

Multimedia Man Falls to Earth

By Terry Martin

September 1, 2001

Last year a jury of renowned business leaders named Peter Kabel Germany's "Entrepreneur of the Year." His company, Kabel New Media, was growing at a spectacular pace. With 800 employees and annual sales of €40 million (\$35 million), it qualified as Germany's biggest Internet media agency. The company was expanding internationally, opening offices in the US, and snapping up smaller firms at a rate of one a month. Peter Kabel was lionized as Germany's "multimedia pope." Captains of industry sought his council; politicians curried his favor.

That was last year. Now, Peter Kabel is busy explaining to employees and shareholders what went wrong. After assuring investors in February that the company would reach profitability by year's end, Kabel filed for bankruptcy in July. The brightest star in Germany's new economy firmament had been swallowed by a black hole. Peter Kabel, not yet forty, had become the country's most prominent business failure. Manager Magazine called him a "fallen angel."

The demise of Kabel New Media parallels the experience of many high-tech entrepreneurs in Germany over the last six months. The country's information technology sector, like that of the United States, has been devastated. Companies that expanded fast with little or no cash base have been hit hardest. And there were lots of them. Venture capitalists were throwing money at anybody with a computer and a plausible business plan.

Peter Kabel led an army of entrepreneurial pioneers in finding out just how generous Germany's capital markets could be. The best place on the continent to raise money was Frankfurt's Neuer Markt, a tech-heavy bourse for "growth" stocks modeled on New York's Nasdaq. The Neuer Markt provided ideal conditions for a speedy IPO. CEOs were tripping over each other in a mad rush to take their companies to market. Investors duly followed.

In June of 1999, Kabel New Media floated shares on Frankfurt's Neuer Markt at a price of just more than \$5.26. Eight months later, the company's share price had risen to \$72. That gave Kabel New Media a market capitalization of \$526 million, a sum that inspired confidence--and an ill-timed spending spree.

A year later, following a series of costly acquisitions, the company's share price had plummeted. Neither its services nor its stock were in demand. The company ended its fiscal year in March 2001 with a loss of \$100 million--twice the amount of its market value. By July, Kabel New Media's share price had fallen to less than 44 cents. With no takeover offers in sight, bankruptcy was the next logical step.

The example of Kabel New Media has struck fear into the hearts of other would-be Internet entrepreneurs. The precipitous decline of share prices on the Neuer Markt as a whole has discouraged business startups across the board. Taking the number of IPOs as one measure of entrepreneurial activity, Frankfurt offers a sobering assessment. Whereas 139 companies floated on the Neuer Markt in 1999 and 137 did so last year, only twelve attempted a launch in the first half of 2000. Fewer than ten are expected the rest of the year.

In the IT sector, it's a time of what financial analysts call "consolidation." Investors--institutional and private--are licking their wounds and putting what money they have left into more conservative financial instruments such as bonds. Of course, the unspectacular "old" economy keeps chugging along its well-worn cyclical path. It might not be a bad time for Peter Kabel to pursue another dream he talks about in quieter moments: running a luxury hotel, perhaps in Spain.

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