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Some merchants are sitting it out

Bob Tedeschi NYT

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NEW YORK Silicon Valley may be buzzing with the thought that a Google public offering would bring about a new boom for Internet businesses, but executives at some successful online companies who missed out on Wall Street's previous dot-com dance say they are sitting this one out by choice.

Thirteen Internet companies are raising \$2.2 billion in the public markets, according to the research firm Dealogic. That is five fewer than went public in the previous three years combined and a far cry from the peak of the first bubble - 95 dot-coms made their debuts in the third quarter of 1999 alone. But executives say investment bankers smell a trend, and commissions, in those numbers.

"The investment guys are calling incessantly," said Justin Kitch, chief executive of Homestead Technologies, an American Internet software company that filed plans with the U.S. Securities and Exchange Commission in 2000 for a public offering but dropped the idea when the market changed course. "To them, it's like fresh meat. We're like, 'Guys, chill out.'"

Kitch said the calls started coming more frequently after the beginning of this year. "The rules you hear now about what it takes to go public are a lot more stringent than they used to be, but that's changing, too," he said. "A few months ago, you needed to have \$10 million a quarter in revenue and be profitable for three quarters in a row. Now if you have fair profits in the double-digit millions and you've just turned profitable, people are starting to value that."

Kitch's company, which operates online at Homestead.com, helps people design personal Web sites, using proprietary software, and recently started a service for posting photographs online.

It achieved its first quarterly profit last period and generates more than \$14 million in annual revenue. Kitch said he bowed to pressure from his investors in 2000 to begin the initial offering process.

"But I never liked the idea of forecasting results and hyping yourself," he said. "I wasn't confident enough in the future."

Kitch said he had no intention of offering shares to the public soon, even though Homestead's venture capital backers might see it as a good chance to recoup their investments. "We just went from being a one-product company to a two-product company," he said. "I'd rather get really good at selling two services than try to go public and worry about predicting how much revenue we'll make in '05."

Unlike some privately held Internet companies, Homestead has no competitors preparing to raise money in a public offering. But even the prospect of facing a newly rich competitor does not faze Shmuel Gniwisch, chief executive of Ice.com, a privately held Internet jeweler. Its main competitor is Blue Nile, the online diamond retailer that last week disclosed that it would seek \$32.4 million in a public offering. Blue Nile reported pretax net income of \$11.3 million for 2003 on revenue of \$129 million.

Gniwisch said investment bankers and venture capitalists had been calling him, saying, "You're the only competitor to Blue Nile that's really growing, so what do you think?"

"I say, 'You're a great guy, you want to make me rich and I love it, but it's not my spiel now,'" he said. "Come to me in five years."

Gniwisch said Ice.com was on track to make "maybe \$8 million" in profit this year, with revenue increasing 80 percent over last year. But he said such numbers actually argued against issuing shares to the public. "Eighty percent isn't healthy growth," he said. "The business is too volatile right now," with Amazon.com's having recently opened a jewelry store.

Another e-commerce company resisting the siren call of the markets is Abebooks.com, a bookseller. "There is simply no need to raise money now," said Hannes Blum, chief executive. "We're generating a nice amount of cash now, so we have what we need to grow." He added that if the company needed money for an acquisition, "we could easily fund it with private equity."

According to Jeffrey Sonnenfeld, an associate dean of the Yale School of Management, dot-com executives who resist the lure of public capital have some history - albeit distant history - on their side. The public stock offering, he said, "is a phenomenon of the latter half of the 20th century."

"Historically, companies hit this tremendous need for capital to grow, and they just couldn't do it through internal funds alone," Sonnenfeld said. "Usually the need was for emerging technologies or markets. It wasn't out of a sense of euphoria and cashing out."

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