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TALES OF THE TAPE:Ex-Dotcom Darlings Re-Emerge In Web 2.0

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NEW YORK (Dow Jones)--In the technology industry, you don't often get a second chance. But there are rare exceptions.

Akamai Technologies Inc. (AKAM), Ariba Inc. (ARBA), and Art Technology Group Inc. (ARTG) are among a small group of former dotcom darlings making a comeback in the Web 2.0 world.

“In many regards, the buzz is back,” said Art Technology Group's Chief Executive Bob Burke in an interview with Dow Jones Newswires.

Faster connection speeds, more sophisticated Web technologies, and the integration of the Internet into mainstream businesses have granted Akamai, Ariba, and ATG a new lease on life.

Over the last six months, Akamai's and Ariba's shares have nearly doubled, while ATG's has tripled. But even with the recent resurgence, they are far from the highs reached in the irrational exuberance of the dotcom era. Akamai is 92% below its January 2000 high of $345; ATG is 97% off its July 2000 peak of $126; and Ariba is 99% below its March 2000 high of $1,100.

But the bar is set differently now, and the reemergence of these companies - in contrast to the continued struggles of Manugistics Corp. (MANU), Intershop Communications AG (ISH2.XE), and Broadvision Inc. (BVSN) - is credit to timely strategic shifts, strong underlying technologies, and of course some deep cost cutting. ATG, for instance, employs around 300 people now, compared to its peak staffing levels of almost 1,200.

Akamai's, Ariba's and ATG's rebirth also reflects the resilience of software vendors. Because of the complexity of installing and learning to use software and other technologies, customers are loathe to replace these products even when they're supplier appears to be heading toward life support. That gives such companies a life line to restructure and refocus.

Akamai: A Survivor

Akamai's life was extended thanks to a neatly timed offering geared at corporate customers. As its dotcom customers evaporated, the Cambridge, Mass., company was able to move sideways by signing on enough corporate customers.

The company was also galvanized by a tragedy that went beyond the bursting of the Internet bubble. Daniel Lewin, one of the Akamai's founders, was abroad one of the planes that crashed into the World Trade Center on Sept. 11, 2001.

Because of the desire to preserve the company as a memorial, Akamai's employees “may have pulled harder than at other places,” Paul Sagan, Akamai's chief executive, said in an interview. “Today, you see the fruits of all those labors.”

Akamai's recovered to the extent that it had a record year in 2005, posting a 35% rise in revenue to $283 million. Net profit rose more than nine-fold to $328 million, but that was boosted by a $259 million tax benefit.

Akamai is in the sweet spot of Web 2.0. The company helps distribute content through the Internet by and has benefitted from the proliferation of broadband and the rise in online video and music. Last year, it also launched a new product that helps speed the response times of Web-based applications - a fast-growing market.

“The market's coming right to them,” said Jeff Van Rhee, an analyst at Craig-Hallum Capital.

But expectations are now more modest than they were six years ago, and analysts are warning that the stock may be getting a bit too pricey. The stock recently traded at $26.47, just under its 52-week high of $27.59 on Feb. 9.

Aaron Kessler, an analyst with Piper Jaffray, lowered his rating on Akamai this week to market perform from outperform on valuation grounds. Piper Jaffray makes a market in Akamai shares.

ATG: Getting Noticed

ATG has only recently started to get noticed again, thanks in part to its well-received acquisition of Primus Corp. and a new product that was launched last fall.

“Art Technology Group is a dot-com survivor that has a new focused business plan,” said Michael Kern, an analyst with Canaccord Adams, in a recent note initiating coverage on ATG. “We believe the company has solid growth prospects, (and) is moving toward a more visible revenue stream.”

Kern became just the third analyst that follows the company. All three have favorable ratings on ATG. Canaccord Adams makes a market in ATG's shares and plans to seek compensation for services from the company in the next six months.

The company has broadened its appeal through the launch of Wisdom last fall. The new product builds on ATG's core strength in e-commerce, but adds other capabilities that help companies manage customer interactions on line and off.

In its short time on the market, Wisdom helped the company increase revenues by 25% in the fourth quarter to $26 million. It also swung to a profit of 3 cents a share from a loss of 4 cents a share in the same quarter the previous year.

Ariba: Work In Progress

“We certainly count ourselves as one of the Internet Phoenixes,” said Jim Frankola, Ariba's chief financial officer in an interview. Still, he admits is that Ariba hasn't got finished its transition, which he says it about half finished.

The company, which makes software and advises companies on how to reduce supply costs, is shifting to a Web-based, or “on demand,” software model. The shift means the company is replacing its upfront licensing contracts with subscriptions, which causes disruptions in revenue but leads typically to more stability over time.

That disruption was evident in its fiscal first quarter, when the company posted a net loss of 6 cents a share as revenue fell 12% to $76.2 million.

On demand is one of the hottest trends in software, because companies pay for usage so there's a more direct link to the value they derive from the software. In the dotcom era, many companies bought software and then struggled to implement it, which created a backlash.

Because of this transition, Ariba is “a bit messy,” says Nathan Schneiderman, an analyst with Roth Capital Partners. “It's not clear that they're revenue streams are going to move up and to the right.”

Indeed, six of the nine analysts that follow the company rate it at hold, according to Thomson First Call. Schneiderman doesn't own shares in Ariba and his firm doesn't have a banking relationship with the company.

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