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After the dotcom bust in 2000/01, the then twentysomething Patrick Grove was the only one of the four Catcha.com boys who stuck around to rebuild the **company** that had started out as Southeast Asia's Yahoo! search portal in 1999. Fourteen years on, his patience and, more importantly, his faith in the digital economy are paying off well enough for him to commit US$150 **million** to buying other Asean online businesses the next five years.

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Today, the collective value of Catcha **Group**'s digital media assets is over RM3 **billion** — double the market capitalisation of traditional media giants like Star Publications (**M**) Bhd, which, incidentally, has a 4.9% **stake** in one of the **group**'s smaller subsidiaries — Catcha Media Bhd — which is listed on Bursa Malaysia. In fact, the largest of Catcha **Group**'s four public-listed units — Australia-listed **property** portal iProperty **Group** Ltd — was slightly bigger than Star's RM1.74 **billion** market cap at the time of writing, although the owner of Malaysia's largest circulated English daily was 27 times more profitable last year.

"Every developer in Malaysia is our client. Most of our clients think we are a small little website that they advertise on, but iProperty is a RM1.76 **billion company** [at its A$3.20 close on April 2, 2014]. We're bigger than many of our clients," says Grove of the Australian Securities Exchange-listed iProperty, which on March 21 was added to the S&P/ASX 300 Index that lists Australia's top 300 stocks by market cap.

To illustrate, iProperty's market cap was quarter S P Setia Bhd's, 2.3 times YNH **Property** Bhd's and almost the same as Tropicana Corp Bhd's, which last year made 68 times more profit than the **company** that runs several real **estate** portals in Asia.

To be sure, much of iProperty's market cap growth happened in the past two months. The stock, which hit an all-time high of A$4.04 intraday on March 21, was hovering below A$2 in mid-January and only fetched 71 Australian cents in late May 2013. Three years ago, the stock was around 50 cents. Part of its recent gains might have been spurred by iProperty making its first net profit of A$1.7 **million** in financial year 2013, thanks to a A$5 **million** gain from selling its investment in ASX-listed iCar Asia last October.

Sentiments could also have been buoyed by the lavish love affair investors were having with technology stocks as deep-pocketed technology giants like social media outfit Facebook Inc spent seemingly ludicrous amounts on buying up unprofitable but promising start-ups with strong user following to win the world's attention, such as US$19 **billion** for free messaging service WhatsApp and US$1 **billion** for photo-sharing app Instagram.

While more investors are questioning the sustainability of tech stocks "beyond lofty" valuations after being slapped by the poor initial public offering debut of the US$7.6 **billion** "Candy Crush Saga" smartphone game-maker King Digital Entertainment plc on March 26, others point out that Google's two-for-one stock split last week gives the owner of the world's largest search engine ammunition to make big acquisitions using its shares without threatening its founder's control over the **company**.

For the record, Google — the world's third largest listed stock by market cap after gadget-maker Apple Inc and **oil** major ExxonMobil Corp — made a profit of US$12.92 **billion** in FY2013, nine times Facebook's US$1.49 **billion**. The open rivalry among the tech fiefs — from Google vs Facebook and Apple vs Samsung Electronics Co to Alibaba vs Tencent vs Baidu for dominion over **China**'s Internet market — may also boost acquisitions to expand and defend one's turf, experts say. **Chinese** e-commerce behemoth Alibaba.com, which in the past year alone spent US$3 **billion** on a string of purchases, would have more cash following its planned mega New York IPO that is expected to value it between US$100 billion and US$250 billion.

Grove, whose Catcha.com in 1999 to 2001 had "a simple content deal" with Alibaba and was recently offered a pre-IPO stake in the latter, reckons that the current second wave of the technology boom would be much bigger and stronger than the dotcom boom in the late 1990s. After all, Facebook only started in 2004 and the iPhone was unveiled in 2007.

"The Facebook IPO in 2012 was probably the beginning of the second wave. The average child knows Facebook is huge, but the average adult probably didn't really realise that Facebook was a US$170 billion company that was bigger than any listed company in Malaysia … when it IPO-ed, people reading the financial press realised that the website their child spent the whole day on was not some small chat room, but one of the top 30 listed companies in the world. The financial community started to realise that these were not just cute little side businesses, but serious business," Grove says, adding that the hugely successful Twitter IPO in 2013 and acquisitions by the global Internet giants further spurred deals.

"Google [started in September 1998] was not profitable back [during the first wave]. Today, it is among the largest companies in the world [with a US$380 billion market cap]."

Southeast Asia's Silicon Valley

Apart from Grove, Mark Chang — the founder of another Malaysian Internet companyJobStreet Corp Bhd — is also a success story and among the reasons the former calls Malaysia "the Silicon Valley of Southeast Asia".

"No one has claimed it, but some of the biggest listed Internet companies in Southeast Asia are actually in Malaysia," declares Grove, who turns 39 on April 30.

"Singapore, as a country and government, is very aggressive in trying to be a Silicon Valley but it has not created any Internet company worth over RM1 billion. Malaysia has created three: iProperty.com, JobStreet.com and MyEG Services. There are eight publicly traded Internet companies in Southeast Asia and six of them are Malaysian," adds Grove, who survived the 2001 dotcom bust and saw Catcha lose "lots of money" for seven years before turning around.

Founded in 1999 by Grove, Kensuke Tsurumaru, Nic Lim and John Wong, Catcha.com "became a household name in Singapore, Malaysia, Indonesia and the Philippines and came close to listing on the Singapore Exchange". But plans to raise S$55 million from the IPO were shelved after Nasdaq crashed in 2000 and a decision was made to diversify and move into print publishing.

"We knew it was only a matter of time before we got back into the online game, and in 2006, we began to make significant investments in online companies in the creation of iProperty Group, which went on to list on the ASX in 2007. We've been on a roll ever since," says Grove, who now owns Catcha Group Pte Ltd with Lucas Robert Elliot following the exit of his fellow founding partners. "Nic and John moved on over 10 years ago and Ken about 1.5 years ago."

Like iProperty, JobStreet was worth half its RM1.6 billion market value today just a year ago and fetched one-sixth of its value today five years back. Much of its recent gains came after Australia's biggest online employment siteSeek Ltd agreed to pay RM1.73 billion (US$524 million) for the online job portal business of Malaysia's JobStreet Corp on Feb 19 — a deal that valued JobStreet at 31 times 2013 earnings and the same size as Star, whose RM143 million net profit in FY2013 was 2.4 times JobStreet's RM59 million in the same year.

Also on Feb 19, Sultan of Johor Sultan Ibrahim Ismail paid US$120 million for 15% of Malaysian online payment firmMOL Global Pte Ltd in a deal that valued it at US$800 million. That is about the size of Malaysian Resources Corp Bhd, CapitaMalls Malaysia Trust and Media Prima Bhd, whose market cap stood at US$827.7 million, US$814.3 million and US$789.6 million respectively at the time of writing.

Incidentally, Nasdaq-listed Facebook's US$19 billion purchase of WhatsApp for nearly four times the social network company's US$5.09 billion revenue last year and 950 times the latter's revenue of US$20 million happened on the same day the JobStreet and MOL deals were announced.

Only three of the 928 Bursa Malaysia-listed companies had a market cap that was larger than WhatsApp's hotly debated super-high US$19 billion price tag. WhatsApp is three times the size of Telekom Malaysia Bhd and the size of DiGi.Com Bhd and Telekom combined. Even Malaysia's three biggest listed companies — Malayan Banking Bhd (US$26.2 billion), Public Bank Bhd (US$20.9 billion) and Tenaga Nasional Bhd (US$20.4 billion) — had a smaller market cap than Twitter Inc's US$26.6 billion.

True value or fool's gold?

Does the availability of deep-pocketed buyers like Facebook mean investors should rethink the way Internet companies are valued? Or is the crushed "Candy Crush" IPO the beginning of the end?

"People who don't know the Internet world see these numbers and think it is a bubble. I don't see this as a bubble because at the end of the day, you ignore the valuation and the share price and look at the fundamentals of the business. And you see that these businesses are growing really fast," Grove says.

"Something like iProperty is growing between 30% and 100% year on year [in terms of revenue and users] … so people can basically predict that five years from now the company is going to make more money than [a company that's profitable today but is not growing anymore] and they're basically investing for the future."

He adds that the growth potential for Internet companies is huge once scale is attained because costs stay largely the same while any additional user above the cost breakeven point is pure profit.

"If [a newspaper company] triples its readership, it will have to print more and cost goes up whereas for iProperty, if we triple users, we triple revenue but our cost stays the same. It doesn't cost much to host a website."

It remains to be seen if iProperty, which saw revenue grow 23% to A$19.05 million last year but might not have been profitable without a one-time investment sale gain, can continue to stay profitable this year. According to ASX filings, iProperty is profitable in Malaysia, but still loss-making in Singapore, Hong Kong and Indonesia. Last year, Ebitda for the Malaysian business rose 48% year on year to A$5.2 million on a 23% rise in revenue to A$11.8 million — still very small relative to a bricks-and-mortar property developer.

The winner takes it all

Grove admits that it might be a challenge to convince investors in Malaysia for some time to come. That is the reason he chose to list most of the companies in Australia, although none of the operations is there. Australian investors, like those in New York, are savvier when it comes to valuing technology companies, many of which can have tremendous growth potential but may not be immediately profitable, he says.

"The Malaysian market doesn't understand the growth potential, which is why this [Catcha Media] is notoriously under appreciated," he says, referring to the Malaysia-listed company that owns 27.4% of ASX-listed iCar Asia and had a market cap of RM117.14 million as at April 4. This is less than the RM211 million that its stake should be worth, going by iCar Asia's RM769.77 million market cap as at April 4.

"It's one of the region's largest Internet media companies due to its stake in iCar Asia, but it suffers from a market cap mismatch and as a young dotcom company, it has years to grow yet," Grove says.

iCar Asia operates a network of online automotive sites in Asean that reaches over 4.5 million potential car buyers and sellers a month in Thailand, Malaysia and Indonesia, but made a net loss of A$6.9 million in 2013 largely because of a jump in marketing and employment-related expenses.

The Catcha group of companies, Grove says, continues to look for mergers and acquisitions opportunities in the region to ensure it secures the No 1 spot in the businesses it is in, and it is not alone.

"The Internet is a battlefield where the winner takes it all. If you think of a sector, usually only one brand survives. Search, it is really just Google … video, it is YouTube … there isn't much room to be a No 2. I can't think of many categories where the No 2 or No 3 player is a rewarding business whereas offline, multiple brands can co-exist," he says, sharing the perspective of technology firms on why acquisitions for dominance are necessary.

Sigve Brekke, Telenor Group's executive vice-president and head for Asia, agrees that there is little space for a No 2 player in the online space. Faced with changing consumer behaviour, the Norwegian telecommunications operator, which controls mobile phone units in developed and emerging markets in Eastern Europe and Asia, is investing in online classified sites as part of its strategy to bring Internet to the masses.

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“Successful classified sites have highly attractive economics, but primarily when they reach the No 1 position in their market,” Brekke tells The Edge, adding that the typical Ebitda margin for companies that have secured the No 1 position is in the 50% to 70% range.

When asked about Facebook buying WhatsApp, his only comment is that an **acquisition** that size would have “wiped out” Telenor, whose market cap stands at US$33 **billion**. The same can be said about Singapore Telecommunications Ltd, whose market cap stands at US$46 **billion**. It is another telecoms operator that has been making acquisitions to improve its position in the Internet space. The acquisitions include a **company** that allows it to better monetise online advertising and small sites like HungryGoWhere.com for S$12 **million** in 2012.

The techie’s maths guide

Having bought and grown start-ups into multimillion-dollar companies, Grove, an accountant by training, agrees with Facebook founder and CEO Mark Zuckerberg that WhatsApp is “worth more” than US$19 **billion**.

“The bet is never about how the maths works. The maths always works … The biggest thing that the big tech companies are scared of is someone else inventing something bigger that stops the maths from coming through,” Grove says.

“When things are going well, you always have a few that get a crazy price for a so-so business and people will say this is a bubble. But right now, there is a lot more support for the Internet businesses than in the first wave, when there were no success stories. It was pure betting. Facebook hasn’t even started yet but now it is profitable and Google is profitable,” he replies when asked what has changed since the first tech bubble burst and whether a second bubble will burst at some point.

Google, which ended 2013 with US$58.72 **billion** in cash and cash equivalents, reported a 20.3% year-on-year growth in net income to US$12.92 **billion** last year on revenue that rose 19.2% to US$59.83 **billion**.

Facebook made a net income of US$1.5 **billion** on revenue of US$5.09 **billion** last year. It is not adding as many users as it used to, but still has 1.23 **billion** users who log in at least once a month and 757 **million** who use it every day.

The **acquisition** spree of these companies pushed up the prices of tech stocks as well as their own significantly in the past two years. With their cash pile still high, the chances are that acquisitions will continue to prop up the prices of the better Internet companies, even those that may not have much profit to show, because the greatest fear of tech companies is that someone else is inventing something better than what they have to offer.

“So, if someone invents something better, **buy** them. Is WhatsApp really worth more than Maxis and DiGi? Well, yeah. There is no way Maxis would have given up its entire **company** for one free messaging app whereas something like Facebook would want to own everything that people are using socially,” Grove explains.

“If something causes everyone to use Facebook, say, 20% less, that’s worth US$19 **billion** to Facebook. Against the US$19 **billion** [for WhatsApp], the US$1 **billion**Facebook paid for Instagram in 2012 looks cheap, doesn’t it?”

Sceptics, however, reckon that growth is already slowing for even big names like Facebook. While **China** Mobile in 2013 reported its first annual profit decline in 14 years as rising costs cut margins and the popularity of Tencent’s mobile messaging application WeChat (known as Weixin in **China**) caused a 6.5% drop in revenue from text and multimedia messages, Tencent too posted its slowest profit growth in two years as marketing expenses rose.

Seven years to profitability?

Growth is bound to slow down at some point for any **company**, but Grove reckons that Internet companies that successfully command the loyalty of a sizeable user base will always command good premiums. He should know because he is still hunting and thinks the big boys will continue to hunt to grow and protect their turf.

“The way we decide on acquisitions is if it gives us users, revenue or profits, we want it … In the Internet world, the winner takes it all because people just want to go to the service that they know everyone is using … People in the tech world understand that there is a journey you have got to go through and this journey typically takes five to seven years.

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"First is to get lots of users and as long as the users don't leave, as long as they get addicted [to the service], you can start to charge money — a little bit first and as long as the users stay, you can charge a little bit more. WhatsApp doesn't need to charge us now; they want to make sure we all get addicted and all the competitors die … and five years from now, that US$19 **billion** will look cheap, assuming something better doesn't come up."

Even if something better does turn up, Facebook has shown its willingness to open its purse. And now that the number of success stories is adding up, Grove thinks there is no better time than now to be on the technology scene.

"We want to tell the Catcha story, but we also want the path to be easier for the next 20-year-old looking to start a tech **company**. I was told to get a real job when I started, but this is better than any real [conventional] job."

If Grove is right about the need to take a leap of faith to profit from tech start-ups, investors might have to rethink the process of valuing tech companies. Wouldn't any investor want to own, say, WhatsApp or Amazon.com that have gone from US$40 levels in early 2009 to US$400 levels now?

On the flipside, anyone familiar with tech start-ups knows that for every success story, there is a truckload of flops. Those who succeed in identifying gems will join the ranks of Jim Goetz's Sequoia Capital, the venture capital **company** that is said to have reaped US$3.5 **billion** or 50 times its investment in WhatsApp and also reportedly made money from PayPal, Instagram and YouTube, which Google bought for US$1.65 **billion** in 2006.

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