Opinion **Inside Business**

Pandemic tech bubbles echo those of the dotcom era

Fear of missing out drives demand for companies in a world awash with cash

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Richard Waters YESTERDAY

Do you remember when $100bn was a lot of money? Twenty years ago, at the height of the dotcom bubble, that was how much was poured into venture capital investments in a single year. It was five times the amount seen two years before, and five times as much as two years later.

It turned out that much cash could not be forced into start-ups without a business model, and most of the money was lost. Another $42bn went into tech initial public offerings. Many of these were from revenue-less companies that would not have had a hope of making it to the public markets in normal times.

Compare that with what has now become a series of bubbles in and around the tech industry. These have found different forms in the likes of IPOs, initial coin offerings, Bitcoin and Tesla. But it is not hard to find the common denominators: The hunt for growth in an investment world awash with cash, and the kind of fear of missing out — or "fomo" — that takes hold at such times.

One clear echo of the dotcom bubble has come from the rise of the special purpose acquisition companies, or Spacs. The companies raise funds and then go in search of acquisitions. As in the dotcom era, much of the Spac money is finding its way into early-stage ventures, making this the first time since the start of the century that a channel has opened up to take a larger number of revenue-less companies to the public markets. "Auto-tech" start-ups are a particular favourite.

Nikola, which came to market after an acquisition by a Spac, has been the starkest example. The hydrogen-powered truck company had losses of $117m in the latest quarter and no revenues. Yet it rose to a market value of $25bn in the middle of last year. And despite the resignation of its chief executive and General Motors' decision to scrap a planned $2bn partnership with the company, it is still valued at more than $6bn.

The race to raise cash last year has left Spacs with $70bn of firepower, according to Goldman Sachs. Given the way they structure their deals, that equates to future acquisitions worth $300bn. If the deals are not all crammed into the next two years, then that money has to be handed back to investors, creating classic incentives for a bubble.

There are other parallels with the dotcom period. In promising new tech markets, it is common for a winner-take-all mentality to take hold, points out Charles Giancarlo, a veteran Silicon Valley executive. Investors fail to imagine how competition will develop. The cloud software industry — where companies like Zoom have thrived — is full of supposed "category killers", companies with a specialised service expected to dominate a global niche. The index of "emerging" cloud software companies on Nasdaq has risen around 150 per cent from its low point at the start of the pandemic, valuing the companies at $1.8tn.

Behind all this is the sheer weight of money looking for a home. The public markets offer few growth opportunities. The traditional venture capital industry cannot handle the weight of money, leading to a rash of experimentation in recent years. This included sales of digital tokens, or ICOs, made by cryptocurrency projects. These crowd-fundings by classic revenue-less software start-ups pulled in $20bn.

IPO investors have also made a belated bid to join the party. Going public fell out of fashion for an entire generation of tech start-ups. But the initial share price spikes at DoorDash and Airbnb last month show that the IPO speculators are back out in force.

To avoid the mania, gaming company Roblox has just scrapped its IPO for a quieter backdoor route to the market through a direct listing. But it still raised some extra cash in a deal that valued it at $29.5bn, or seven times what it was judged to be worth in a fundraising less than a year ago.

Much like squeezing a balloon full of water, the excess cash in the system is causing bulges that are becoming impossible to suppress. Consider two that have transfixed speculators.

The market value of all outstanding bitcoin has risen $580bn since the start of last year, hitting a new record this week of more than $700bn. That closely matches the trajectory of Tesla: the electric car maker has added $670bn in market cap in the same period, and is now valued at $750bn.

Tesla may one day dominate a global electric car market, and bitcoin may become a permanent fixture in the world of digital money. But as each soars towards $1tn, they look like the clearest examples of the pandemic era's spreading financial bubbles.

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