CRAIN'S CHICAGO BUSINESS

The most eligible companies in Chicago tech

BY JOHN PLETZ JANUARY 09, 2016

Chicago has more ripe-for-the-picking tech startups than ever, and the timing could hardly be better. Although investors have soured on tech IPOs, corporate and private-equity dealmakers are hankering for acquisitions.

After two tech-sector initial public offerings in 2014 and three in 2013, the city had no tech IPOs last year. But nearly 100 local companies in tech and telecom were sold in 2015, up 18 percent, following a 15 percent increase the year before, says deal-tracking firm Dealogic.

IPOs are losing some of their appeal amid the hassles of federal regulations, not to mention market volatility and uncertainty. That's OK by startup backers. “Other things being equal, the venture investors always prefer a sale because they can get their money out,” says Steven Kaplan, a professor at the University of Chicago's Booth School of Business. “There have been times when the IPO market gives you better valuations. But relative to the 1990s, people are more likely to sell.”

Chicago companies piled up plenty of deals last year, including five worth nine figures. Coyote Logistics sold to UPS for $1.8 billion, and Cleversafe is said to have sold for between $1 billion and $1.5 billion to IBM. Orbitz was acquired by Expedia for $1.3 billion. Merge Healthcare also was bought by IBM, for $1 billion. ExteNet sold for about $1 billion to private-equity investors. Other notable sales: Technology security provider Trustwave was purchased for $770 million by Singtel, a telecom company in Singapore. SteelBrick, a Highland Park-based startup that makes a Salesforce.com software add-on, closed out 2015 by selling to Saleforce for $300 million. Also in late December, ShopperTrak, a data-analytics provider for retailers, was acquired by Tyco for $175 million.

-

Coyote, Cleversafe and Trustwave all were on Crain's previous list of companies likely to go public or get purchased.

Nationally, some 10,000 M&A deals occurred in 2015, but the total price tag ballooned 59 percent from 2014 to $2.5 trillion, according to New York-based Dealogic. The number of IPOs fell 34 percent to 158, while the number of tech companies that went public fell by half to 32.

HITTING THE EXITS

These fast-growing Chicago tech companies are likely candidates for an acquisition or IPO in the next 18 to 24 months.

Avant	Mu Sigma
Centro	PowerReviews
ContextMedia	Raise
DialogTech (Ifbyphone)	Reverb
Elevance	Savo
ExteNet	Signal
GoHealth	SingleHop
Guaranteed Rate	Sittercity
InContext Solutions	SMS Assist
Jellyvision	Sprout Social
kCura	Tastytrade/ Dough
Keeper	VisaNow

COMPANIES TO WATCH

These businesses also are coming on fast and might be in position to consider an exit, too.

Belly	ParkWhiz
4C Insights	Rise Interactive
Eved	Shiftgig
Fooda	Snapsheet
Geofeedia	SpotHero
Hireology	UICO
Kapow	Uptake
Narrative Science	WyzAnt
	Yello (Recsolu)

Source: Crain's reporting

Among Chicago companies most likely to have a chance to sell or go public in the next year or two are SMS Assist, a property management service, and Avant, an online consumer lender that raised $325 million last year. Another hot company is ContextMedia, although the medical-video provider doesn't have venture backers that would push for an exit. Raise, which hosts a gift card resale site, also is generating a lot buzz. (See “There's big money in gift cards” on Page 3.)

The list of potential exit candidates here has grown steadily in the past several years, reflecting the increase in startup activity and available capital in Chicago.

“It's really impressive,” Matt McCall, a partner at Pritzker Group Venture Capital in Chicago, says of the current pipeline, compared with a decade ago. “This is much broader than it was then.”

Generally, companies on the Crain's list have at least $10 million in revenue, double-digit growth and significant outside investment. They may or may not be considering an exit, but it's an option.

Michael Gray, a partner at law firm Neal Gerber & Eisenberg in Chicago who works with startups, says the local exit environment has cooled a bit, but overall, he says, “the market is still great. A lot of people are holding out to keep growing and get a bigger (valuation) number later. I've got several companies thinking about exits. People are still pretty optimistic.”

The question is for how long. The stock market was battered in the first week of 2016 on deepening worries about China's slowing economy. Valuations of some of the most-ballyhooed names in the tech sector—so-called unicorns such as Dropbox and Snapchat, to name two—are sinking. And interest rates will be rising this year.

For now, though, it looks like there's still time and interest in Chicago to make a deal.