

## NetSuite IPO Demonstrates Risk/Reward of Auction IPO

Henry Blodget | December 20, 2007 12:09 PM



NetSuite went public today, via an auction IPO at \$26 a share. At this writing, lead underwriter CSFB appears to be desperately trying to keep the stock price above water so as to dissuade observers from concluding that the company is a piece of junk.

Such is the risk and reward of the auction format: If the IPO is priced at or near the clearing price, the company and existing shareholders don't leave as much money on the table as they do in a traditional deal, thus reducing the IPOs cost to the company. At the same time, however, investors don't get compensated for taking the risk of buying the deal before it hits the market--and, arguably, take more risk than traditional IPO investors that the deal will break.

The good news is that NetSuite's customers reportedly rave about the company's products (financial and other enterprise apps delivered online, a la Salesforce.com), and the stock seems reasonably priced based on future revenues. (5X 2009E revenue, according to one hedge fund).

The IPO was also a win for New York-based venture capital firm StarVest, which spotted the software-as-a-service opportunity way back in 1999 and invested in NetSuite in 2000.