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(1/22) Trad-Fi History: [Pets.com](https://www.pets.com) and the Dot-Com Bubble

The Internet made its first public appearance in the 1990s, sparking a wave of investment and euphoria. The result: global financial cataclysm

The story (and surprising ending) to the last great tech bubble

(2/22) It's the 1990s, and America is hurting from the early 1990s recession. Only about 15% of households even own a computer, and almost none of them are connected. Congress has made major changes to raise taxes and restrict government spending.

(3/22) These factors are the context for the next decade:

- by 1997, computer ownership would jump to 35%
- increased taxes/reduced spending decreased gov borrowing, freeing up capital for business and consumers
- computer science entered an era of extremely rapid development

(4/22) In 1994, Jim Clark and [@pmarca](https://twitter.com/pmarca) founded the Mosaic Communications Corporation and released Netscape, introducing the general public to the internet.

Less than 1 year later they went public: originally set as a \$14 listing, on the first day it reached \$75.

(5/22) By 1995, the cat was out of the bag: many investors were desperate to invest in any internet company... at ANY valuation.

Venture capital was easy to raise. Investment banks (which profited significantly from IPOs), fueled speculation and encouraged investment.

(6/22) The peak of the boom was manic. In order to raise millions of dollars (in private or public markets), a company was NOT required to:

- show profit
- generate revenue
- make sense

The (seemingly) only thing that did matter? Does your company have ".com" in the name.

(7/22) Perhaps the most famous of these companies is [Pets.com](https://www.pets.com). Launched in November 1998, <https://t.co/J1KnQC7MaN> was a website that sold/shipped pet supplies to retail customers...

...and they advertised. A LOT.

(8/22) In its first fiscal year, [Pets.com](https://www.pets.com) spent \$11.8MM in advertising to generate \$620k in revenue.

Even before the costs of advertising, the website was selling products for about 1/3 of the cost of the merchandise.

(9/22) In a normal context, no rational investor would give [Pets.com](https://www.pets.com) a second glance.

But this wasn't a normal context, it was the dot com boom... and <https://t.co/J1KnQC7MaN> was the perfect dot com company: .com was in the name!!!!

(10/22) In June 1999, [Pets.com](https://www.pets.com) secured its first round of financing: ~\$50MM for ~50%.

The top signal (probably) was the 2000 Super Bowl; <https://t.co/J1KnQC7MaN> spent \$1.2MM to let a sock puppet sing on national television.



<https://www.youtube.com/embed/nXHrm5Nk5w>

(11/22) Less than 1 month later, [Pets.com](#) once again deployed its advertising expertise and incredible momentum on the big stage: <https://t.co/J1KnQC7MaN> listed on [@NasdaqExchange](#) and went public

The shares were listed at \$11, netting <https://t.co/J1KnQC7MaN> \$83MM

(12/22) From its first days as a public company, there was blood in the water.

"The [Pets.com](#) IPO raised \$83MM, but that money might not last long. The company lost \$42MM on just \$5.2MM in sales during the fourth quarter of 1999"

[https://www.ecommercetimes.com/story/stock-watch-no-bite-for-pets-com-ipo-2508.html?\\_hstc=8228397.2f3f33a24b44870cc4a577029c49e44b.1659484800081.1659484800082.1659484800083.1&\\_hssc=8228397.1.1659484800084&\\_hsfp=2727673963](https://www.ecommercetimes.com/story/stock-watch-no-bite-for-pets-com-ipo-2508.html?_hstc=8228397.2f3f33a24b44870cc4a577029c49e44b.1659484800081.1659484800082.1659484800083.1&_hssc=8228397.1.1659484800084&_hsfp=2727673963)

(13/22) In [Pets.com](#)'s defense, the market was shifting under them. A combination of a Japanese recession, rising interest rates, increasing skepticism about tech/internet companies and a general sense of fear created an extremely hostile environment for any company

(14/22) 9 months of losses convinced the company to wave the white flag. On November 7, 2000 [Pets.com](#) announced that they would cease taking orders on November 9 and laid off 255 of their 320 employees.

By then, the stock price had already slid to \$.19 (-98.3%)

(15/22) 2001 saw even more turmoil:

- Many more dot com companies folded (inc Webvan, [theGlobe.com](#), [Flooz.com](#))
- Surviving companies saw stock prices drop >75% (inc [@amazon](#), [@eBay](#), [@Microsoft](#))
- Enron & Arthur Anderson collapsed in scandal
- 9/11 attack

(16/22) Between 1995 and 2000, the Nasdaq Composite stock market index rose 400%.

By the end of the stock market downturn in 2002, stocks had lost 78% in market capitalization.

In the end, all the value the dot com boom created was ultimately given back.

(17/22) [Pets.com](#) was both a distinguished and utterly common example: it flew closer to the sun and fell much further than most, but they all followed the same flight path.

In the end, ~\$300MM of investment capital vanished.

(18/22) The dot com bubble offers countless lessons on everything from the business cycle to macro economic conditions. But I would like to draw your attention to a specific focus: investment outcomes.

(19/22) For example, [Pets.com](#).

From one perspective, it may have been one of the worst investments of all time. They disintegrated \$300MM of both private and public money. All that's left is a website that points to a competitor.

Absolutely terrible...

...right?

(20/22) I don't know if you or I are qualified to make that call; even if either of us were involved in [Pets.com](#), we weren't the major players.

We should ask the main investor, the one who lost more money than anyone else because of <https://t.co/J1KnQC7MaN>.

(21/22) So, [@JeffBezos](#), what do you say?

Given how everything turned out... do you regret [Pets.com](#)? Do you regret the dot com bubble?

<https://press.aboutamazon.com/news-releases/news-release-details/petscom-raises-50-million-amazoncom-bowman-capital-and-hummer>

(22/22) There are two important lessons of the dot com bubble:

- 1) the business of technology is incredibly vulnerable to manic behavior and bubbles
- 2) the most important factor of success is survival

Winners know how to play the long game.

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