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HD **Invest like it's 1999**

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Start-up incubators, accelerators and wild stockmarket valuations have some wondering whether the tech bubble is back. Others say this time it's different. Has tech's time finally come? First of a series by Paul Smith and Edmund Tadros.

When Matt Barrie floated his tech company Freelancer in November 2013, he rang the ASX's commemorative bell so hard he broke the clapper right off the rope. It was a portent of what was to come.

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Hitting the ASX's boards at 50¢ each, within hours shares in Freelancer doubled their value. Then they more than doubled again. After its first day as a listed company, Freelancer – an online marketplace for graphic designers and programmers to sell their wares – was worth $1 billion. The charismatic Barrie was soon to be confidently predicting growth to rival Facebook. His float was a smashing success.

One year later, the shares are back where they started at 52¢. Revenues for Freelancer's first financial year were $12 million, the bottom line was a $600,000 operating loss. Extraordinarily, given the excitement that greeted Freelancer's sharemarket debut, both figures were exactly in line with pre-IPO forecasts. "We're actually in a better position than ever before," says Barrie, with unwavering self-confidence.

It's been a year of wild valuations for tech companies. In the United States in February, Facebook paid $US19 billion ($22 billion) for WhatsApp, a messaging company, with annual revenue of just $US10.2 million. That staggering number has since been eclipsed by Chinese e-commerce platform Alibaba's $US168 billion post-listing valuation in September – the biggest IPO in history.

This week, controversial ride-sharing app Uber was reported to be raising capital at a level that would value the company between $US35 billion and $US40 billion.

A decade of reticence following the bursting of the dotcom bubble in 2000, when $US5 trillion was wiped off the market value of companies and the US was dragged into recession, has given way to buoyant projections, eye-popping investments and market-shaking IPOs.

Some are asking whether those milliennial days, when businesses struck it rich with little more than an idea and fancy presentation, have returned.Adjustment needed

"Valuations definitely need an adjustment," says Craig Blair, chairman at social TV start-up Beamly and former Expedia Australia managing director.

Blair is partnered with well-known tech investor Daniel Petre in the recently closed $60 million Airtree Ventures fund, which is targeting its investments on early growth-stage tech companies. He's one of many to have a nagging sense of deja vu.

"I think we will see some sort of correction in Australia and those businesses with sustainable models will thrive, those that are growing by increasing marketing spend with high-cash burn will struggle," he says.

There's a perceived wisdom in technology circles that you look at what is happening in the US, then fast-forward a year and it will be happening in Australia. If that's the case then the good times for companies with "e-" at the start of their names are set to roll throughout 2015.

Almost a year on from the WhatsApp **purchase**, it feels like time for local players to fill their boots. An increasingly vibrant industry is emerging purporting to support start-ups, and the financial pages are filling with prospective IPOs.

SydStart, Above All Human, Silicon Beach and Tech23 are among the multitude of conferences, pitch nights and networking events springing up around the country. These are often sponsored by a growing brand of start-up incubators and accelerators, which are all promising to help the hundreds of budding Mark Zuckerbergs pitch to a swelling coterie of venture capitalists and angel investors keen to get in on the ground floor of an idea that is going to soar. Young and rich

The techies are also taking over BRW's annual Young Rich List. Software **company** Atlassian co-founders Mike Cannon-Brookes and Scott Farquhar topped the 2014 list with combined wealth of $2.1 **billion**, a record high in the list's 12-year history. Third and fourth on the Young Rich are debutants Dave Greiner and Ben Richardson, at $500 **million**. The pair run Sydney email-marketing **firm** Campaign Monitor, which received a big investment from Insight Venture Partners earlier this year.

Technology is replacing property as the sure-fire way to get on to the rich list.

Meanwhile, wheezing and forgotten **mining** shell companies, which were already snoozing among the small caps, are being slapped on the cheeks, given a lick of make-up and re-emerging for a new season as cloud computing, social media or tech security specialists.

The record for ASX backdoor listings was 2000, when 32 new tech companies emerged. In the first six months of this calendar year, there were 16 backdoor listings, a number which has since increased to 24. Among them, Spencer Resources has gone from drilling for **gold** in Queensland to providing IT security as Bulletproof Networks, and the exotically named Latin **Gold** has transformed into a social network targeting Asian teens, known as MigMe.

A pervading sense of vibrancy is one thing, but numbers compiled for AFR Weekend also bear out the sense that the new tech boom is not just a North American phenomenon. The Australian tech start-up scene is awash with money and riding the crest of a wave.

Dealogic figures show the value of Australian technology IPOs has already exceeded $US1.5 **billion** this year, smashing the previous record of $US894 **million**, which was made at the tail end of the original dotcom boom in 1999 from 27 floats. Matt Barrie's bell is ringing again.Early funding

The value of this year's 10 completed and coming tech floats was boosted by media monitoring service iSentia, educational software maker 3P Learning and online retailer Mysale, in a performance that has dwarfed 2013, when two tech IPOs got away with a value of $US253 **million**.

But it is not just the public markets that illustrate the tech frenzy unfolding. Start-ups have more opportunities to get crucial early funding than they have had in years.

Venture capital investment in Australian technology firms has more than doubled from last year and is at its highest level since at least 2011.

More than $US400 **million** has already been pumped into local start-ups this year, according to public data collated by Internet Dealbook. This figure has been dramatically boosted by the $US234 **million** investment by US-based Insight Venture Partners into Campaign Monitor – the biggest single investment ever made in an Australian technology **firm**.

Overall, venture capital firms have invested more than $US1 **billion** in technology companies during the past four years in Australia.

Some veterans of the first dotcom boom feel like they have seen it all before.

Ramin Marzbani was one of the most commonly heard voices in dotcom-era Australia. He ran the influential www.consult consulting **firm**, which did expert reports for a number of Australia's biggest dotcom IPOs, including OzEmail, BMC Media and Destra, and feels like he has stepped into a time warp when listening to today's tech start-up media coverage.

"There are just so many parallels between now and 1999," Marzbani says.

"You've got the lobbying effort at full swing, you've got all these new experts that have come out of the woodwork to **lead** us to the next generation of disruption, and there's all these arguments about there being two economies – the knowledge economy and everything else.

"The arguments from government about controlling the internet are the same as well; it's about controlling commerce and tax and retention. The venture capitalists are calling for exactly the same things in terms of more venture capital, more tax breaks, more investment from super funds … The tropes are very much the same, 15 years on."'Substantially stretched'

The warnings of a looming tech bubble were given heavyweight credence in July when US Federal Reserve chair Janet Yellen described valuations of smaller social media and biotechnology companies as being "substantially stretched".

It is a sentiment partly shared by Airtree's Blair. He says there are some notable differences between today and 1999, but that **company** valuations following early funding rounds are being notably inflated.

He describes a "valuation exuberance" in the market, driven partly by huge premiums paid by established players like Facebook to protect its market share from the likes of WhatsApp, and partly by the sheer weight of capital flowing into early-stage companies.

Blair says the US has seen a doubling in Series A or first significant investment-stage valuations over the past four years, and that there has been a similar change in Australia.

"We are seeing Australian Series A [early stage] rounds of $15 **million** to $20 **million** post-money valuations," Blair says.

"To justify this, investors would need to see a route to a $100 **million**-plus valuation after follow-on rounds. Some will make this, but many won't, and there is a real danger that new investors in particular are underpricing risk."

In their exhaustive analysis of 800 years of bubbles bursting published in 2009, economists Carmen Reinhart and Kenneth Rogoff wade through algebraic equations to conclude on one basic finding: "The most commonly repeated and most expensive investment advice ever given in the boom just before a financial crisis stems from the perception that 'this time is different'."

For all the concerns of overexuberance and inflated valuations, seasoned industry watchers are also confident that there are crucial differences between some of today's tech players and in the wider environment that saw many of their forbears crash and burn at the turn of the decade.

Ted Pretty was a powerful player in the original tech boom in 1999 and 2000 and something of a poster child, well-known for wearing black skivvies and black polo-neck t-shirts. He was a Telstra executive heading its technology, innovation and product division during the dotcom boom.

He is now chief executive at Hills Ltd, a **company** best known as the inventor of the iconic Hills Hoist clothes line, but which he is now aggressively transforming into a **company** focused on healthcare and security technologies, electronics and communications.

Pretty is hunting for more acquisitions and says he often finds himself bumping up against private **equity** buyers.

He says the multiples being paid are generally high in technology, but the difference today is that buyers are more cynical and want to see true revenue growth and a real business model.

Like others, Pretty believes a big difference to 1999 compared with now is simply that better technology is available to everyone, both businesses and consumers.

"In 1999, pipe dreams were attracting big prices on the strength of the technology alone, not whether it could be a platform for sustainable and growing revenues," Pretty says. "The technology is available to everyone now. It's whether the business can be a disruptor that matters."Strength and longevity

Michelle Deaker is convinced that the current crop of tech start-ups contains genuinely strong businesses with longevity, and is about to bet the money of wealthy investors on it. She is managing director of tech-focused Australian venture capital fund OneVentures, which is in sight of closing a new $100 million fund.

Backers of the fund include Sidney Myer of the Myer Family Company, former Seven Group chief executive officer Peter Gammell, Carlyle Group's Australian boss Simon Moore and Caledonia Investments' Mark Nelson.

Deaker describes herself as an entrepreneur from the first dotcom era, and believes that many good ideas failed back then simply because both society and technology capacity weren't quite ready. Put simply, this boom is real because the world is finally ready for it.

She says ubiquitous smartphones on the consumer side and the advent of affordable cloud computing for start-ups means the ability to set up a business with an addressable market had become much more viable.

"The internet was so early back then that we were trying to capitalise, in many respects, on technology that took many years later to come," Deaker says.

"But that technology is here and available now, so the opportunity for companies to get up and running on a global scale more rapidly has never been better and easier."

In a sign of a changed world, of the 27 tech companies that listed on the ASX in 1999, only six remain in the same form on the board. Reckon, iiNet, ComOps, TechnologyOne, Melbourne IT, and ICSGlobal survive, whereas MYOB is tipped to soon relist after a pair of private equity buyouts.

Freelancer, the company that soared into the billion-dollar realm before falling back to earth, illustrates how times are a changin'. Unlike the dotcom darlings who vanished into thin air in 2000, it does have real revenues. No bubble

Barrie takes aim at those who would suggest there was any sign of a bubble bursting.

"We are so ridiculously far away from even a viable tech industry it's a joke to think there is anything close to a bubble," Barrie says. "A dozen technology companies IPOing doesn't make a bubble at all. I think it's fantastic that Australian technology companies are getting financed."

It is a bullish stance shared by Zach Nelson, the CEO of leading US cloud-computing vendor Netsuite.

Netsuite was largely backed in 1998 by funds from tech industry legend Larry Ellison. Nelson says that whereas potential rivals seized up due to lack of financial lubrication when the VCs closed their wallets, his company was able to continue thanks to Ellison's willingness to invest. He says the company's subsequent success proves that dotcom-era businesses weren't flawed, they were just before their time.

"The stuff that we thought was happening in 1999 is actually happening now. They said the internet changes everything, well it really has changed everything, it just took 15 years," Nelson says.

"Everything happens more slowly than you think it should. The investors were right, it was going to change everything … it was just 15 years too early."

With John Davidson and Simon Evans

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