

Silicon Valley IPO: Fortinet Shares Soar on First Day of Trading

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Shares of Sunnyvale Internet security company Fortinet soared more than 30 percent Wednesday in its first day of trading on the Nasdaq, raising hopes that long-dormant Silicon Valley public offerings may be stirring back to life.

It was the first public offering in 20 months for a tech company with a Silicon Valley address, and the reception may encourage other valley startups to follow suit in coming months.

"This is what investors have been waiting for," said Bob McCooey, Nasdaq vice president of new listings.

McCooey said his sources say that 25 to 50 Silicon Valley tech companies in the past six weeks have begun selecting bankers to help take them public. How many of those will reach the market and when is hard to predict, he said, but Fortinet's successful offering "bodes well for tech IPOs in the very near future."

Speculation about future IPOs has centered around micro-blogging company Twitter and social gaming company Zynga in San Francisco. Facebook has said an IPO is years away, but some are predicting that the social networking company will go public next year.

But Fortinet is the first to make the move this year.

Its shares ended the day at \$16.62, up from the initial price of \$12.50 per share. According to a filing by the company, president and chief executive officer Ken Xie owned 10.6 million shares or 16.5 percent of the company's shares, worth \$177 million.

The offering raised \$156.2 million for the Sunnyvale company that makes threat management systems to protect computers against hackers, viruses and spam. Net proceeds will be \$66.2 million after expenses, the firm said in a regulatory filing. Incorporated in 2000, Fortinet is backed by Acorn Campus Ventures of Cupertino and Redpoint Ventures of Menlo Park.

Fortinet executives sipped orange juice and exchanged grins at the Nasdaq as they watched the stock climb.

The last valley company to go public was another Internet security firm, Arcsight. The Cupertino company raised \$75 million in a February 2008 public offering.

"The IPO market is starting to open up," Tim Draper of valley venture firm Draper Fisher Jurvetson said in an e-mail. "Overall, it looks good for the venture capital business." Draper added, though, that he expects post-Enron accounting regulations to "limit the universe for IPOs to a select few companies" with large market valuations.

Once the stock in trade of the valley, venture-backed public offerings all but vanished with the recession.

Fortinet is one of eight venture-backed companies to go public this year, according to Renaissance Capital, a Greenwich, Conn., IPO research firm. One was OpenTable, a San Francisco online restaurant reservation service backed by Benchmark Capital and others.

Most recent public offerings have been backed by private equity rather than the venture firms that fund valley tech startups, a Renaissance Capital analyst observed. Private equity tends to be more risk-averse than venture capital and is less likely to make a bet on a fledgling startup like a Google hoping for a big payoff.

"Having a deal like this come public and trade well initially is a good sign for venture capital-backed deals in general," said Eric Gupta, a Renaissance research analyst.

Ernst & Young reported that 34 companies filed papers in the third quarter of 2009 for IPOs that would raise \$10.9 billion, showing a revived interest in going public after roughly two years of a public offering famine. Tech companies led the way in the third quarter with six filings.

That compares with 151 companies seeking to raise \$30.4 billion in the pipeline in the third quarter of 2007, and 79 potential IPOs filing to raise \$17.6 billion in the third quarter of last year.

China-based companies are an increasing presence in IPOs, an Ernst & Young official said. Five China companies entered the pipeline last quarter, replacing five others that went public.

Fortinet had profits of \$9.3 million in 2008 on revenue of \$211.8 million. Net income grew 142.4 percent. Its sales were \$181.4 for the first three quarters of this year, with a \$16.2 million profit. The company, incorporated in 2000, employs 1,150 people, 170 in Silicon Valley.