Chasing Unicorns: IPOs to Watch in 2019

"Has there ever been a time in history when this many companies lost this much money and everyone acted like it was completely normal?"
–Christopher Mims, *Wall Street Journal* tech columnist

Chasing Unicorns. The unicorn, a mythological creature first depicted in the Bronze Age, has taken many forms in many cultures over many centuries. One of the earliest descriptions of the majestic, single-horned beast came in 400 BC by the Greek historian Ctesias. He described the animal as having a white head, purple body, blue eyes, and a cubit-long colored horn.

Some might even be surprised to learn that various poetic passages in the Bible refer to a splendid horned animal called a *re'em* – which has been translated to unicorn in some versions of the ancient text, including the King James Version (KJV). (For those with little faith in this fact, look up *Numbers 23:22* in the KJV.) As a biblical creature, the unicorn was interpreted allegorically in the early Christian church as strong, mysterious, and elusive.

Which brings us to the main use of the word in today's business world: those elusive, privately-held startups valued at $1 billion or more. According to CB Insights, there are only 343 of these businesses globally which, by today's standards, makes these companies rare.

Perhaps the most discussed company on this relatively short – but growing longer – list is Uber, which is scheduled to make its initial public offering (IPO) in the coming weeks. The ride-hailing colossus will soon follow in the footsteps of its competitor, Lyft, which went public in late-March. The only problem for Uber is that after surging more than 20% in early-trading, Lyft has since sputtered to nearly 30% below its first-day opening price of $87.24 and 15% below its IPO price of $72.

The reason this downward trajectory is noteworthy for Uber – and many other unicorns planning to IPO in 2019 – is that it highlights a fundamental difference between Silicon Valley and Wall Street. In Silicon Valley, growth is hailed – no pun intended – as a key driver of value. Companies that blow through billions of dollars with no hint of profit still command lofty valuations and are often handed larger and larger checks to accelerate things like revenue, subscriber counts and active users. On the other hand, Wall Street has *traditionally* been a much less forgiving environment, where earnings, financial forecasting, predictability, and public opinion are more highly valued.

Consider this statistic: 83% of IPOs in the first three quarters of 2018 were executed by companies that hadn't posted profits in the prior 12 months. And the trend is continuing into 2019, as many tech darlings that have gone, or are going, public haven't generated consistent profits – yet.

Which begs the question, do profits matter in today's market?

As more and more unprofitable unicorns emerge from the shadows of operating in private and start doing business in public, the market will begin to laser-focus in on this question. If the late-1990s and early-2000s are a blueprint, then continuously cash-burning companies could face an inhospitable future. Just ask the founders of Pets.com how quickly their luck turned after being on the public markets for ten months in the year 2000. (Hint: Almost as quickly as for the unfortunate many that bought Bitcoin at its peak in 2017, which we warned against in several newsletters.)

Alternatively, if the economy continues to chug along, and the market continues to place value on market share and growth over profits, then it's within reason to believe that many unicorns operating deep in the red today will ~~survive~~ thrive long enough on those laurels before eventually attaining profitability. Amazon is one often-used example of a company that successfully navigated this path, and whose early investors were patient enough to ride along on the journey.

There is an old saying on Wall Street: financial markets are driven by two powerful emotions – greed and fear. Investors in this market environment appear to be demonstrating a healthy dose of greed, as many seem keen on chasing down the "next Amazon." However, it's important to remember that, even in an era where profits seem to be largely absent in the IPO market, there must be an inflection point when a company swings to profitability. If a company doesn't have an actionable plan to reach that goal in a defined period of time, then it probably shouldn't be considered a long-term play through the prism of Wall Street. Those companies might last as long in the public markets as many of tech companies did in the late 1990s and early 2000s during a strikingly similar cascade of IPOs – *i.e. as long as a snap.** Then again, they could become the next trillion-dollar company. Imagine that.

**See recent comments by the CEO of a company with that very name.*

IPOs TO WATCH IN 2019

As the IPO market heats up in 2019, there are several noteworthy companies worth keeping an eye on. We have provided details on four of these unicorns below (sorted from highest to lowest current valuation).

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Company: Uber
Primary Business Offering: Mobility and delivery services
Year founded: 2009
Current Valuation: $72 billion
Expected Timing of IPO: Within next four weeks
About the company:

- Uber launched as an on-demand ride-hailing service but has since expanded its business

offerings to micro-mobility, such as bikes and scooters, and operates a food delivery business called Uber Eats.
- Uber is also attempting to penetrate the global shipping industry through a program called Uber Freight and is working to launch a driverless car service.
- Uber’s main competitors in the ride-hailing industry are Lyft, Curb, and Wingz. (Oh yeah, and taxi cabs.)
- Uber’s main competitors in the food delivery service industry are GrubHub and Caviar.
- In 2018, Uber reported revenue of $11.3 billion (up 43% over the previous year).
- The company reported $1 billion in net income last year thanks to the sale of some operations in Russia and Asia; however, it posted an operating loss of $3 billion.

wework

Company: The We Company (WeWork)
Primary Business Offering: Coworking-space provider
Year founded: 2010
Current Valuation: $47 billion
Expected Timing of IPO: Sometime in 2019
About the Company:

- WeWork is the largest network of coworking spaces in the world.
- The company’s primary business model is leasing office space, and then subleasing the same office space to other businesses.
- The company has also become a preferred partner for consulting and office renovation projects for large corporations.
- Under a segment of business called Powered by We, the company redesigns corporate space for clients, providing a high-margin service business as opposed to the capital-heavy office leases that make up its core coworking business.
- In 2018, WeWork revenue more than doubled to $1.82 billion.
- However, the company’s net loss also doubled to $1.93 billion.
- WeWork, which recently filed confidential paperwork with the SEC to go public, didn’t divulge data on past performance and future opportunities, which usually come with an investor prospectus.

airbnb

Company: Airbnb
Primary Business Offering: Short-term property-rental marketplace
Year founded: 2008
Current Valuation: $31 billion
Expected Timing of IPO: Later in 2019, according to CEO Brian Chesky
About the company:

- Airbnb’s core business is connecting travelers with hosts renting space in their homes, generally on a short-term basis.
- The company acts as an intermediary between hosts and guests, providing an online platform for listings and message exchanges, collecting and transferring payment.
- The company has also expanded its business to provide "experiences" from individual hosts, such as tours, classes, hikes, or food tastings.
- Airbnb’s direct competitors are hotel chains and other short-term property-rental marketplaces, such as VRBO.
- Marriott International Inc. recently announced that it is going to compete directly with Airbnb in the short-term property-rental space.

slack

Company: Slack
Primary Business Offering: Workplace messaging and communication platform
Year founded: 2009
Current Valuation: $7.13 billion
Expected Timing of IPO: Within next four weeks
About the Company:

- Slack provides cloud-based tools and services that facilitate workplace collaboration.
- The company’s primary competitors include Microsoft Teams, Chanty, Flock, and Glip.
- Slack estimates the total market opportunity for workplace collaboration tools at $28 billion.
- Slack generated $400.6M in revenue (up 82% from the prior year) and had $139M in losses in the fiscal year ending January 31, 2019.
- More than 600,000 organizations use Slack with over 10 million daily active users.
- The Slack IPO will be structured as a direct public offering (DPO), presenting its securities directly to the public.

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