

Web-Based Firms Are Investors' Newest Pet

By [The Moscow Times](#)

June 19, 2011

The  Moscow Times

ST. PETERSBURG — Internet firms are winning the capital of foreign investors due to their ability to bypass country-specific risks while attracting users and advertising revenue, industry players said.

The two most successful Russian stock market floats of the past 12 months have been web-based firms, their fortunes contrasting with a cluster of private issuers that have tried and failed to access capital markets.

Search engine Yandex raised \$1.4 billion in New York in May, six months after Internet holding Mail.ru raised \$1 billion in London.

Shares in both firms soared on debut as investors ignored long-held Russia concerns such as corruption and poor treatment of minority shareholders to gain exposure to a previously untapped sector.

"If you are selling to the government, or another company [in Russia], you may have to pay a bribe. Selling directly to the consumer via the Internet means there is no gatekeeper. This is key for investors," said Esther Dyson, a U.S. emerging markets investor who was an early backer of Yandex.

Yandex CEO Arkady Volozh said investor enthusiasm could also be put down to the novelty value of a Russian Internet success story following a decade of quiet development.

"Russia is just appearing on the radar. When people meet us at international conferences, they treat us just like a startup, but we are a mature company," he said on the sidelines of the St. Petersburg International Economic Forum.

"In the last decade we [Russians] have built a software industry and a new internal Internet market that is big enough to support local commerce," he added.

Gadget-loving President Dmitry Medvedev has put the tech sector at the heart of his plans to modernize the economy and reduce its dependency on oil and gas, a project he hopes will also convince top Russian scientists and entrepreneurs to remain in the country.

He told a panel session on Friday that he backed the industry despite concerns about cyber security — a reference to when hacker attacks temporarily closed down LiveJournal, Russia's most popular blog site, earlier this year.

Mail.ru chief executive Dmitry Grishin said the business model of Russian social networking firms is similar to that in developed economies, where advertisers are spending more capital online to target individual preferences displayed on social networking sites.

But he added that relatively low penetration of the Internet in Russia indicated a higher growth potential.

"We have around 50 million to 60 million users, but we have a big opportunity to double that over the next few years. There are around 300 million Russian speakers," he said.

"We are working in a pure, new economy. ... It is a business that is not built on oil, gas and natural resources. The only key assets for us are smart young people who are our employees," he added.

Pandora Media, a California-based online radio company, plunged below its initial public offering price in its second day of trading amid concern that competition may hinder its growth potential, Bloomberg reported late last week. The company failed to hold the value investors gave it, unlike Russian online companies Mail.Ru and Yandex, which listed triumphantly on the London Stock Exchange and NASDAQ, respectively.

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