

Market View

In Retrospect: Q3 2004

Summary

The market of online presence — Web content management, search/categorization, personalization/behavioral marketing, and Web analytics — is not hot, not cold, but warmly percolating along. Six companies raised over \$47 million in funding, two companies IPO'd, and eleven companies acquired other companies or point technologies during the quarter. While management turnover at most companies was minimal (with the exceptions of Attensity, Entopia, and InQuira), there was a flurry of hiring of Vice Presidents of Marketing. Due to the summer doldrums, product updates, rather than new product rollouts, were the norm.

Funding, Mergers, and Acquisitions

Funding and M&A activity is twice as robust as it was a year ago. In Q3, 2003, there were 11 funding and M&A "events"; in Q3, 2004, there were 25.

Six companies announced funding injections:

1. *Convera* — A private placement of 3,433,332 newly issued shares of common stock, resulting in gross proceeds of \$10.3 million.
2. *Convio* — A Series D round of \$15 million from Adams Street Partners, Austin Ventures, Granite Ventures, and Silverton Partners.
3. *Eliyon* — \$7 million from Venrock Associates.
4. *Mercado Software* — A new round of funding (amount undisclosed) from Mofet, Pitango Venture Capital, and Star Ventures.
5. *Poindexter Systems* — \$8 million from Blue Chip Venture Company, Echelon Ventures, Hudson Ventures, and WallerSutton 2000, LP.
6. *Touch Clarity* — A Series A round of \$6.7 million from Alta Berkeley, The Capital Fund, and JVP.

Twelve acquisitions/divestitures were announced, with both Keynote and Open Text making two acquisitions each:

1. ATG announced it would acquire Primus Knowledge Solutions, a customer service software company.
2. comScore Networks bought Q2 Brand Intelligence, a survey research firm.
3. DoubleClick divested of its holdings in AdLINK Internet Media AG.
4. FAST acquired NextPage's Publishing Applications Business Unit.
5. Interwoven purchased the assets of Software Intelligence, a supplier of records management systems.
6. Google acquired Picasa, a digital photo management company.
7. Keynote acquired Hudson Williams, a system performance consulting company.
8. Keynote bought Vividence, a company that researched Web site effectiveness through usability surveys.

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9. Open Text acquired Artesia Technologies, a digital asset management company.
10. Open Text acquired the Vista Plus product suite, an ERP data consolidation platform, from Quest Software.
11. Stellent acquired a content management solutions provider in Mexico.
12. Watchfire purchased Sanctum, a software security company.

It's worth noting that none of these was a blockbuster acquisition; rather, companies filled in product holes or snapped up technologies because the price was right.

In stark contrast to the dot.com era of four years ago, only two companies IPO'd in this quarter: Google and WebSideStory. Google, the market darling, meandered to its IPO, a saga made all the more interesting by its setting up a Dutch auction to distribute its shares and stories of SEC anger over the founders' ill-timed *Playboy* interview. WebSideStory's IPO was also a saga — over time, the company decreased the number of shares offered, decreased the target price, and delayed the IPO from August to September, ultimately going public on September 28.

Management Appointments

Only Copernic announced a new CEO. Entopia, NetIQ (WebTrends) and SPSS appointed new CFOs; six companies — Attensity, Coremetrics, Eloqua, Entopia, InQuira, and Mercado — added new Vice Presidents of Marketing.

Attensity, Entopia, and InQuira made the most sweeping management changes. On September 3, Attensity added a VP of Marketing and a VP of Professional Services, and announced it was moving its headquarters to Palo Alto, CA. On August 2, Entopia announced it had hired a new CFO, a new VP of Sales and Marketing, a new VP of Solutions Engineering and Support, and a new VP of Product Management. Within one week in September, InQuira brought on board both a new VP of Products and a Chief Marketing Officer.

Product Releases

Over twenty companies — Atomz, Audentify, ClearForest, DoubleClick, EasyAsk, Ektron, Endeca, FatWire Software, IBM SurfAid, Interwoven, Mediasurface, Mercado, Mondosoft, RedDot, SageMetrics, Urchin, Verity, Vignette, Virage, WebSideStory, and WebTrends — announced product updates.

New products announced during the quarter included Copernic Desktop Search, a Windows-based utility for searching through documents and e-mails on a user's PC, and Nielsen//NetRatings's Market Intelligence, a service offering measurement of audited Web sites within an industry vertical.

Ballardvale Conclusions

This sector has not re-attained — and probably never will — the level of activity that it saw in the go-go days of 2000. That said, sales are picking up, VCs are starting to re-invest in the sector, and two IPOs took place. The market tone is one of "cautious optimism" — companies are buying, but only after they've kicked the tires multiple times and delayed the buying decision once or twice. On the vendor side, getting the marketing message right and having it be heard above the cacophony appears to be the problem — at least that's what the appointing of six new VPs of Marketing appears to indicate. In short, the days of a company buying a product, just because it's there, are long gone.