

Investors eye top startups as IPO market awakens

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By David Lawsky

SAN FRANCISCO (Reuters) - Investors, encouraged by a growing number of acquisitions and public floats in the past few months, are keeping a close eye on a coterie of promising startups in Silicon Valley.

An informal poll of venture capitalists and others pointed to six privately held companies as the ripest for acquisition or readiness to go public, out of 34 cited in industries ranging from alternative energy to social networking.

For now, the Silicon Valley Six say they intend to keep growing rather than agreeing to be acquired or go public during the recession.

The top four are business social network LinkedIn, solar panel maker **Solyndra**, smart grid company Silver Spring, and Zynga, a casual games company whose products run on social networks like Facebook.

Two others are **Guidewire**, which makes software for property and casualty companies, and LiveOps, which runs call centers using private contractors who work from home.

"They are exciting because they ... demonstrate what is possible with venture capital. These are companies that have proven a new, attractive business model that works in big spaces," said Sharon Wienbar, managing director of Scale Venture Partners.

IPO MARKET RETURNING?

"The market is in the early stages of being back," said LiveOps CEO Maynard Webb, who was previously chief operating officer at eBay. "The market is ripe and open today for great companies."

Lisa Edgar, managing director at Paul Capital, a fund of funds which invests institutional money through venture capital firms, said it will take time for a real recovery, noting that it takes six months to prepare for an IPO.

"In this environment that is not what people have been spending time doing," she said. "We're still two years from real liquidity."

But, she said, venture capitalists are encouraged by recent events.

Language training software maker Rosetta Stone Inc (NYSE:[RST](#) - [News](#)) went public in April and online restaurant reservations service OpenTable Inc (NasdaqGM:[OPEN](#) - [News](#)) followed in May. Online merchant Amazon.com Inc (NasdaqGS:[AMZN](#) - [News](#)) concluded a \$928 million deal in July to buy online shoe seller Zappos.

Reuters asked venture capitalists and others to suggest successful companies with revenue of \$100 million or more that are among the most attractive in Silicon Valley, excluding the social networking standouts Twitter and Facebook.

Venture capitalists' rule of thumb is that a company must have \$100 million in sales and have a capitalization around \$1 billion to do an IPO, in order to have enough money to meet the reporting structures of the Sarbanes-Oxley law.

Some companies also stand out as well as potential acquisition targets.

Guidewire competes successfully against enterprise software giants Oracle Corp (NasdaqGS:[ORCL](#) - [News](#)) and SAP AG (XETRA:[SAPG.DE](#) - [News](#)), which have broad offerings in enterprise software.

Oracle has shown an appetite to buy such companies, including India's i-flex solutions, which is now called "Oracle Financial Services."

Guidewire is in no rush to cash out its investors, but CEO John Raguin said that when they do, "We would look to the IPO markets over the next couple of years as the way to their liquidity."

The six companies have plenty of cash coming in and are in no rush to make a deal.

Zynga raised \$39 million in venture backing but has spent only \$5 million, using the rest as insurance during an uncertain time. The company turned profitable within months of its launch in 2007.

Silver Spring said it considering acquisitions, but only as a buyer. Such a deal could come in the next two months, CEO Scott Lang said.

(Reporting by David Lawsky; Editing by Richard Chang)