

LinkedIn's IPO and the Value of Waiting

by Julia Boorstin

Wall Street hasn't seen an IPO like LinkedIn's in years.

Huge demand for social media — and the kind of growth LinkedIn has reported — it more than doubled after its open at \$45, soaring as high as nearly \$123.



Stan Honda | AFP | Getty Images

LinkedIn founder Reid Garrett Hoffman (C) and CEO Jeff Weiner (2nd R) at the ringing of the opening bell of the New York Stock Exchange May 19, 2011 during the initial public offering of the company.

The frenzy on the floor of the stock exchange, the surge nearly a hundred and fifty percent above the opening price, the company raising its IPO range by 30 percent earlier this week — it's all awfully reminiscent of the IPO frenzy over a decade ago. But this is nothing like the heady days of '99 — the success of LinkedIn's IPO speaks to the value of waiting, NOT rushing to market.

LinkedIn is 9 years old and it waited until it was profitable, with three different revenue streams before going public. Last year the company doubled its revenues to \$243 million with net income of \$15.4 million, compared to a loss the prior year. And this year the company continues its solid growth — doubling its revenue in the first quarter and growing net income 14 percent from the prior year.

While the company has warned that it doesn't expect to report GAAP profitability this year as it continues its expansion, its track record is a far cry from an era of IPOs from companies with no profits, let alone a business model. LinkedIn has revenue coming in from recruiting tools, premium subscriptions, and ads.

Why was the company's initial pricing so far below Wall Street's reaction? The final pricing was higher than where it was trading on SecondMarket — \$35 a share back in March. The company was one of SecondMarket's most actively traded companies on the platform for private company shares, accounting for 7 percent of transactions in Q4 2010. With Facebook drawing valuations well north of \$50 billion — with 600 million members to LinkedIn's 100 million, the business networking site has always traded at a discount. For year's LinkedIn has been social media — and Silicon Valley's less glamorous stepchild. While Mark Zuckerberg was inspiring Hollywood movies and the cover of dozens of magazines, LinkedIn was quietly going about its business, building the one major business networking site worldwide.

But bottom line: investors are hungry for a piece of web 2.0 companies — companies that are waiting longer than ever to IPO. Now that decision has been validated — there's value in waiting. Lou Kerner, Managing Director of Wedbush Securities Private Shares Group says he sees today's strong performance as a sign that companies will hold out until they have the kind of solid financials that will impress Wall Street. That means that Zynga and Groupon should very well move forward with plans to IPO by the end of the year. Twitter, whose revenue model is more nascent, is more likely to wait.

"LinkedIn just kicked off the next great IPO party", said Todd Chaffee, General Partner at IVP, which has backed the likes of Zynga, LivingSocial, and Twitter. "Unless we get a significant market correction, the IPO market should be robust for quite some time. That's why momentum investors are willing to pay such a high price for LinkedIn shares." Chaffee isn't the only VC celebrating-- this is a sign that there's a real exit for web 2.0 investments. But that doesn't mean that we'll see a frenzy and IPOs of second-tier companies. If anything was learned in the first dot-com bubble, Wall Street should turn a critical eye to high-flying startups, to make sure they have the fundamentals to support the kind of IPO pop we saw today.