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E-COMMERCE REPORT

Some Online Companies Enjoy Staying Private

By BOB TEDESCHI

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 S. Kitch, chief executive of Homestead Technologies, an Internet software company that filed plans with the 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.' "

Mr. 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."

Mr. Kitch's company, which operates online at Homestead.com, is host to and 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. Mr. 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."

Mr. Kitch has 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 revenues of \$129 million.

Mr. 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. Come to me in five years.' "

Mr. Gniwisch said Ice.com was on track to earn "maybe \$8 million" in profits this year, with revenues increasing 80

percent over last year. But he said such numbers actually argue against issuing shares to the public. "Eighty percent isn't healthy growth," he said. "The business is too volatile right now."

The online jewelry category is perhaps more volatile than most. Online jewelers scored big sales in the holiday season of 2002 after being largely ignored by the buying public in previous years. Last year, according to comScore Networks, they rang up sales of \$424 million in the fourth quarter, 41 percent more than in the same period in 2002. But now [Amazon](#) is threatening the category, having opened a jewelry store last week.

At least one dot-com with public aspirations is still losing money. Alibris, an online seller of used and rare books, filed S.E.C. documents last month, detailing plans to raise \$25 million in a public offering, even though it lost \$900,000 on revenues of \$13.8 million in the first quarter of this year, and \$6 million on revenues of \$45.5 million last year.

But one of its chief competitors is resisting the siren call of the markets. "There is simply no need to raise money now," said Hannes Blum, chief executive of Abebooks.com. "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 A. Sonnenfeld, 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," Mr. Sonnenfeld said. "Usually the need was for emerging technologies or markets. It wasn't out of a sense of euphoria and cashing out."

Mr. Sonnenfeld said the current collection of e-commerce executives was older and more seasoned than the class of 1999, "and they're not looking at this business as a hit-and-run scheme."

There are, of course, dot-com executives who have more recently taken their companies public, for what they regard as sound business reasons, not a hit and run. Patrick M. Byrne, chief executive of [Overstock.com](#), the online discount retailer, raised roughly \$40 million in two public offerings in the last two years. Since then, his company has grown to about \$500 million in annual sales from roughly \$100 million. (On Friday, the company reported a first-quarter loss of \$2.2 million on revenues of \$82 million.)

"I'm happy we did it," Mr. Byrne said. Among other things, the additional money helped Overstock buy \$7 million in apparel last year so its expansion into that category could be successful. Such a move would not have been possible before the company's public offering, because it had only about \$1.5 million in the bank.

Mr. Byrne said he had not felt especially burdened by the scrutiny from analysts that a public company attracts, or by the need to complete exhaustive forecasts and manage employees who are glued to the stock ticker - complaints often voiced by chiefs of publicly held companies. "But I may not be typical, in that I run this company as if it's private, and we're going to own it forever.

"I don't even know what my analysts' expectations are," Mr. Byrne said, adding that his company has an informal rule against talking about the stock price. "We were laughing about it yesterday. We literally don't even know what the street says about us. So it hasn't changed our lives very dramatically."