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## **Answer To Silicon Valley's Liquidity Question: Think Smaller**

By Om Malik

Earlier today we hosted one of our GigaOM Bunker Series sessions, monthly events that we're holding in order to provide an intimate forum at which some of the most pressing issues facing startups can be discussed. Today's topic was "The Future of IPO/Liquidity Events for Technology Companies." Stacey had very colorfully summed up Silicon Valley's problems in a post earlier this spring when she wrote:

"One group says the industry needs more exits and should promote the return of smaller initial public offerings, while the other says the industry has grown too big in terms of the money it raises and needs to shrink."

These were precisely the issues that were discussed today. Since our conversation was about two hours long and involved most of the attendees, I can't really get into the specifics. The takeaway message: Silicon Valley collectively needs to think smaller. Smaller valuations, smaller public offerings and smaller expectations.

Liquidity is top of mind for many Silicon Valley insiders, and that is why we organized this event — to have a frank and in-depth discussion about a topic that we at GigaOM have been and will be talking about for a long time. From closely tracking the ideas proposed by organizations such as the National Venture Capital Association to venture industry insiders such as Paul Kedrosky to the one proposed by serial entrepreneur Brian McConnell earlier today.

Being an old-timer in Silicon Valley, I understand that while we can giggle about the vagaries of technology insiders, the fact remains that the lack of public market exits is a systemic problem that needs to be solved if the technology industry is to return to normal. As I've written before:

"For starters, it really stymies some of the larger startups with sizable revenues and some profits, and limits their options for creating an exit event that brings in much-needed capital but also rewards the employees. Back in the day — and I mean long before the dot-com bubble totally destroyed technology's moral and fiscal compass — it was possible for reasonably sized software, network and chip companies to tap the public

markets after spending between four and seven years in the trenches. Those type of deals have vanished, just like the smaller investment banks, such as Robertson Stephens.”

Recently, many startups and private exchanges have cropped up to help provide liquidity for startup shareholders. Earlier this week, a company called SharesPost announced its launch. The exchange, a private marketplace, saw 2,500 shares of Tesla Motors trade at \$10 each, giving the company a \$1 billion valuation. Inside Venture is another company that is trying to help solve the liquidity problem.

We held our discussion against this increasingly dismal backdrop. But Silicon Valley has faced such problems before. The Valley was in a slump from roughly 1980 till 1986, when future technology giants such as Microsoft, Adobe Systems, Oracle and Linear Technology went public.

While today’s economic downturn has made life tougher for companies in Silicon Valley, the fact remains that there are enough good candidates for public offerings even now. The problem is one of expectation. Everyone is looking for \$300 million-plus valuations when smaller liquidity events could do the trick. A \$50-\$100 million valuation for a technology company used to be a norm, so why can’t that happen again? This is something to think about.

But in a world in which far fewer chip companies are funded on an annual basis, the focus is on web-based companies. From large social networks to software-as-a-service providers — they are a different kind of a technology beast and in order to tap public markets, they need two things: core intellectual property and a large growing user base.

A good example of a company with a solid technology base and equally large user base is Facebook, even though despite a growing buzz for an IPO, CEO Mark Zuckerberg said recently that the company has no plans to go public. Instead, the Palo Alto-based social networking company recently raised \$200 million on a \$10 billion valuation. One could say the same about Twitter, the fast growing micro-messaging startup that is still sans revenue but has managed to attract a fast-growing ecosystem of startups.