INSIGHTS FROM THE BDO PRIVATE EQUITY PRACTICE

UNICORNS OF TODAY, GIANTS OF TOMORROW

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When the term 'unicorn' was coined by Aileen Lee in 2013 to describe private startups valued at over $1 billion, just 39 of such companies existed. Less than seven years later, that number has skyrocketed to more than 300, nearly half of which are headquartered in the United States.

Meanwhile, China has produced its own class of more than 80 unicorns, the European Union is home to more than 30, and another 14 are based in India. The increasing pace at which companies are achieving unicorn status can be attributed in part to the increasing size of the venture capital investments made into these companies.

However, the influx of companies successfully reaching $1 billion valuations doesn't mean that the path to achieving unicorn status has gotten any easier. In fact, new startups have only a **0.00006% chance** of becoming a billion-dollar company, according to Visual Capitalist. Unicorn status cannot be reached by simply offering a new product or service. Many of today's unicorns got to where they are by championing the evolution of an entire industry. However, accomplishing such a feat is by no means a simple task. So how have these companies gotten to where they are today? And what will it take for them to solidify their place as giants within the industries that they are disrupting and, in turn, reinventing?

DIGITAL DISRUPTION PAVES THE WAY

One of the most common paths to unicorn status entails harnessing the power of new technologies to solve a historical problem, while monetizing a solution. Many of today's unicorns have found success by taking consumer-facing industries—such as transportation, dining, and hospitality—and reinventing them entirely. Several startups have been able to achieve this by creating digital platforms for their products or services that are easy to use, address pain points, and are often less expensive for end-users. As a result, one in four unicorn companies that exist today fall under Internet Software & Services, according to **CB Insights**. With startups developing new ways to utilize technology every day, no industry is safe from disruption.

While the redefinition of consumer-facing industries has created a relatively large sum of unicorns, and even some "decacorns" (startups valued at more than $10 billion), technology disruption is also producing some newer B2B-focused unicorns. These companies are at the forefront of innovation in industries such as science, farming and even finance, those that many never imagined could be streamlined or reinvented. Take, for example, a startup that introduced social networking for farms: to those outside the farming industry, such an innovation might seem unnecessary. However, by creating a subscription-based platform that allowed farmers to share and analyze valuable data about their crops and land, the concept proved itself valuable. In less than five years, the company raised nearly $200 million in funding and is well on its way to unicorn status.

The success of startups like this comes as every industry continues to race toward digital transformation. As historically undisrupted industries begin to feel the impact of new technologies, such as AI and advanced data analytics, opportunities to reduce costs, correct inefficiencies or solve pain points grow more pronounced. As a result, both rapid growth startups and traditional industry giants are spending more on technology than ever before. According to Gartner Research, worldwide spending on information technology is expected to reach **nearly $4 trillion** in 2019, with the largest portion of spend going towards enterprise software and data centers. Those that are able to utilize the power of new technologies to correct historically unaddressed challenges within their industry are likely to make a significant impact.

HARNESSING THE POWER OF THE GIG & SHARING ECONOMIES

It is nearly impossible to discuss the landscape of rapid-growth startups in 2019 without analyzing the impact of the gig and sharing economies. That's because some companies that have harnessed the power of these budding economies have gone on to become some of the most highly valued and impactful unicorns to date.

Also known as the access economy, a **gig economy** can be defined as "a labor market characterized by the prevalence of short-term contracts or freelance work as opposed to permanent jobs." By providing a way for consumers to rent a product or service for a short period of time, unicorns that rely on the gig-economy model are able to introduce new efficiencies through technology infrastructure while keeping investments to a minimum.

At the same time, the **sharing economy**, which allows for individuals and families to take advantage of assets they possess and rent them out to people who need them, has paved the way for an additional set of highly funded unicorns. According to **VentureBeat**, the sharing economy has created 17 billion-dollar companies in the United States, with new startups sprouting up regularly with new applications of the model.

By taking advantage of access to digitized supply channels, such as mobile applications, the sharing economy has resulted in the reshaping of several industries, including transportation, hospitality and real estate, to name just a few. Companies rooted in the sharing economy have disrupted their respective industries by understanding and addressing the consumer needs and pain points not being met by traditional industry players. As a result, new markets within industries blossom and traditional players are forced to reevaluate their strategy or face declining market share.

The sharing and gig economies have paved the way for a notable group of unicorn companies, thanks largely to advancements in technology and the development of reliable, well-trusted platforms for these companies to operate on. However, it is the shift in social dynamics that has proven to be the most significant catalyst for the success of these companies. Think about it: Today, the world's largest taxi company owns no vehicles. The largest provider of accommodations owns no real estate. The most prominent source of media creates no content. The dramatic shift toward gig and sharing economies has created some of the largest companies in history by changing the way that consumers think about age-old products and services.

STRONG LEADERSHIP & CORPORATE GOVERNANCE BUILDS THE FOUNDATION

While much credit is due to the smart concepts behind many of today's unicorns, the phrase "invest in people, not ideas" still rings true. At the core of any successful unicorn company is a founder, or group of founders, who demonstrate a comprehensive understanding of their industry, the company's goals and core values, and the unique challenges that come with rapid growth. An organization without leaders who demonstrate vision, an eye for talent, adaptability and a careful approach to risk management will never survive in the long-term. This is particularly relevant to unicorn companies, many of which have gone from inception to $1 billion or more in value within just a few years.

What's more, as private companies, unicorns aren't held to the same standards and regulations as public companies. For this reason, strong governance at the onset is vital to ensuring longevity and retaining investor confidence, especially when an initial public offering (IPO) is in the company's potential future. It is important that unicorns, as well as "soon-icorns"—those projected to soon break a $1 billion valuation—remember that retaining investor confidence means demonstrating that the many risks rapid-growth startups face are being addressed and mitigated.

Therefore, when establishing a corporate board, unicorns should pay particular attention to their board composition. Not only is it important that boards contain an array of diverse viewpoints to maximize the range of thought and experience, they should also be conscious of including independent, external voices. Afterall, a lack of safeguards can take even the most innovative businesses down.

BECOMING A GIANT OF TOMORROW

Today's unicorns are disrupting and influencing various industries and redefining business models, consumer experience and the investment world at large. And, moving forward, strategic partnerships and M&A by these unicorns will allow them to strengthen their market share, deepen the understanding of their consumers and increase the value of their own brand.

In fact, in order to scale at a faster pace, unicorns today are pursuing acquisitions more quickly than ever before. According to analysis by **TechCrunch**, "Eleven unicorn companies founded in 2007 took an average of roughly 8.33 years before making their first acquisitions. At time of writing, 29 unicorns founded in 2012 have made their first startup purchases, averaging just 4.1 years before doing so."

Today's unicorns are also staying private for longer, thanks in large part to the excessive amounts of available private capital and ample late-stage funding from various sources of private capital.. Staying private allows unicorns to grow strategically, floating above the pressure, scrutiny and reporting demands that come with the public markets. Despite these challenges, though, for many unicorns, pursuing an IPO is an inevitability. Several unicorns have opted to go public in 2019, producing largely positive post-IPO performance results despite some stock market volatility.

If becoming a giant of tomorrow means continuing to secure VC investments, it's also important that unicorns maintain a realistic valuation, rooted in not only the businesses' potential for future profits, scalability and cultural impact, but in its to-date financial and operational performance. With investors looking beyond new business model hype to ensure sound investment decisions are being made, unicorns will need to be sure that their valuation lives up to the scrutiny of careful due diligence. A realistic valuation coupled with a well-positioned and thought-out valuation proposal is vital to continuing to secure capital injection from VC and other investors.

U.S. unicorns and soon-icorns are in a unique position: Potential VC investors are flush with dry powder—more than $420 billion worth, **according to Preqin**—and the pool of investment-ready unicorns remains relatively low. Simultaneously, forward momentum in digital transformation means that the disruption of industries is set to continue. This puts the unicorns of today in a good position to scale into the giants of tomorrow—that is, if they maintain strong corporate governance and demonstrate to investors that risks are being mitigated and growth is poised to continue.

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