

Box moves toward IPO destiny

2 October 2013, by Peter Delevett

It's the quintessential Silicon Valley tale: Two kids start a company in a dorm room. The company grows, adds millions of users and within a few years is worth more than \$1 billion.

Only Aaron Levie and Dylan Smith aren't helping people swap MP3s or status updates: They're selling data-storage software to the Fortune 500. And though they're both just 28, they're widely expected to soon launch one of the tech industry's most anticipated stock offerings.

"There aren't a lot of people Aaron's age who are actually passionate about the enterprise - even though that's where the money is," said analyst R. "Ray" Wang of Constellation Research. By some estimates, the cloud storage market in which Los Altos, Calif.-based Box competes is worth more than \$7 billion a year, and Wang is among those who predict strong demand when the company finally kicks off an IPO.

Like any good chief executive, Levie won't cop to a timetable for an initial public offering, but he's well aware Wall Street's appetite for enterprise software is razor-keen. While consumer companies such as Twitter get the buzz, stock investors have shelled out hundreds of millions of dollars recently to buy stakes in the likes of Marketo and FireEye, which help businesses analyze and safeguard their data remotely.

So how did a college sophomore fall in love with enterprise software?

In an interview after the annual BoxWorks conference, which drew thousands of people and celebrity speakers last month to a San Francisco hotel ballroom, Levie recalled how he'd gone to the University of Southern California with dreams of breaking into movies. Instead, he found himself in a [business](#) class where he and his fellow students were told to analyze a market.

"I don't think anybody in that class could spell 'online storage,' " he quipped about that day in

2004. But he chose the industry because he thought it vaguely interesting. Then, after some research: Lights, camera, action! "I realized what an opportunity this actually was," he said.

Most people and businesses at the time were backing up data on external hard drives and DVDs, which could quickly become obsolete. And while a few companies in the late 1990s had tried selling remote storage via the Internet, connection speeds and data costs had driven them out of business.

Levie became convinced the time was right for "a universal, lifetime backup and sharing service." He rang up Smith, his boyhood friend from Seattle who was studying business at Duke University. With \$20,000 Smith had won in online poker, the pair launched their startup.

Box's second infusion of cash arrived even more audaciously: via a cold call to billionaire tech entrepreneur Mark Cuban, who wrote a six-figure check. Within a few months, Levie and Smith had left college - much to their parents' chagrin - and moved to Silicon Valley.

But while you can take the CEO out of the dorm ...

Levie is known for a zany irreverence - his frequent Twitter posts raise the question of whether he ever sleeps. He opened the BoxWorks conference - wearing a gray suit and his trademark neon sneakers - by leaping onstage after a running start, then segued into what felt like a late-night TV host's monologue, complete with shots at Miley Cyrus and the America's Cup.

David Packard, this was not.

That said, Levie is also serious business. Box today claims 20 million users at 180,000 companies, ranging from Gap and MTV to drug giant GlaxoSmithKline. While most of those users don't pay for the product - Levie calls a recent Forrester estimate of 3 million to 5 million paid

software licenses "a little ambitious" - enough companies have signed on that sales more than doubled in 2012 and are on pace for a repeat this year.

Thanks to the company's "freemium" pricing model, which gives users 10 gigabytes of gratis storage (roughly enough to hold 10,000 emails or 2,000 music files), "tens of thousands of people sign up for the service every day," Levie said. Once enough users establish a beachhead within a company, Box sales representatives swoop in to sell the bosses on such features as secure file sharing and collaboration. Levie said revenues will top \$100 million this year; the company boasts more than 900 employees worldwide.

It's no wonder Levie now sports premature gray to match his preternatural intelligence.

By all accounts, he and Smith could have cashed out already: They rebuffed a reported \$600 million offer from Citrix two years back. But Smith, the startup's chief financial officer, told this newspaper that the co-founders and their investors have bigger goals. Or, as Levie puts it: "We've been given a shot to build a company that can hopefully define a whole new category of technology."

To that end, he calls an IPO "the natural step on the path," although rather remarkably, he said the company hasn't yet filed confidential paperwork with federal securities regulators to begin the process.

Box has raised \$284 million in venture capital, nearly half of which came in one huge chunk a year ago that valued the company at \$1.2 billion. Smith and Levie say their investors - which include General Atlantic, Draper Fisher Jurvetson, Intel Capital, Andreessen Horowitz and cloud pioneer Salesforce.com - aren't rushing them to go public before the company's ready.

To complement the youthful co-founders, Box has brought in finance and operating veterans from eBay, Intuit, EMC and other blue-chip names. Still, Motley Fool tech analyst Evan Niu said CFO Smith in particular "will have his work cut out for him taking the [company](#) public." Although Smith, unlike

Levie, eventually finished college, he holds only a bachelor's degree and has never worked outside Box.

Smith acknowledges such concerns but said the board is comfortable with his track record and ability to "understand the business better than anyone."

Forrester analyst Rob Koplowitz cites other challenges facing Box, including heavyweight rivals like Microsoft and IBM that have yet to fully roll out their [cloud storage](#) strategies. Also, there's Dropbox, the San Francisco startup that launched three years after Box but now claims 175 million users and has expanded to businesses as well as consumers.

So why is Koplowitz bullish on Box? "Clarity of focus," he said. "They know where they're going, and it doesn't waver."

Box has developed sophisticated security and network technology that reassures chief information officers, Koplowitz said. Other tools, like the recently introduced Box Notes, let users share their data with others and keep track of changes by multiple parties.

Yet what has really set Box ahead of its deeper-pocketed competition isn't its technology, Koplowitz said, but Levie's passion for the cloud and his focus almost from the beginning on enterprise customers.

"He's looking like the right guy at the right place and the right time," Koplowitz said. "And with a head start."

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