Chasing Unicorns: IPOs to Watch in 2020

“There’s a real hunger for new names.”
– Sandy Miller, general partner at Institutional Venture Partners

“There is nothing so disturbing to one’s well-being and judgement as to see a friend get rich.”
– Charles Kindleberger, *Manias, Panics and Crashes: A History of Financial Crises*

The California Gold Rush brought over 300,000 people to The Golden State in the mid-19th century, promising treasures to travelers from other parts of the United States, Latin America, Europe, Australia, and China eager to strike it rich. Unfortunately, the average forty-niner earned little more than they started with. Instead, the vast majority of wealth was generated by a select few companies that had the financing to invest in the technology required to unearth the precious metal.

In today’s terms, tens of billions of dollars’ worth of gold was discovered. The sudden influx of gold into the money supply reinvigorated the American economy, propelling California towards statehood and lifting San Francisco from a small settlement with 200 people to a boomtown of 36,000 residents in less than five years.

While California was picked clean of its physical gold long ago, the San Francisco region has continued to grow at a frantic pace (at least until recently). Specifically, over the past few decades, the region has become synonymous with innovation, wealth, and prosperity, drawing talent and resources from across the globe, as technologists and entrepreneurs have sought new riches by way of the digital economy.

The ultimate goal for these companies and entrepreneurs? Achieve unicorn* status and exit, either by way of acquisition or Initial Public Offering (IPO). But, for a region that has minted so many tech millionaires and billionaires over the past several decades, the area has surprisingly failed to produce a single tech IPO in 2020.

To put it in perspective, by this time last year Silicon Valley had produced nine tech IPOs. Instead, tech companies from outside of the Valley, including ZoomInfo from Vancouver, WA, BigCommerce from Austin, TX, Vroom from New York, NY, Duck Creek from Boston, MA, and a number of tech companies from China, have been the IPO tech stars of 2020.

To be fair, the coronavirus pandemic certainly stunted the typical deal flow. The failed WeWork IPO from 2019 also soured the prospects of many fledgling Silicon Valley unicorns that made big promises, but failed to produce profits while burning cash at an alarming clip with a murky path towards profitability.

However, the drought is expected to end after Labor Day, as a flurry of tech companies from the Bay Area unveiled plans to go public at the beginning of last week, with many more expected to come in the weeks ahead.

*Unicorn is a term used for a privately-held, venture-backed business valued over $1 billion.

High Profile Bay Area-Based Companies Set for Post-Labor Day IPO

Company	Ticker	Business Summary
Asana	SANA.RC	Provides enterprise task manage software.
Corsair Gaming	CRSR	Designs and supplies personal co components.
Snowflake	SNOW	Provides cloud-based SQL datab
Sumo Logic	SUMO	Provides on-demand cloud log ma enterprises.
Unity Technologies	U	Provides a real-time 3D video gar
JFrog	FROG	Sells software tools that streamlir

Adding intrigue to the IPO blitz is a recent order from the Securities and Exchange Commission that approved a new type of direct listing, where companies can simultaneously go public and raise cash from public market investors on the New York Stock Exchange (NYSE). The move comes after a record number of companies have turned to SPACs, or special purpose acquisition companies, as a backdoor way to be listed on exchanges this year. To-date, 67 SPAC offerings have raised a record $23.9B in 2020, making up nearly one-fifth of the total funds raised through initial public offerings. Of these, 61 are U.S.-listed companies. However, the new NYSE direct listing structure could curb enthusiasm for the booming SPAC market, as it provides similar advantages while allowing companies to raise cash from public market investors. Palantir, a controversial company that recently made headlines for taking a shot at the tech industry in its prospectus, is an example of a unicorn that is planning to head to public markets via a direct listing in the coming weeks, skirting the traditional IPO route. Last week also brought some significant IPO news from the other side of the Pacific, as Alibaba fintech affiliate Ant Group filed for a dual listing in Hong Kong and Shanghai, with plans to raise $30B and establish a market cap north of $200B.

All seem to be eager to strike while the iron is hot, hitting public markets while stocks are booming (notwithstanding the pullback yesterday and today, which has been led by Big Tech) and before the uncertainty of the November election sets in. After all, newly public companies are having a banner year. The Renaissance IPO ETF, which invests in companies that have gone public over the last two years, hit an all-time high last Friday and is up over 50% in 2020.

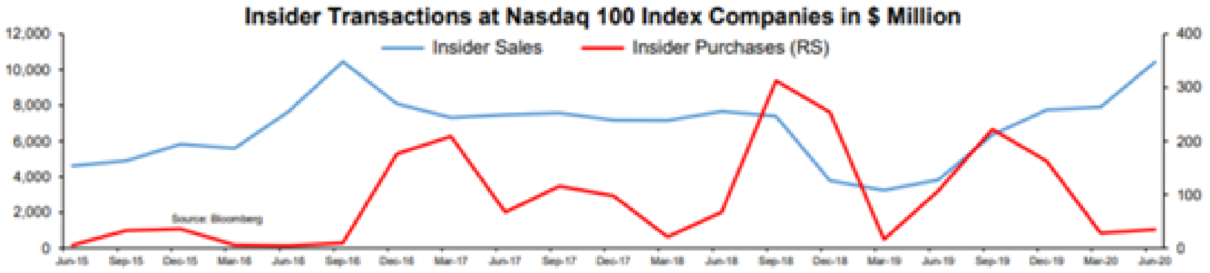
Source: Bloomberg, Evergreen Gavekal. Chart as of Wednesday, September 2nd.

With so many people working and learning from home due to the Covid-19 pandemic, demand for cloud services* is higher than ever. As a result, public cloud companies are significantly outperforming their outlooks, which is further emboldening private cloud companies to jumpstart their push to public markets.

If you're waiting for a "but", here it is. The recent rush to strike now is akin to the California Gold Rush mentioned at the beginning of this piece. While some of these companies will have the business models to continue to flourish – and generate outsized returns – after the hysteria fades, the average company will likely fail to grow at the rate baked into their current valuation and that many of their investors (cough, cough, Robinhood traders) are banking on.

In fact, if you look at the insider transactions at companies listed on the Nasdaq, you'll see an alarming signal for outside investors buying into the late innings of this latter-day Gold Rush. This is reminiscent of the "get rich and get out" mentality that was pervasive among insiders during the Bitcoin bonanza and dot-com bubbles of yesteryear.

*The cloud refers to software and services that run on the Internet, instead of locally on a computer. See Cloudy With a Chance Of… for more on the topic.



Source: Vincent Deluard, StoneX

Now, it's very possible, and even probable, that the looming IPO surge will create enormous amounts of wealth – at least temporarily. And during this process, people will be tempted to jump on the bandwagon. After all, as Charles Kindleberger states in *Manias, Panics and Crashes: A History of Financial Crises*, "there is nothing so disturbing to one's well-being and judgement as to see a friend get rich."

But with insiders dumping their shares at a frantic pace, uncertainty swirling around the November election, and many technology companies valued at premiums galaxies away from actual performance, it's wise to proceed with a fair dose of skepticism rather than unadulterated optimism.

Similar to our related article from last year titled, "Chasing Unicorns: IPOs to Watch in 2019," we have provided details on four unicorns below that are expected to join public markets by way of IPO or direct listing in 2020. This list is in no way an endorsement of these companies, but they are nevertheless worth watching as the IPO market heats up in 2020.

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IPOs and Direct Listings to Watch in 2020

snowflake®

Company: Snowflake (SNOW)

Primary Business Offering: Provides cloud-based SQL database software and warehousing.

Year founded: 2012

Last Private Funding Round: February 2020 ($479M raised at $11.8B pre-money valuation)

Headquarters: San Mateo, California

Reason it's worth watching: Snowflake's revenue grew 174% year-over-year, making it the fastest growing company in the slate of upcoming IPOs. They operate at a gross margin of 54% but their net loss in 2019 was $349M.

Company: Unity Technologies (U)

Primary Business Offering: Provides a real-time 3D video game development platform.

Year founded: 2004

Last Private Funding Round: July 2019 ($525M raised on secondary market)

Headquarters: San Francisco, California

Reason it's worth watching: Mobile gaming is a fast-growing market, and Unity is expanding into other fields, including virtual reality (VR). However, it's been in business since 2004 and is still losing money ($163M net loss in 2019).

Company: Palantir Technologies (PLTR)

Primary Business Offering: Data analytics platform focused on the government and financial sectors.

Year founded: 2003

Last Private Funding Round: June 2020 ($550M raised in corporate round)

Headquarters: Denver, Colorado (recently announced the relocation of its headquarters from Palo Alto)

Reason it's worth watching: As the world becomes increasingly digital, there is ever more data for Palantir to analyze and the company is on pace to hit $1 billion of annual revenue (its 2019 revenue was $743M). However, its been in business for nearly two decades and isn't profitable yet, with a net loss of $580M in 2019.

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ANT GROUP

Company: Ant Group

Primary Business Offering: Ant Group is an online payment services provider that enables individuals and businesses to execute payments online securely.

Year founded: 2014

Last Private Funding Round: June 2018 ($14B raised at $136B pre-money valuation.)

Headquarters: Hangzhou, China

Reason it's worth watching: The Chinese company, an online payments giant created by Alibaba founder Jack Ma, is looking to raise a record-breaking $30 billion in its IPO, which is expected to happen by October (for context, Saudi Arabia's oil giant, Aramco, raised $25.6 billion in its IPO last December).

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