

Dot-com 2.0
Mardjokic.com
8/14/2011

Looking at the data, we've only really just started to see a resurgence of IPO's in the US (*See Appendix*). Yet the quality of the companies coming to market has me worried: the offerings seem opportunistic and laden with overly bullish assumptions.

The Street's appetite for the likes of LinkedIn, Pandora, and the unofficial IPO of Facebook smacks of another dot com bubble as I am struck by just how many high profile social media companies have come to market with just the faintest hint of an earnings stream. Moreover, and as always true to form, Wall Street has embedded extremely bullish growth assumptions and called for multiples that are nothing short of absurd.

It's true the dot com bubble is just shy of a decade old so I can appreciate the fact that the "lessons learned" might have faded just a bit. But what of MySpace? It wasn't two months ago that MySpace was sold for a paltry \$35M from an initial value of \$580M in 2005. Have we learned nothing from our fallen brethren?

While researching this article I found some interesting facts about the MySpace deal I thought were less publicized so thought useful to put out here:

- First, MySpace now has 34.8M users which is about half of its membership base from the peak.
- In contrast Facebook now has 157.2M users.
- NewsCorp will maintain a minority stake in MySpace and Specific Media is offering NewsCorp a cash AND stock deal, implicitly suggesting that not even Specific Media thinks \$35M is a good investment.

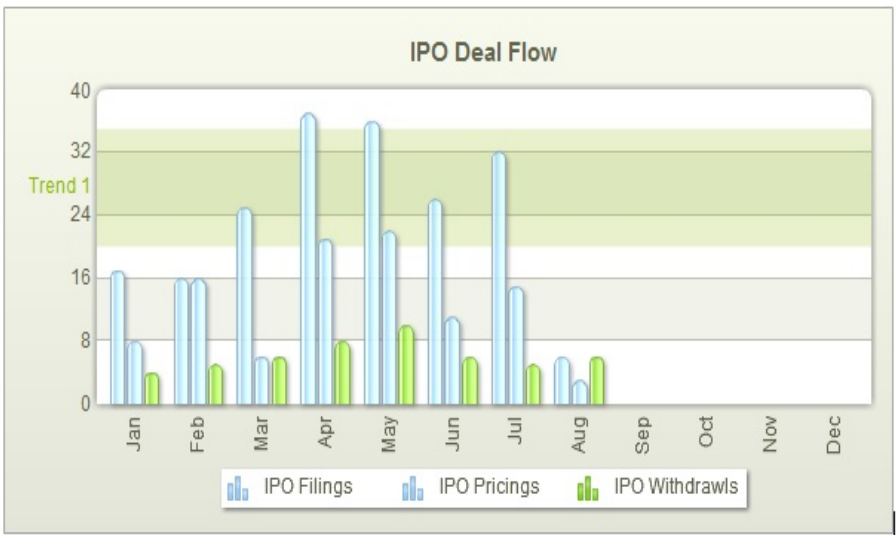
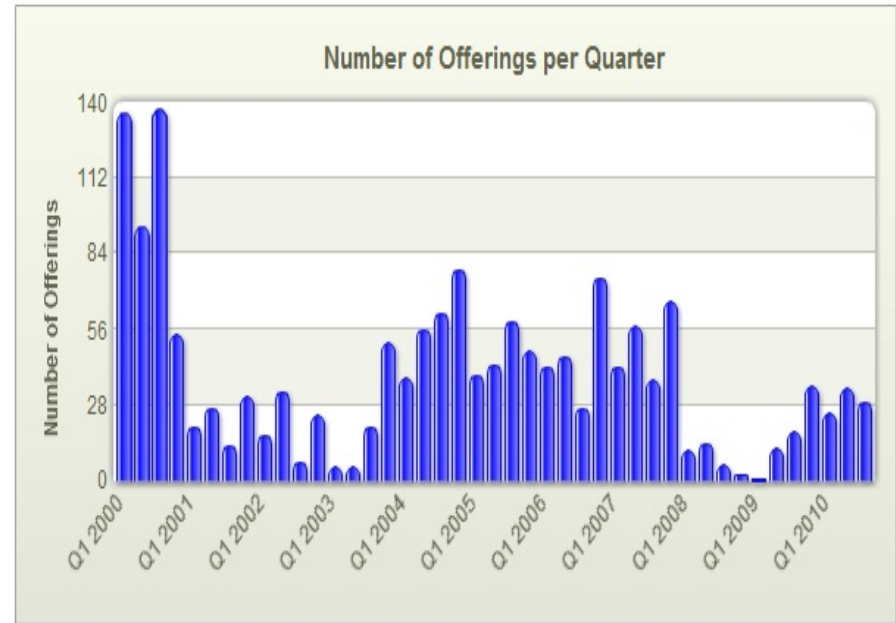
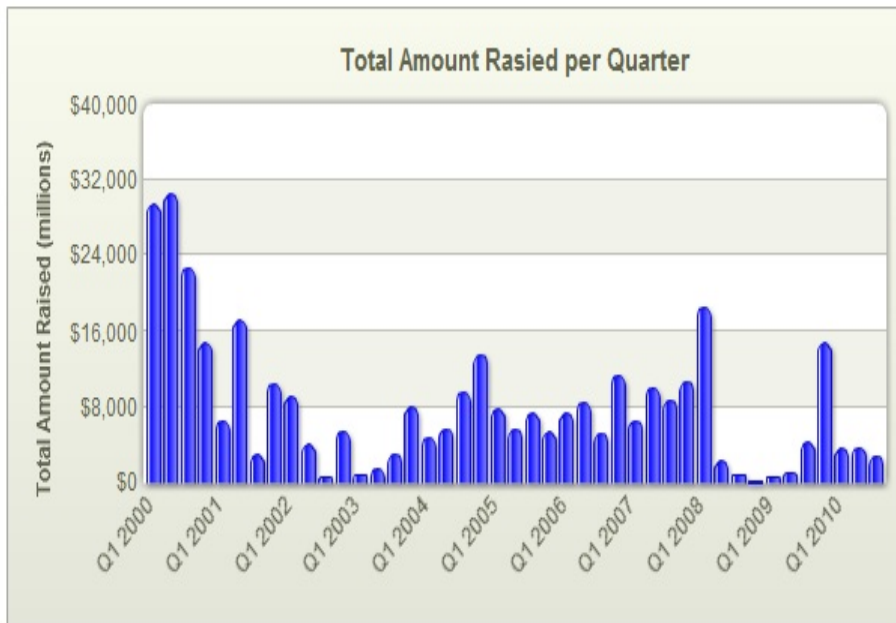
The NewsCorp/MySpace saga highlights the extreme fragility of internet valuations. Site usage and memberships are fickle and internet fades number in the hundreds. Yet social media derives a significant amount of its revenue from precisely this aspect of its business. They follow what I call the "Google model". Provide the service a gratis and bank on memberships to bring in advertising revenue. But this makes companies heavily dependent on keeping usage up and memberships growing. Now, being the #1 search engine or networking site makes selling advertising slots easy but fall from the throne and you will almost certainly walk the path of MySpace.

The 'print industry' is all but extinct having tried to make this same model work. It's not like this is anything new to us: we are all too familiar with its weaknesses so why are these 'new' companies any different? I think it's important to note that I am not unilaterally opposed to the Google model: it is not inherently evil or a bad

investment but at these multiples its 'priced to perfection'. One hiccup and your value decrease precipitously.

Investing in the likes of Pandora or Groupon is like swinging for the fences: its venture capital not public capital. Valuations are based off future earnings that are projected from current member counts, not stable earnings and assets. I am not sure when this bubble will burst, but rest assured it will. Unfortunately, all we can do is wait and see, as a wise man once said: the markets can remain irrational far longer than you can remain solvent.

Appendix: IPO Deal Flow Statistics



Source: IPO Monitor.com