



23<sup>RD</sup> OCTOBER 2019

# UNICORNS AT THE GATE? (THE “2018-2019 COHORT”)

*NB This paper is meant to be light-hearted, revisiting the Unicorns<sup>1</sup> very diverse situations, in the context of what could be the end of a “glory period” for private companies’ funding in the technology sector.*

There has been a spate of technology IPOs (Initials Public Offerings) from high profile companies over the last 2 years, but many have seen their valuation tumble since listing on the stock market. We believe that **WeWork’s** scrapped IPO last month is the hallmark of the end of an era of excessive private market valuations that are now winding down.

We monitored the performance of the top 35 IPOs in the tech sector - in its broadest definition - in 2018 and 2019 and have listed some interesting datapoints below:

- These 35 companies represent in aggregate \$320bn in market capitalisation<sup>2</sup>.
- This is a little less than the \$394bn initially targeted, due to sharp price falls of Xiaomi and Uber<sup>3</sup>.
- We estimate that another 20% decline, representing c.\$60bn in market cap, is needed before the cohort hits reasonable valuations.

From the point of view of the average investor, i.e. someone with no pre-listing allocation, these companies have risen 2% on average since their IPOs but with a median fall of 9%<sup>4</sup>. However, over the last 6 months, they have fallen by 12% on average with a median decline of 20%. On closer scrutiny, 57% of tech companies have negative operating margins, and around 40% have double voting rights, i.e. very poor corporate governance (compared to 20% for the 190 US IPOs in 2018, a percentage which has risen sharply since 2000).

- **Xiaomi’s** market capitalisation was initially pitched at \$100bn in 2017 before being cut to \$54 at the IPO. Today, it stands at just \$26bn.
- **Uber** was initially valued at \$91bn at the IPO, the car-riding platform is only worth \$55bn today.

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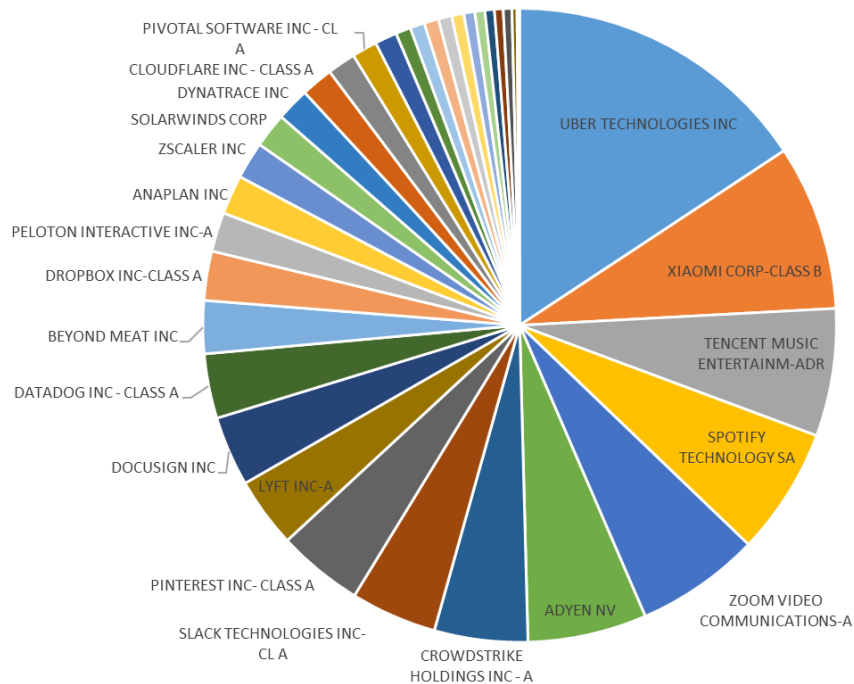
<sup>1</sup> A unicorn refers generally to any tech startup company that reaches a \$1 billion dollar market value.

<sup>2</sup> Source: Bloomberg

<sup>3</sup> Information on securities herein may not in any way whatsoever be construed as an opinion of Edmond de Rothschild Asset Management (France) on future price trends in the said companies, nor, where applicable, on the likely price trend of the financial instruments that these companies might issue. Any information herein cannot be interpreted as a solicitation to buy or sell these stocks. Portfolio holdings are likely to change over time.

<sup>4</sup> Past performance and volatility is no guarantee of future performance and volatility which may change over time, and can be separately affected by fluctuating exchange rates.

## UNICORNS' MARKET CAP BREAKDOWN (source : Bloomberg)



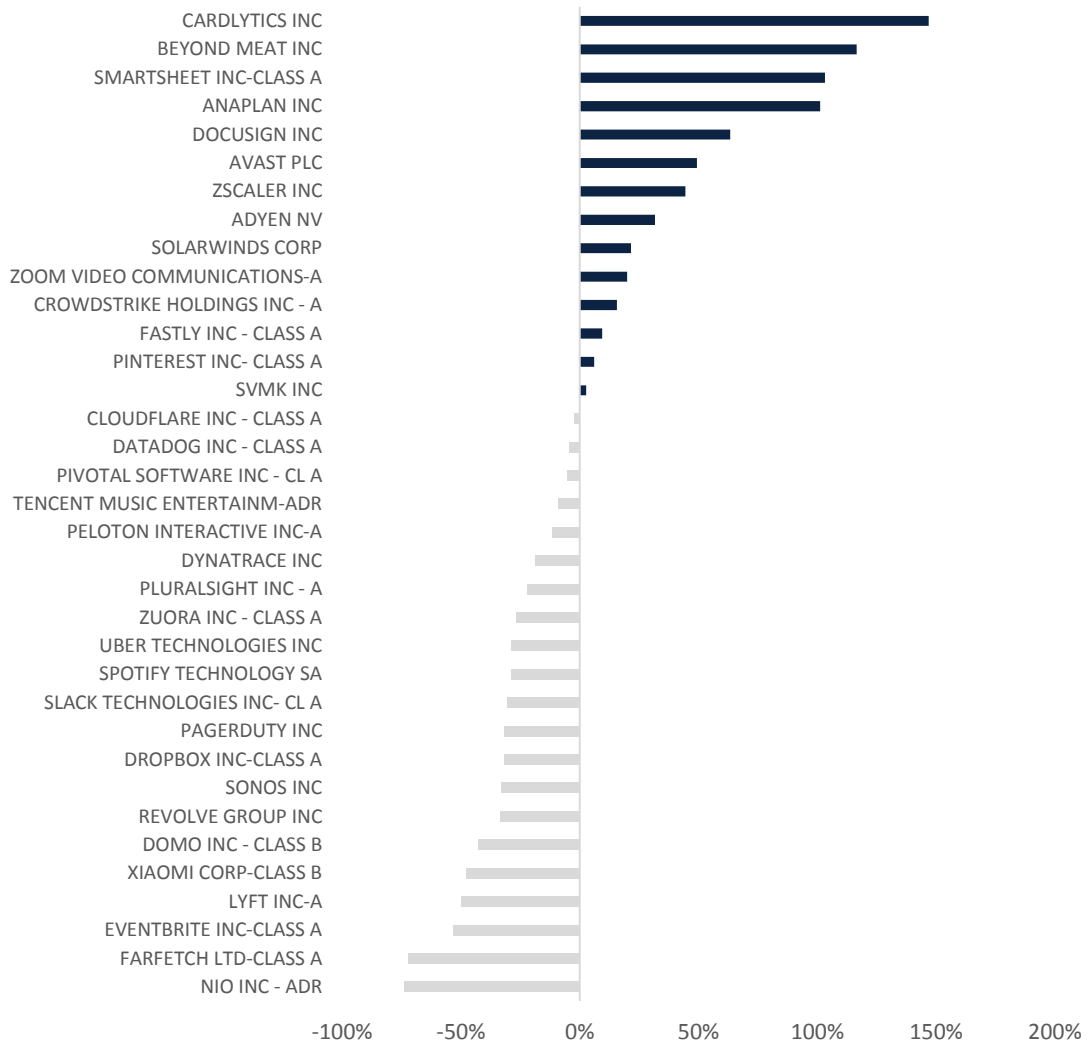
## NOMINATIONS AND AWARDS:

**Datadog:** we particularly like this New York based market performance management and IT infrastructure monitoring apps company. Nevertheless, it is trading at 33x forward sales suggesting the company's bright future is already largely factored into its stock price.

**Uber Technologies:** the company gets our "Special Award" for its successful IPO despite very fragile fundamentals and abyssal losses. Uber is a global leader with a \$50bn market capitalisation even though it has never been profitable.

**Tencent Music entertainment:** if ever you manage to stream your own karaoke performance and manage to live off the royalties, you will understand why this giant online music company is so profitable!

**MARKET RETURNS AFTER THE FIRST DAY OF TRADING<sup>5</sup>:**



<sup>5</sup> Past performance and volatility is no guarantee of future performance and volatility which may change over time, and can be separately affected by fluctuating exchange rates.. Source Bloomberg 16/10/2019

## WHAT ABOUT EDMOND DE ROTHSCHILD FUND BIG DATA'S INVOLVEMENT IN ALL THIS<sup>6</sup>?

We performed a deep analysis and drew up a detailed investment case for 70% of the 35 IPOs and eventually decided to invest in 4 stocks:

- **Cardlytics** had the best performance in the group but we had to sell the position after the stock jumped 50%.
- **Avast** was another positive contribution to the Fund's performance but we trimmed our holding to 0.7% of the portfolio.
- **Pluralsight** has been one of our shortest holding period as the EdTech<sup>7</sup> sector leader rose 40% between December 2018 and February 2019, urging us to sell the entire position.
- **Slack**: after initiating a position at the IPO, we have been taking advantage of its decline to gradually build up exposure.

Our fundamental approach is built on a highly selective process, handpicking truly innovative businesses that fully benefit from the Big Data theme. Our prudent investment framework and risk discipline (urging us to stay on the sidelines when the investment case does not meet our fundamental criteria in terms of quality of the business model, governance practices and valuation) have been key drivers in the Fund's ability to generate strong and consistent returns<sup>8</sup> since its launch.

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<sup>6</sup> *Edmond de Rothschild Fund Big Data is a sub fund of the Luxembourg-regulated SICAV with CSSF certification and is approved for marketing in Austria, Belgium, Switzerland, Germany, France, Italy, Luxembourg and the UK.*

<sup>7</sup> *Refers to companies that use new technologies to revolutionize the world of education and training.*

<sup>8</sup> *Past performance and volatility is no guarantee of future performance and volatility which may change over time, and can be separately affected by fluctuating exchange rates..*

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