's revenue comes from the fees it charges to help companies find and hire workers. Francis Gaskins, president of IPOdesktop.com, said that makes the company more like Monster, an employment firm where business depends a lot on the health of the job market.

"Can we stop asking if we are in a bubble now?" venture capitalist Mitchell Kertzman said after hearing that LinkedIn stock was trading above $100. "We are clearly in a valuation bubble."

If the stock market is thirsty for more businesses that connect people on the Internet, there's a backlog of privately held companies that might one day satisfy it.

The short list includes Twitter, the 140-characters-or-fewer messaging service; Zynga, which makes online games like FarmVille; Groupon, the coupon site; and, of course, Facebook, the social network with more than 500 million users.

None of those companies has revealed specific plans for going public. Facebook has at least dangled the possibility of filing for an IPO before May 2012. A private investment led by Goldman Sachs Group Inc. valued Facebook at $50 billion in January.

"If people are this excited about a professional networking service like LinkedIn, you can imagine what kind of frenzy there is going to be when Facebook goes public," said eMarketer analyst Debra Aho Williamson.

The 109 percent first-day gain for LinkedIn, based in Mountain View, Calif., nearly mirrored Netscape's first day when it went public on Aug. 9, 1995. Netscape rose that day from $28 to a close of $58.25, or 108 percent.

Netscape co-founder Marc Andreessen's venture capital firm, Andreessen Horowitz, has invested in Twitter, Groupon, Zynga and Facebook.

As an individual, Andreessen was also an early investor in LinkedIn and is among the more than 102 million people who have posted their resumes and profiles on its website, a buttoned-down version of Facebook's online playground.

It may be as much fun as playing games, chatting and posting pictures on Facebook, but LinkedIn has steadily grown since it started in 2003 and it's now adding about a million accounts a week.

In a key distinction from the dot-com days, it also makes money - $3.4 million last year on revenue of $243 million. Its revenue more than doubled during the first three months of this year, putting it on pace to bring in about $500 million in 2011 from advertising and fees.

Kertzman, managing director of Hummer Winblad Venture Partners, was CEO of Liberate Technologies, a maker of software for TV set-top boxes, during the height of the dot-com boom. In 2000, its market value soared to $12 billion.

"I knew something was wrong because I knew we weren't worth that much and it scared the hell out of me," Kertzman said.

Aaron Levie, CEO of an Internet storage service called Box.net, sees things differently. Levie, who is 26 and was in high school during the dot-com boom, thinks it's a good sign that LinkedIn, Facebook and other companies are taking their time to build companies that make money before going public.

"You can tell this is a very different period than the late `90s," Levie

said. "Silicon Valley is definitely back, and much healthier."

LinkedIn's CEO, Jeff Weiner, said he doesn't plan to dwell on high investor expectations.

"It's exciting, but it's a point in time," Weiner said a few hours after he rang the opening bell at the stock exchange, where LinkedIn's shares traded under the symbol LNKD. "One day's trading is not going to be too meaningful, and the same holds true for the next few days and the next few months. I know it sounds a little like a cliche, but we are in this for the long haul."

Weiner, a 41-year-old former Yahoo executive who became head of LinkedIn two years ago, still took some time to celebrate the IPO in a meeting that was beamed to all of LinkedIn's roughly 1,300 employees from the company's offices in the Empire State Building.

Many of LinkedIn's employees are now millionaires, at least on paper. The richest is co-founder and executive chairman Reid Hoffman. Already considered one of the smartest and best-connected people in Silicon Valley, Hoffman joined the ranks of the world's billionaires Thursday. Hoffman, 43, owns a 20 percent stake in LinkedIn, good for about $1.8 billion.

That value could wildly fluctuate, based on how other hot technology IPOs have performed through the years.

Until LinkedIn came along, software maker VMware Inc. had boasted Silicon Valley's biggest one-day gain among IPOs completed during the decade after the dot-com bubble burst. VMware stock rose 76 percent on the first day of trading in August 2007. Thirteen months later, it had fallen below its IPO price of $29.

VMware's experience also serves as a reminder that what goes up and comes down can go up again. The company's stock closed Thursday at $93.89.