LinkedIn IPO Has Some Surprise Winners—or Does It?

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When the news broke of LinkedIn's $8.9 billion IPO, LinkedIn employees had a lot to celebrate. But they weren't the only ones.

"It's true. Every LinkedIn **[LNKD 88.32 ▲ 1.95 (+2.26%)]** competitor or social network wannabe must be watching the news and salivating," said Russell Rothstein, CEO of SaleSpider, a social networking site that caters to small businesses.

"Besides the founders of LinkedIn, who else is really happy?" Rothstein asked, before answering: "I am."

SaleSpider is a social media marketplace targeted specifically at small businesses all over the world. The site helps users to build relationships and find new business leads, apparently a competitor to LinkedIn. Their goal (surprise, surprise) is to monetize those connections.

While covering this story, I've heard fund managers and analysts alike cry foul. "Insane," "Ridiculous" and words I am too classy to type, some would tell me.

"I don't think you have to be an analyst or an economist to know that you're overpaying today for something that might or might not happen in the future," Neil Hennessy, Portfolio Manager and CIO of Hennessy Funds. He estimated that, even if LinkedIn doubled their revenues every year, it would still take more than four years to reach their market capacity today.

"At today's price and on a run rate of $400 million in revenue, you would be paying almost $22 for a dollar in revenue – let alone a company that predicts a loss for the next two years," Hennessy explained. He added that he hasn't seen these kinds of Price to Sales numbers since 1998 and 1999, at the peak of the dot com bubble.

Ultimately, Hennessy told me, the math just doesn't hold up. He could see going from $400 million to $800 million in a year, but not from 3.2 billion to 6.4 billion. "Can you imagine a company growing their revenues like this?" he asked. "Not a chance!"

But, the marketplace is allowing start-ups to certainly try.

"I think the IPO window will remain open for some time, particularly for quality companies like LinkedIn and Zynga," said Ian Sigalow, Partner at Greycroft Partners.

Even in the private sphere, the sense is that the dot com's of today are different creatures than those the last time around, in the 90s—and, as such, are valued differently.

"The big difference these days is what you're finding is companies with really strong fundamentals," Steven Boal, CEO of Coupons.com, told me. He said that cash flows, solid business models, and real growth trajectories have made the dot com IPO scene a different picture than it was a decade ago.

With the $8.9 billion LinkedIn IPO on the table, I had to ask him: jealous, much?

"I'm not sure that jealous is the right term," he said. "I'm happy to be a company that fits the profile of a successful operating business, and growing fast."

Coupons.com is a private company, and has been for a long time. As such, the company doesn't disclose earnings— but Boal told me that last year was a record year.

"We issued over $1.2 billion in savings last year. We have the number-one spot in the coupons discount reward category in the US. We have about 65,000 live web sites every day," he said.

So would a $5 billion, $10 billion, $25 billion valuation be justified, then?

I got a laugh instead of an answer. But, he did say that Coupons.com and "that other coupon site" are committed to using digital technology and practical solutions for users, which makes them very different companies than those of the past: "We're mapping into people's normal daily lives, and not looking to change the way people behave. That's just a different phenomena that's taking place this time over last time."

Even so, Sigalow doesn't see a strict correlation between the IPO market and early stage funding, pointing out that the companies that are going public today were funded as start-ups years ago. Additional funding, he said, won't come until later on:

“At the later stage there may be additional growth equity investors looking to buy stakes in these companies now that the public markets have substantiated private market valuations for some of these investments.”

Regardless, Rothstein remains optimistic that companies like his stand to gain. A lot.

“This week I had three calls from US Tier 1 Venture Capitalists,” he said. “I am not surprised, and I am taking the calls.”

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