

# It's Time to Take Stock

What Alien Technology's filing for an initial public offering means--and doesn't mean--for the RFID industry.

Apr. 17, 2006—Alien Technology's decision to file paperwork with the U.S. Securities and Exchange Commission (SEC) in preparation for an initial public offering of its stock (see Alien Technology Files for IPO) sent ripples through the radio frequency identification industry. I got a number of e-mails from people asking my opinion or offering theirs. Some people were excited by the news. Others were skeptical. (Seems no two people in this industry ever agree on anything.) I'd like to offer my perspective.

A successful Alien IPO would be another watershed for the rapidly emerging RFID industry. It would be good for Alien, of course, and good for other small RFID companies looking to raise capital. Perhaps nothing would encourage venture capitalists to invest in RFID more than seeing a healthy appetite among individual and institutional investors for the stock of "pure-play" RFID companies (those that offer only RFID products and services).

If Alien fails to pull off the IPO, it would likely have exactly the opposite effect. It would make it harder for Alien to raise money and harder for other small companies in the RFID community to raise money. Venture capitalists are less interested in investing in companies when there are limited opportunities to cash out.

I don't want to comment on Alien's financial performance because there are plenty of Wall Street analysts who will be doing that over the coming days and weeks, and because high finance is not my area of expertise (as Dirty Harry says, "A man's gotta know his limitations"). But even without looking at Alien's books, I can see reasons why the IPO could be wildly successful and reasons why it might not get off the ground.

First, the factors that could help Alien: The company is clearly a leading player in the ultrahigh-frequency Electronic Product Code market. Many people are now convinced RFID will be widely used in manufacturing, supply chain and retail operations. And Alien will clearly benefit if the RFID market takes off. So if you are an investor and you believe that adoption of UHF EPC technology is about to reach the tipping point, you will be eager to get your hands on the stock of a company such as Alien.

There is also a great deal of pent-up demand for RFID stock. At least two or three times a week I get an e-mail from an individual investor who says he's been reading about RFID and wants to know which companies will be among the big winners when it takes off. (I tell them that if I knew that, I would sell my company, invest the money in the stock market and spend my days playing golf.) Many of these people will likely be willing to invest in Alien.

Alien recently won a contract for interrogators from Wal-Mart, according to reports. (My sources say the reports are accurate, but that the order was smaller than originally expected. Wal-Mart doesn't comment on its suppliers.) Any RFID company that counts Wal-Mart as a customer will have added appeal to investors.

But filing an S-1 does not guarantee that your stock will be sold on a public exchange. After a company files, it typically does a "road show," in which it visits leaders in the financial community to convince them that

they should invest in the stock or encourage their customers to do so. Afterward, it is not uncommon for such a company to decide, based on feedback from the financial community or changing market conditions, that it's not the right time to go public.

It's possible that this could happen to Alien. Here are some of the factors that could have a negative impact on Alien's IPO ambitions. First, this is a difficult climate in which to go public. Institutional investors still have a hangover from the dot.com party. They tend to look at each company's individual financial strengths and near-term potential, rather than bet on growth prospects tied to the growth of an overall market. Many are skeptical that RFID will bring the next big wave of technology IPOs.

Another issue is the continued uncertainty in the RFID market. Many people might be eager to invest in a pure-play RFID company like Alien if they believe the market is growing steadily. But they might be scared off by any sign that adoption is slowing, such as Tesco's recent announcement that it is well behind its original deployment schedule (see [Tesco Revises RFID Plans](#)). Even articles in the press that suggest RFID adoption is not happening as quickly as expected—and there have been plenty of those—could affect investor sentiment.

So we all (I'm speaking particularly of us journalists) need to keep this news in perspective. Alien's plan for an IPO means that RFID is maturing. The company clearly feels it has reached a point—and the RFID market has reached a point—where it makes sense to offer shares to the public. A successful IPO doesn't signal the next technology-induced stock-market bubble. And if Alien decides later the time isn't right for an IPO, that doesn't signal the end of the RFID industry as we know it.

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