In the world of unicorns, when is the right time to take the leap from private to public?

EY's IPO leaders discuss why unicorn high-growth companies go public

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Over the last five years, what it means to be a unicorn company has taken on a life of its own.

The definition has evolved to encompass privately-held entrepreneurial companies from any industry or country that reach US$1bn within 10 years.

Once considered elusive beasts, the unicorn population has exploded in the last five years. In late 2013, market participants counted over 30 unicorn companies. As of April 2019, over 340 young high-growth companies had joined the "Global Unicorn Club."

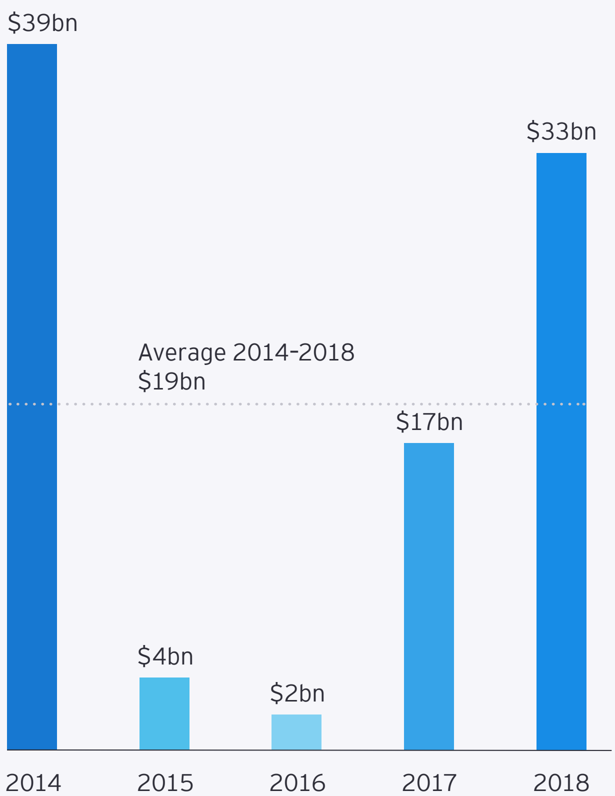
Of these, over one third enjoying the advantage of being listed already, with 118 successfully issued IPOs between 2014-2018, with total values exceeding US$95 billon.

Annual unicorn IPO activity by numbers and proceeds (2014-2018)

Annual number of unicorn IPOs

2014	2015	2016	2017	2018
26	11	9	29	43

Total proceeds



Source: Dealogic, EY

The unicorn population has exploded, and with it the number of IPOs

The momentum of unicorn IPO activity of recent years continues to grow with more on the way.

In 2018, 43 unicorns issued IPOs, setting a new record. The median deal size of unicorn IPOs also increased between 2014 and 2018, from US$336 million to US$371 million.

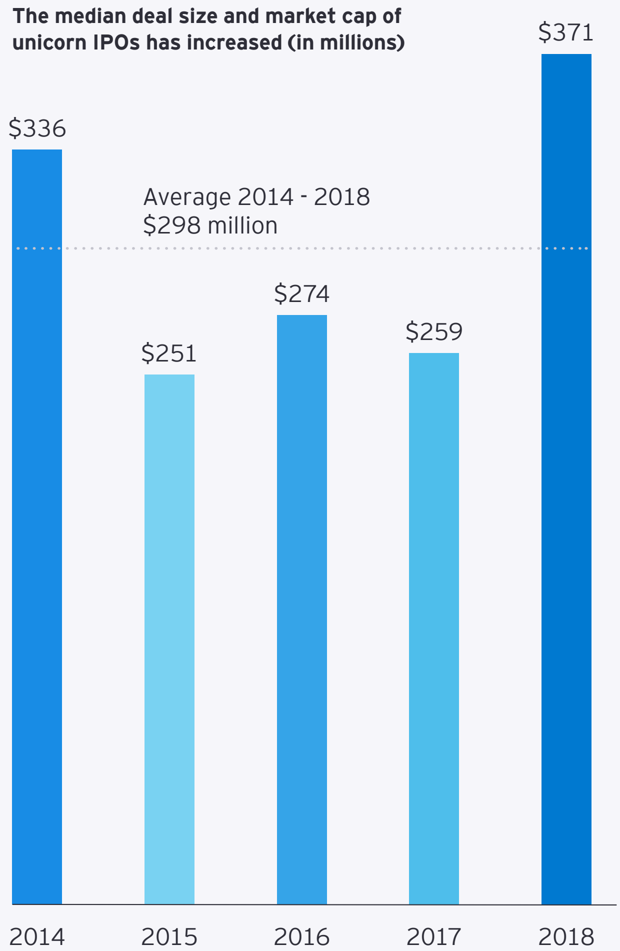
> “Despite the availability of huge amounts of private capital in a low-interest rate environment, founders of unicorns are choosing an IPO as the preferred route for further growth. One in three of all unicorns have gone public. We expect investor appetite for technology and high-growth stories will continue in 2019 and beyond.

Dr. Martin Steinbach
EY Global IPO Leader
& EY EMEIA IPO Leader

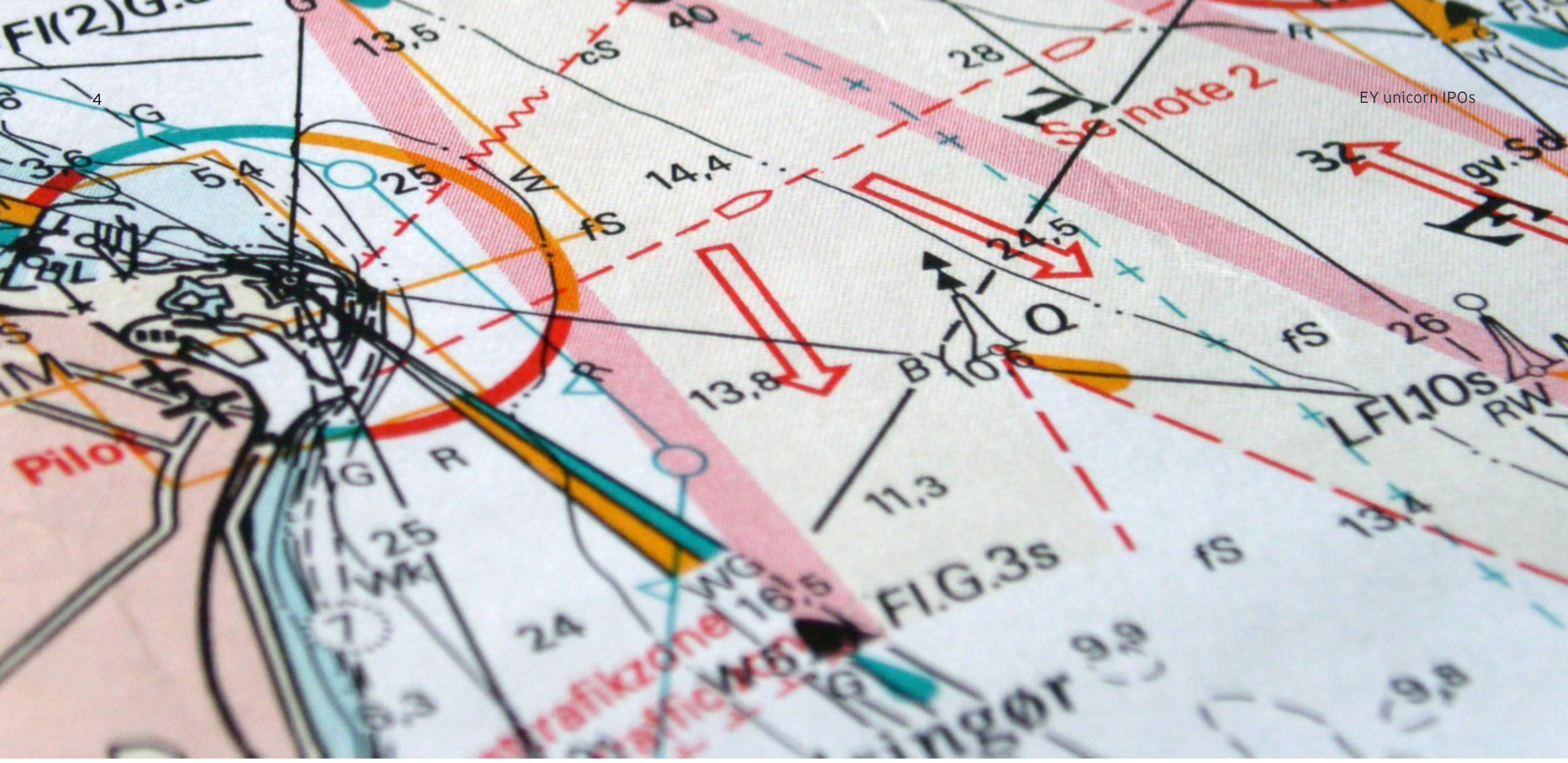
Global Unicorn IPOs

Median IPO market cap

2014	2015	2016	2017	2018
$2.5bn	$1.8bn	$1.7bn	$1.9bn	$2.1bn



Source: Dealogic, EY



Initially a homogeneous bunch, today's unicorn IPO issuers demonstrate diversity.

The unicorns that went public in 2016 were predominantly from the US. However, since then, favorable government policies have created a surge in IPO activity in China. As a result, although Chinese unicorn companies only posted half as many IPOs as US companies between 2014 and end-2018, their total valuations were more than double that of the US. This is largely attributable to Alibaba Group Holdings Ltd. (Alibaba), which raised US$25 billion when it went public in 2014 and accounts for half of China's total valuations during the period referenced. But even if we remove Alibaba from the equation, Greater China's total unicorn valuations still exceed those of US unicorn companies.

Germany and the UK have played dominant roles in nurturing unicorn companies. Together, they account for more than 10% of the number of IPOs issuers and 10% of the proceeds.

> "In recent years, China has had a healthy pipeline of unicorn IPO companies listed on both Mainland China and Hong Kong exchanges. With new, technology-friendly government policies now in place, China may be poised to be where most of the world's unicorn companies originate."
>
> **- Ringo Choi,**
> EY Asia-Pacific IPO Leader

Unicorn IPO activity by issuer nationality

	Number of unicorn IPOs	Proceeds at IPO
United States	60	$22bn
China	31	$54bn
Germany	6	$4bn
United Kingdom	6	$4bn
Japan	2	£2bn

Source: Dealogic, EY

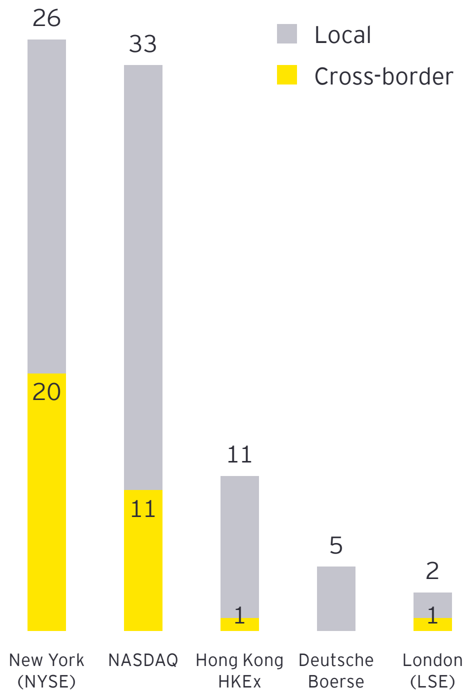
One third of unicorns choose an IPO abroad, a number that is above the global 10% average. NASDAQ, NYSE, Hong Kong, Deutsche Börse and LSE are the top five global destinations for unicorns.

Unsurprisingly, technology companies have overwhelmingly dominated the unicorn IPO landscape. However, startups from other sectors, such as healthcare, telecommunications and financial services are finding thveir way into the unicorn club.

Cross-border vs. local unicorn IPOs on stock exchanges, 2014-2018

Number of cross-border IPOs and percentage of all IPOs

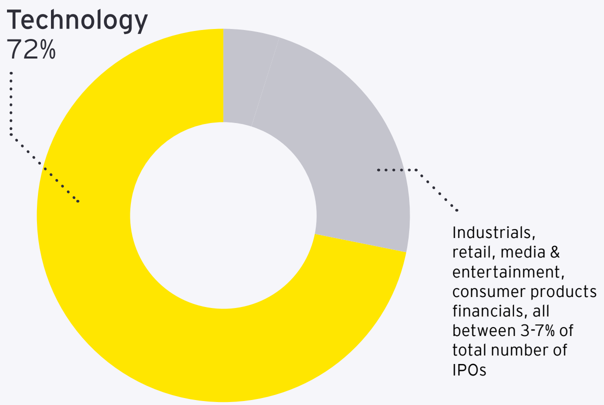
New York (NYSE) 20	43%
NASDAQ 11	25%
Hong Kong 1	8%
Deutsche Boerse -	-
London 1	33%



Source: Dealogic, EY

Technology is the sector driving unicorn IPO activity

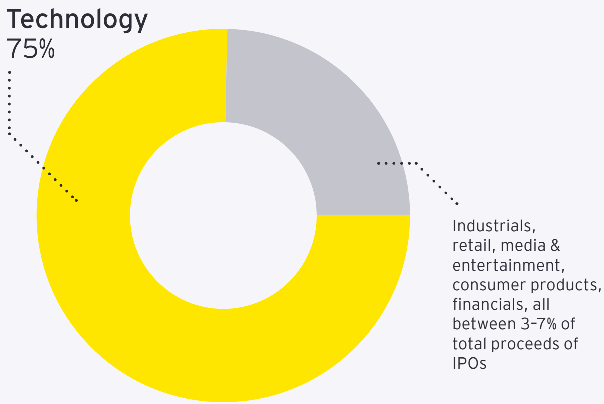
Number of unicorn IPOs, 2014-2018, by sector



Technology 72%	
Healthcare 6%	
Financials 5%	
Consumer products 3%	
Industrials 3%	
Media & Entertainment 3%	
Retail 3%	
Energy 2%	
Telecommunications 2%	
Real estate 1%	

Source: Dealogic, EY

Proceeds from unicorn IPOs, 2014-2018, by sector



Technology 75%	
Telecommunications 7%	
Financials 4%	
Industrials 3%	
Media & Entertainment 3%	
Retail 3%	
Consumer products 2%	
Healthcare 2%	
Energy 1%	
Real estate 0%	

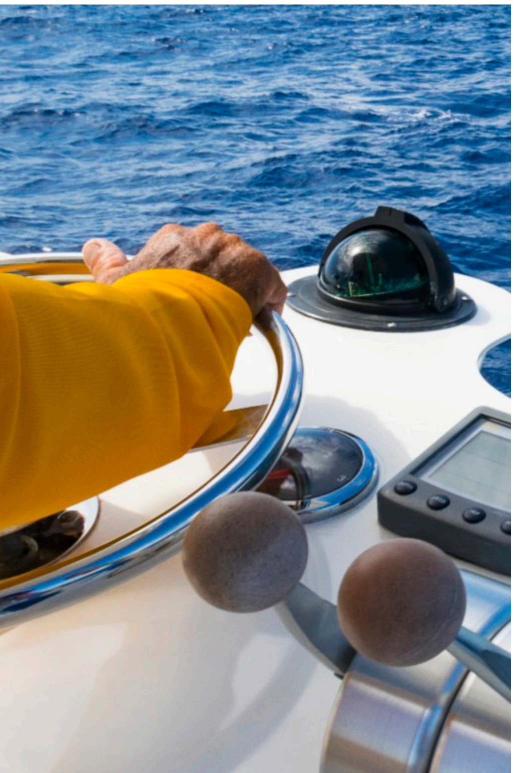
Source: Dealogic, EY

Stay private or go public? It's complicated

With close to two in five unicorn companies choosing to go public between 2014 and 2018, there are obvious merits to considering an IPO. However, for many unicorn companies, the decision to stay private, sell or go public is often complex.

Stay private

Staying private is enticing for many founders of unicorn companies. With lots of liquidity still in the market and more investors willing to pour increasing sums of money into unicorns, founders may prefer to keep their autonomy and their companies out of the eye of the public glare. However, staying private may also mean limiting the company's future growth. Additionally, unicorn companies will at some point have to provide a return on investment to their financial partners.



Look for a buyer

When staying private is no longer an option, some fast-moving unicorns may opt for acquisition rather than IPO. Finding an incumbent with deep pockets and scale allows unicorn companies to reach their growth potential faster than trying to build it themselves. The downside, for founders in particular, is that the entrepreneurial spirit that allowed the company to flourish can be quashed amid the lumbering pace and bureaucracy inherent within most large organizations.

Issue an IPO

The primary advantage of an IPO is that it can provide access to capital in quantities that unicorn companies can't find elsewhere. It also gives unicorn companies and their founders an opportunity to reward and retain the talent that has been critical to their success so far. It gives investors an opportunity to realize a return on their investment, and can boost brand profile and open up markets for new customers. It demands a governance structure and level of professionalism that credentializes the company as a legitimate force in the market. However, it also invites a new level of scrutiny from investors and regulators that unicorn companies may not be prepared for.

The pros and cons of issuing an IPO

Pros

- Serves as a catalyst for speed and scale to accelerated growth
- Opens access to growth capital availability and a new external investor base
- Offers a liquid market for exits of initial investors, as well as further wealth creation and diversification
- Boosts brand profile and allows the unicorn to open new markets and attract new customers
- Helps to retain great talent
- Provides stronger governance and transparency, allowing the company to improve its professionalism and credentialize itself as a bona fide market player

Cons

- Invites greater scrutiny through increased transparency and capital market regulation
- Susceptible to market volatility, which can impact value
- Increases the burden on scarce resources to meet compliance requirements and regulatory oversight
- Places pressure on the company to deliver on promises in the public spotlight

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IPOs are more complicated than they’ve ever been. Today’s transactions are frequently about more than raising capital. This is especially true for unicorn companies.

Jackie Kelley
EY Americas IPO Leader

Direct listing: an alternative strategic route to the public markets

Essentially, a direct listing of existing shares is a way to go public without the issuance of new shares.

It allows a company to access the public markets without some of the uncertainty that accompanies an IPO. While an IPO can be withdrawn or postponed at the last minute due to a variety of factors, a direct listing offers a safe pathway to a main market presence, especially during periods of uncertainty. It is commonly used for example where companies want to trade their shares on more than one stock exchange or as part of a carve-out transaction.

Direct listings represent a welcome alternative route to the public markets. They provide company founders and employees with a mechanism for monetizing their stock options as well as offering financial sponsors and other investors an exit route.

However, a direct listing isn't for everyone. To put it bluntly, size matters. A direct listing can work well for large cap companies that already enjoy brand-name recognition and a significant private market valuation. Raising capital is not a primary objective for a business going the direct listing route; its priority is to facilitate trading in the company's shares by gaining access to a liquid market, something that is much easier on a public platform.

Once listed, as it further strengthens the brand and builds confidence in its equity story, it has the option of taking the second step of issuing new shares to raise further capital (which may provide foreign currency to help fuel M&A or other plans for expansion).

For unicorns choosing the IPO route, the competition is on between passion and pragmatism

Access to funding, anxious private investors agitating for an exit, the desire to keep talent that has been instrumental in making the company a success so far, the opportunity to elevate the company's brand or expand into new markets are all good, logical, pragmatic motives for going public.

Passion drives unicorn founders in ways few can imagine. It gives them the confidence and unwavering conviction that their idea, product or service can change the way people think or feel or do — even when everyone around them is saying they'll never succeed, or it can't be done. It also shapes how they make decisions and what they define as personal achievement.

So, when founders finally reach the IPO precipice, money is rarely the driving factor. Despite the host of pragmatic reasons they may be considering, the most influential driver is the desire to reach that next personal milestone: joining the exclusive club of listed global tech companies. They want to be a part of an intimate inner circle of highly successful entrepreneurs and feel the adrenaline rush that comes with ringing the bell on the floor of the stock exchange.

Whatever the reason, preparation for an IPO can mean the difference between success and failure

Although the reasons for issuing an IPO can be as nuanced and varied as the unicorn companies themselves, there is one factor that is universal: preparation is key. It can mean the difference between success and failure.

We believe there are five critical factors that set successful unicorn IPO candidates apart from the rest.

1

Start early with considerations on strategic options and an IPO readiness assessment

Although the median age of a unicorn at the time of an IPO is between 8 and 10 years, many companies start thinking about their IPO journey three years after founding. The adage that it's never too early to start is particularly relevant when it comes to IPO-readiness.

Many companies start the considerations with an IPO readiness assessment. Founders want to assess the following questions: Does an IPO make sense and fit into the strategy? What could the basis of the IPO be? What is the current status and what are the IPO readiness gaps? How can we close these? What could an IPO road map look like?

It takes years establishing the right business processes and infrastructure, recruiting executive and advisory talent, getting ahead of financial and reporting issues, and gathering a board of directors' commitment to go public. The earlier a unicorn company starts its preparations for an IPO, the better prepared it will be when the right window of opportunity comes along.

2

Build the right foundation

At a certain point, a unicorn has to invest in its infrastructure, people and processes as part of the growth strategy for the business.

IPO readiness requires robust enterprise-wide infrastructure, often comprising new people, processes, policies and technology. Investments in these areas will give the unicorn company the sustained ability to scale and grow quickly while also meeting compliance requirements and protecting against risk.

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3

Emphasize flexibility over timing

When it comes to IPOs, many say that timing is everything. The number of unicorn IPO candidates accelerating the timing of their IPO plans based on current geopolitical and market conditions would certainly suggest this is true.

We believe IPO-readiness and flexibility are more important. Market access is driven by investor confidence in a unicorn company's ability to execute on its business plan and consistently deliver strong investor returns.

In these uncertain times, getting IPO-ready 12 to 24 months pre-IPO, while multi-tracking to prepare for all options, allows a unicorn company to choose the time and approach that will net the company maximum advantage.

4

Hire the right advisors

Having the right people inside is critical, but a strong unicorn company also needs a network of advisors to help the company stay on track. Bankers, auditors, IPO-readiness advisors, lawyers and PR consultants can offer much-needed advice at pivotal points in the lead up to and follow-through of an IPO. Unicorn companies will want to put its advisor team together well in advance of their public launch – typically 12 to 24 months.

For the best chance of a strong post-IPO performance, unicorn companies will also want to consider which underwriters are best suited for the company's offering, and which analysts can help the company achieve the optimal mix of investors.

5

Deliver on promises

It's important to remember that an IPO is a journey, rather than a destination. Once a unicorn company goes public, it needs to keep the promises it made during the IPO, manage the expectations of its shareholders and analysts, and deliver on its growth and value projections.

Communicating openly and consistently will be especially critical. This process begins well ahead of an IPO and continues long after the company has gone pubic. Of course, there will always be issues beyond a company's control. Trusted companies communicate with transparency about both the opportunities and challenges in the business.

The credibility a unicorn company establishes early on will help to provide the necessary protection against unforeseen events and establish the foundation to keep any promises made.

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Japan's unicorn era is poised to accelerate as Japan aims to generate unicorn IPOs for both local and global capital markets. New regulatory changes that support start ups, and the Japanese government's continued focus on innovation, are creating a healthy pipeline of unicorn IPO candidates.

Shinichiro Suzuki,
EY Japan IPO Leader

EY's IPO value journey can help unicorn companies get the most out of going public

Unicorn companies need a clear, well-orchestrated plan to capture the full value of their IPO, particularly in a time of economic uncertainty and market volatility.

EY offers a four-phased approach that can help unicorn companies plan, prepare, list and succeed long after a founder has pressed the button or rung the bell on the floor of the stock exchange.

We invite you to learn more by reading our ***Guide to going public*** *(www.ey.com/ipo/guide)*

1 — **Strategic considerations and IPO planning**
12-24 months prior to IPO

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2 — **IPO preparation**
6-12 months prior to IPO

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3 — **IPO transaction**
1-6 months prior to IPO

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4 — **Being public**
Post-IPO

For a conversation about your IPO strategy, please contact us

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Dr. Martin Steinbach
EY Global IPO Leader
& EY EMEIA IPO Leader
martin.steinbach@de.ey.com

Jackie Kelley
EY Americas IPO Leader
jacqueline.kelley@ey.com

Ringo Choi
EY Asia-Pacific IPO Leader
ringo.choi@cn.ey.com

Shinichiro Suzuki
EY Japan IPO Leader
shinichiro.suzuki2@jp.ey.com

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