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How Business Technology Companies Have Opened The IPO Window For Snap

JANUARY 27, 2017 MARTIN GILES

Snap is about to go public and the whole world will be watching. An IPO of the photo messaging company, which some believe could value it at up to $25 billion, would certainly be a landmark event. But while all eyes are on Snap, it's business tech companies, not consumer ones, that have been attracting investors back to US technology IPOs.

They've been attracting enterprise acquirers too. AppDynamics, whose tools help companies monitor the performance of their applications and fix bugs in them, was swept off the IPO altar at the last minute on January 24th by a breathtaking $3.7 billion bid from Cisco—a considerably higher valuation than the $2.2 billion the company was expected to fetch on a fully diluted basis in its IPO scheduled for the following day.

Had its offering gone ahead, AppDynamics would have joined a growing list of business technology companies heading to the public markets after a long drought. With a handful of notable exceptions like Twilio, the first half of 2016 was a wasteland for US tech offerings. The second half saw a modest uptick in activity. What's striking is that almost all of the companies that went public during that period were focused on business-to-business markets. Here are examples of some that staged IPOs, creating a cumulative total of over $10 billion in new market capitalization in the process.

Significant US Tech IPOs In Second Half 2016

Company	Activity	Offer Month	$ Offer Price	$ Price at 1/23/17	% Increase (Decrease)	Market Cap $M 1/23/17
Impinj	RFID For The Internet Of Things	July	14	33.38	138	678
Talend	Real-Time Data Integration	July	18	22.71	26	647
The Trade Desk	Advertising Tech	September	18	29.65	65	1144
Apptio	Cloud-based IT Planning	September	18	15.66	(13)	600
Nutanix	Hyperconverged Compute/Storage	September	16	30.18	89	4293
Coupa	Cloud Spend Management Platform	October	18	24.97	39	1248
Quantenna	Semiconductor Tech For WiFi	October	16	19.00	19	623
BlackLine	Cloud-based Accounting Software	October	17	27.66	63	1418

The group has performed well, with the companies' shares rising an average of 53% from their IPO prices through close of trading on January 23rd. Business tech companies are in the vanguard of the mini revival in US tech public offerings for a number of reasons:

Companies are tough customers, but relatively predictable ones

Forecasting which consumer tech companies will break out—and then sustain their momentum—is hard because consumer behavior is notoriously fickle. Corporate customers are more predictable. Sales cycles for business tech can be long and complex, but once customers have adopted a service they don't switch easily. This stickiness is especially appealing to investors who have just come through a period of market volatility triggered by shocks such as Brexit.

SaaS has changed the game in business software

It's no coincidence that several of the companies listed above, such as Coupa and BlackLine, offer software-as-a-service via the cloud. SaaS subscription models significantly reduce the friction associated with testing and adopting a new service. They also generate relatively predictable future revenue streams—assuming, of course, that the companies in question are well managed, and aren't caught napping by a rival with a better SaaS offering. That predictability is especially appealing to investors returning to the IPO market after a period on the sidelines.

The digital transformation of business is creating big growth opportunities

Another reason business tech IPOs are leading the way is that companies big and small are completely rethinking their technology investments as they try to reinvent themselves as digital-first organizations. This is creating massive new market opportunities for innovators like Nutanix, which is taking on incumbents in the primary storage market with a service that merges compute, virtualization, and storage in a software-defined, cloud-based solution. Shares in the company rose 131% on its first day of trading, and were up nearly 90% at the end of trading on January 17th. Its market capitalization stands at almost $4.3 billion.

The prospect of huge new business markets to conquer has certainly caught investor attention. Several other companies listed above already have billion-dollar-plus market caps. Those are in real, tradeable dollars, not Unicorn-maybe-someday ones.

Cisco’s move for AppDynamics underlines the significant value that entrepreneurs are creating in business technology markets. While AppDynamics won’t be joining the ranks of public companies, others such as Okta and MuleSoft are reportedly in line to do so. There will be plenty more headlines about Snap in coming weeks, but expect business tech IPOs to provide plenty of deal crackle and pricing pops in 2017.

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