A NEW CONCEPT IN THE WORLD OF ‘STARTUPS’

TECH UNICORNS

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FINTECH SERIE By innovation edge
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Unicorns: golden nuggets in the tech world

131 tech startups combined are worth more than Google. Uber and Airbnb top the list of unicorns (🔗).
Aileen Lee chose the term **unicorns**, a mythical animal invented by ancient poets featuring the body of a horse and a single horn in the center of its forehead, to describe tech companies that have secured a valuation of at least 1 billion dollars in some stage of their fundraising.

The founder of **Cowboy Ventures** conducted a study in 2013 that revealed that just 0.1% of companies reached said figure. This led her to coin the oneiric term for such companies, which represent true golden nuggets. Her aim was to describe the startups that have been worth one billion dollars over the last 10 years.

“The term romanticizes techno-companies: takes them from the remote and unintelligible to the magical and even lovable”, Lee told International Business Times when discussing the genesis of the name.

The term gained traction unusually fast after appearing in an article posted on TechCrunch.

Aileen Lee coined the term to define *“the winner among the winners”*. The startup that everyone wants to invest in. When she published her post *“Welcome to the unicorn club”*, within just a few short hours the new term had already been picked up by analysts and investors, while hundreds of people began using the name in the offices and corridors of Silicon Valley (in).
Another bubble?

Unicorns in the United States have one thing in common. They may be helping to inflate another bubble. Not a stock market bubble, as seen in the 2000s, but private investors channeling large sums of money into such companies have caused valuations to swell disproportionately to the profits that they generate. Uber, Twitter, SNAPCHAT, Airbnb and Pinterest are hot property, just as their predecessors were during the Internet bubble. Bear in mind that new startups have proliferated because they require less money and physical and human resources to get underway.

An article by Forbes entitled *Tech unicorns*, the next market bubble? examines “The vertiginous race to fund these tech startups, which poses serious concerns regarding their viability and is reviving fears of another bubble that may be ready to burst, just like the dotcom bubble 15 years ago, which caused the Nasdaq, the leading tech index, to lose 78% value in just two years”. According to Forbes the value of unicorns is inflated, but that doesn’t mean a bubble is being created.

Are unicorns overvalued? Yes.
"Investments in such companies are speculative, in the sense that there is considerable uncertainty regarding how they will perform going forward", says Aleksi Aaltonen, Assistant Professor of Information Systems at Warwick Business School in the UK.

So are we seeing a new bubble? Not necessarily. The specialist and founder of the Moves app believes "investors have plenty of experience valuing tech enterprises, and if any fail to live up to standards they are far less likely to bring down the entire industry".

Another article, What bubble? The unicorn boom is just getting started, agrees: "The presence of so many unicorns is not necessarily a sign of increased risk.

High growth companies are replacing market flotations with private capital. And why not? There is abundant cash and remaining a private company avoids the headache of an IPO and having to render accounts to shareholders every quarter".

Bubble or not, one thing is for sure; unicorns are conquering the market. There are now 140 unicorns in the world compared to 75 at the end of last year. Most of them are in the United States, but every week another appears in China or India. And the "best of the best" at present according to CB Insights, is Uber.
In the first three months of 2015 more than 13 billion dollars were invested in the development of young American companies.
Who is king of the unicorn world? Without doubt, Silicon Valley. In the technology sector, 'unicorn' is the name given to a startup, usually created within the last 10 years, that is worth more than 1 billion dollars without being listed on the stock market.

Aileen Lee, a venture capital expert, coined the term in late 2013, counting just 40 or so non-listed high-tech enterprises worth something in the region of this amount. Since then, so many have unicorns have been born—most as a result of the success of the mobile Web and pure venture capital products—that they have lost their rarity value completely. In fact, the number just keeps on growing, with no apparent end in sight for the moment.

The first quarter of 2015 saw the birth of more than 80 unicorns worldwide, 50 of them in the United States (in). This resurgence is explained by the sheer number of funding rounds that startups are carrying out, especially those located in Silicon Valley, as this study shows.
Meanwhile, the data published by the auditors EY demonstrate that 87 billion dollars were injected in venture capital in 2014, compared with 43 billion dollars in 2006.

But if 2014 was a record year in this respect, 2015 promises to be just as prosperous for startups. In the first three months of 2015 more than 13 billion dollars were invested in the development of young American companies.

According to the National Venture Capital Association, this figure is equivalent to more than 1,000 financial transactions and represents a sum not seen since the dotcom bubble burst in the year 2000. High-tech unicorns are a prolific species. In fact, some of them have even been renamed 'super-unicorns' because of their potential worth, thought to be in excess of 10 billion dollars. Xiaomi, Uber, Instagram, Airbnb and Snapchat are all in this latter category; Shazam, Jawbone, Evernote, Square, etc. in the former category.
‘Super-unicorns’

Unicorns and super-unicorns are characterized by the rapid growth of their financial value.

Uber, which operates an urban transportation service between individuals and is present in more than 250 cities around the globe (500,000 users in France), raised 2.4 billion dollars in 2014 and more than 1.6 billion dollars in January 2015 (from Goldman Sachs). Its value grew to 41.2 billion dollars in the first quarter of 2015, compared with 3.8 million in August 2013.

Another example: following the announcement of an additional 1 billion dollars raised in the spring of 2015, the accommodation booking website Airbnb, founded in 2008 and now present in 190 countries, is worth 20 billion dollars, more than the major international hotel chains.

In March 2015 the social media site Pinterest managed to close the circle that enabled it to raise 367 million dollars, thus doubling its value to 11 billion dollars, compared with just 5 billion 10 months earlier.

In July 2014 the online store Flipkart carried out the largest funding round ever undertaken by an Indian website, raising 1 billion dollars in fresh capital. Lesser-known super-unicorns include Palantir, which specializes in big data related to security, with clients like the CIA, FBI and NSA; and Dropbox, an online storage service. In 2014 these managed to secure fresh investments of 500 million and 350 million dollars, respectively.
Europe wakes up

China is the main threat to the USA’s hegemony in the "unicorn world", but it hasn’t been a bad year for European countries.

Startups raised 37% more funds in 2015 than in 2014, equivalent to 7.8 billion dollars. Europe saw 53 funding rounds in excess of 30 million dollars in 2014 compared with 33 rounds in 2013, according to data published by Clipperton and Digimind. Some rounds attracted hundreds of millions of dollars.

Delivery Hero, the German startup specializing in online food ordering, raised 523 million;

Ayden, the Dutch online payment service, raised 250 million, and a Russian online retail store walked away with 150 million dollars.

However, the United Kingdom leads the startup world in Europe. Young British companies attracted a total investment of 2.3 billion dollars in 2014, double the funds raised by their French counterparts—1.2 billion in 245 transactions. And for the moment, still counting (f).
“Unicorn companies attract talent”

Joan Riera, Professor in the General Management and Strategy Department at ESADE, examines the companies that are winning over the market.
What do unicorn companies have to offer the market?
Unicorn companies have a value of over 1 billion dollars and are in very rapid growth. They offer the market a business model that has very close ties with social networks and is orientated toward end consumers. Unicorn companies represent flagships; they are widely discussed in the media and are culturally influential. They attract plenty of talent and are capable of drawing money into a given region, something that has been very evident in the United States.

What are their main advantages?
They break the market rules and offer disruptive solutions. By harnessing social networks they understand exactly what their customers want and are able to relate with consumers, gain their trust and address their needs. All of which means they attract a huge number of customers very quickly.

How would you characterize unicorns?
They tend to be companies made up of very young teams, around 34 years of age. It is notable that they do not usually have women at the helm. Only two unicorns have women CEOs. Most of the unicorns are based in San Francisco. This is because of the talent, investors and money that are available there (in).
What are their main disadvantages?
Such companies grow large very rapidly. The sustainability of turnover is a concern. This means plenty of uncertainty regarding their future.

On the other hand, these companies operate based on a sharing economy that is well ahead of existing legislation. Countries are not ready for such a model, and even society sometimes snubs the sharing economy.

There are legal conflicts, which represent the biggest weakness for unicorn companies. These firms are groundbreakers and provide utterly new services, which often creates legal conflict.

Is there a bubble?
I don’t think so. Nonetheless, I do expect some kind of correction going forward. These companies are valued based on future expectations, which is why people believe they are worth 1 billion dollars, and this is dangerous. They grow very quickly thanks to successive rounds of financing, while a stock market floatation is usually necessary, as their value is calculated based on future expectations, something that renders them very fragile. Banks are interested in such companies due to their striking growth.
Why has the United States taken the lead?
The majority of these firms are American due to the very particular ecosystem in the country, where this model receives huge backing. Valuations for such companies in Spain are usually lower, around 40 million euros, and there are few examples to follow in the country’s business culture. Nor does legislation help, as the fiscal system exacts levies on saving and labor.

Tax benefits are required to invest in such companies. Also, the highly inflexible labor system does not help to attract foreign talent.

The situation in Europe is similar, although such companies are gradually getting off the ground.
CASE STUDY

Unicornio Theranos: Business travels in a blood tube

Doubts about the true value of the 9 billion dollar startup have shaken Silicon Valley (Twitter).
Elizabeth Holmes is known in Silicon Valley as "the new Steve Jobs." She is CEO of Theranos, a "unicorn", as the unlisted startups valued at more than 1 billion dollars are known.

Her company became famous when it developed a pioneering technology for extracting and testing blood and selling a method for carrying out 30 medical tests with a single drop of blood.

A story in The Wall Street Journal has shaken Silicon Valley. The publication said that it does not believe that the blood analysis company is what it claims to be.
Theranos was created with the aim of disrupting the market for blood tests that in the U.S. alone is worth an annual 75 billion dollars. A recent injection of 400 million dollars from investors has given the startup an implied value of 9 billion dollars. However, the foundations of what appeared to be a thriving business that uses technology to help the lives of millions of people are now turning against it. In the last two weeks, Elizabeth Holmes has had to field a slew of negative news items.

In another article, The Economist tells the story of Theranos.

The company run by the 31-year-old billionaire has attracted great interest because it claimed it could perform a wide variety of tests by drawing just a few drops of blood instead of using a full-sized needle to take larger samples; and because of its promises to make it cheaper and easier for consumers to get blood tests without having to go through a doctor. However, in recent months the media have raised doubts about the reach and technological reliability of the startup.
The Wall Street Journal claims that Theranos has exaggerated the reach and reliability of its technology, as it says its tests are not reliable. It reveals that it only carries out some of them with its own devices, using other firms' technology for most of them. The Food and Drug Administration (FDA) has also published some negative reports after carrying out inspections in Theranos.

They accused it of distributing an "uncleared medical device" and said that the company lacked an adequate system for responding to complaints. Separately, GlaxoSmithKline, the pharmaceutical giant for which Theranos had claimed to have done tests, said that it had not done any business with the startup in the past two years.
Controversy about the startup’s value

The Economist highlights two disputes in this case. The first is What would have happened if Holmes had been a man instead of a woman?

Of the 142 unicorns in existence, only 3 are headed by women. And in none of the others is the CEO a woman.

The Economist points out: "The best-case scenario is that Theranos has simply experienced more setbacks than onlookers had expected, and that its technology will eventually catch up with its lofty valuation. Every startup has difficulties, especially in highly regulated industries like health care."

Some women working in the tech industry question whether a young man trying to overthrow an established industry would face as much criticism as Ms Holmes has in recent days.

But if the allegations prove to be true, at the very least Theranos’s valuation may never again reach the heights seen so far."

The second controversy is related to the true value of unicorns. The Economist explains: "In several respects, Theranos is highly unusual in the tech industry. Formed twelve years ago after Ms Holmes dropped out of Stanford University, the firm has not raised capital from the usual suspects in the tech or medical businesses.

Only one prominent venture-capital firm, Draper Fisher Jurvetson, has invested, along with Larry Ellison, one of the founders of Oracle, an IT giant. Several of its investors are small-time players with no known expertise in the industry. Its ten-member board boasts George Shultz and Henry Kissinger, two former secretaries of state, but only two people with medical training. The average age of board members is nearly 76."
However, The Economist adds: "Yet in other ways, Theranos evokes a central theme in today's tech industry: startups which promise to disrupt lucrative businesses and become valued on the basis of fantasies about their potential, rather than present reality. Investors are so keen to get a piece of any sexy- sounding startup that they lap up entrepreneurs' hype - and anyone who asks awkward questions risks being cut out of the funding round in favor of someone more trusting."

Unicorn fever in the United States explains the inflation of valuations among unlisted technology companies. Today there are 142 unicorns, more than three times the figure in 2013. They grow quickly, but in terms of reaching profitability, they are far behind the listed competitors they are seeking to replace, and meanwhile they are burning through cash (in).
For example, Theranos is not believed to have significant revenues or profits, even when it has been valued as highly as Quest Diagnostics, a listed laboratory company that last year had revenues of 7,400 million dollars and a net profit of nearly 600 million dollars.

As The Economist concludes: “Many unicorns have been insulated from scrutiny, because they have no obligation to publish figures or provide progress reports on their technology.

Not having to worry about a fluctuating share price frees their founders to think long-term, but also makes it easier for them to brush aside searching questions.

However, in time Silicon Valley’s growing herd of fabled creatures will have their encounter with reality. If they do not live up to their promise, their valuations will slump, either at their next funding round or when they finally go public. Many vials of blood may spill.”
Some years ago it was not common for a company funded with private capital to be valued at over 1 billion dollars. The few technology-based startups that exceeded this value without going public began to be called ‘unicorns’, becoming part of a select list.
Startups must seek opportunities, create needs with the possibility of obtaining a return, and apply tried and tested technologies to become more efficient.

Combination of knowledge from basic and applied sciences in the development of technology and engineering to maximize sales. The goal is to achieve international leadership.

The Internet is vital for finding people willing to invest their money in exchange for a shareholding, but doing so in this way requires a minimum return 10 times higher than the amount invested.

Customers are the source of profits. A negative feedback will be all over the Internet in a matter of seconds, influencing people not to buy a product that perhaps they were going to purchase.

It is useful to seek opinions and achieve improvements, discover errors or express experiences on the social media. This will help perfect the product and gain knowledge of the competition.
In 2009, there were only four companies that followed the unicorn parameters, and today there are already 142 globally.
Growth

The number of this kind of companies has grown by 3,000% since 2009.
Development of the unicorns

**Startups**

- **2012**: USA - 25, Global - 25
- **2013**: USA - 50, Global - 75
- **2014**: USA - 75, Global - 100
- **2015** (estimated): USA - 125, Global - 300

**Trend**

- **2012**: 0
- **2013**: 100
- **2014**: 300
- **2015** (estimated): 500

(*) August 2015
Top 10 globally

Companies valued at 1 billion dollars or more by venture capital firms (until August 2015).

<table>
<thead>
<tr>
<th>Country</th>
<th>Company</th>
<th>Value (in billions)</th>
</tr>
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<tbody>
<tr>
<td>USA</td>
<td>Uber</td>
<td>$50b</td>
</tr>
<tr>
<td>China</td>
<td>Xiaomi</td>
<td>$46b</td>
</tr>
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<td>India</td>
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<td>Pinterest</td>
<td>$11b</td>
</tr>
<tr>
<td>USA</td>
<td>Dropbox</td>
<td>$10b</td>
</tr>
</tbody>
</table>
According to total funding

- USA
  - Palantir: $1.5b
  - Pinterest: $1.3b
  - Dropbox: $0.6b
  - Snapchat: $1.2b
- China
  - Airbnb: $2.3b
  - Uber: $5.6b
  - Xiaomi: $1.4b
  - Flipkart: $3b
- India
  - Did Kuaidi: $3b
  - Spacex: $1.1b

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