



Reservations About Open Table IPO (OPEN,RST,DGI,SWI,EBIX)

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Restaurant reservation website **Open Table** (Nasdaq:[OPEN](#)) opened for trading May 21, jumping \$4.50 right out of the gate. It didn't look back, closing the day at \$31.89, up 60% from its \$20 pricing. Those lucky enough to get some of the three million shares offered made out like bandits, especially if you unloaded before the end of the day. I happen to like its reservation system, have used it on two special occasions (with super results) and do want it to succeed. That said, I have my reservations about Open Table. Here's why.

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Light At The End Of The Tunnel

It's been a heady time for the [IPO](#) market that just weeks ago was struggling to get off the ground. On [April 21](#), I wrote about language instruction software maker **Rosetta Stone** (NYSE:[RST](#)), at the time only the fourth U.S. IPO of 2009. Since then three more companies have gone public in the United States: **DigitalGlobe, Inc.** (NYSE:[DGI](#)), **SolarWinds, Inc.** (NYSE:[SWI](#)) and Open Table. All three priced above analyst and company expectations. Judging by Open Table's blazing start, investors are salivating at the thought of the IPO pipeline turning back on. While some do not believe in IPO investing, it's good to see some enthusiasm on Wall Street once again. The place was beginning to look and sound just like a funeral home. That's never a good thing where the markets are concerned.

Questionable Valuation Support

Open Table's IPO values the company at \$400 million based on its initial price. After day one of trading, it jumped to \$639 million. That's a lot for a business that generated \$55.8 million in revenue and just \$626,000 in [income from operations](#) in 2008. In terms of valuation metrics, it closed its first day of trading with a [price-to-sales ratio](#) of 11.4 and a [price-earnings ratio](#) of 1063. It hardly seems justified for a business that grew revenues 35.7% and income from operations 173% last year.

Compare Open Table's numbers with **Ebix, Inc.** (Nasdaq:[EBIX](#)), an Atlanta-based e-commerce technology company serving the insurance industry. In 2008, Ebix grew revenue 74.5% from \$42.84 million to \$74.75 million and net income 115.6% from \$12.67 million to \$27.31 million. Despite outselling Open Table by almost \$20 million and generating \$12 million in greater profits, Ebix has a P/S of 3.67 and a P/E of 11.6, both far lower than its west coast comparison. It makes absolutely no sense. It's as if we've reentered the dotcom zone. (For more, see [The Murky Waters Of The IPO Market](#))

The Bottom Line

[Venture capitalists](#) in general must love the early action on Open Table's stock. Originally priced between \$12 and \$14, then \$16 and \$18 and finally settling at \$20. This is a clear victory for them, seeing only one venture capital backed deal in 2008. Open Table's largest shareholders (60% ownership prior to IPO) aren't selling any shares into the offering, a sign they believe its valuation is reasonable. Seems unlikely but it's not my money at stake. Either way, having paid an average price of \$3.93 for their shares, the stock could drop back to \$20 by the end of the 180-day lock-up period and they'd still come out ahead. As for the rest of us, a slam dunk return seems unlikely. Reservations, I have a few. For further reading, see [IPO Lock-Ups Stop Insider Selling](#) and [Private Equity A Trendsetter For Stocks](#).

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Will Ashworth lives and works in Toronto, Canada. He's worked in and around the financial services industry for much of his adult life. He loves investing and is passionate about helping others learn how to put their money to work. At the time of writing, Will Ashworth did not own shares in any of the companies mentioned in this article.

