THE RISE OF THE UNICORN

In this feature we take a look at the proliferation of venture capital-backed companies reaching unicorn status over the past decade, including institutional investor participation and impact on fund performance.

The term ‘unicorn’ was coined in 2013 by Cowboy Ventures’ founder and partner, Aileen Lee, to signify a venture capital-backed company valued at $1bn or more. What is known to most as a mystical horse, to Lee the term encompassed the rarity and distinction of $1bn+ valuations at the time. However, $1bn+ companies today are hardly as unique: there are 8x more companies that have achieved unicorn status than when the term came to life in 2013.

One of the factors driving unicorn growth is the abundance of late stage capital in the market. Late stage fundraising continues to grow; a record $11bn was raised in 2016. With a plethora of venture capital available, companies are choosing to remain private for longer, pushing valuations higher and expanding the ‘$1bn+ Club’.

While companies with $1bn+ valuations represent a small fraction of all venture-backed firms, they are significant in their share of total value in the space. 2017 saw a record $179bn in aggregate venture capital deal value, buoyed by unicorn deals such as Didi Chuxing and Meituan-Dianping, with financing of $5.5bn and $4.0bn respectively. In 2017 so far, unicorn deal value stands at $66bn, accounting for 37% of total venture capital deal value year-to-date.

The prominence and expansion of the $1bn+ portfolio companies have sprouted mixed feelings from investors – some argue that it is a sign of over-inflation and an example of froth in the market, while others argue unicorn growth is a positive effect of productivity and technological advancement.

Sequoia Capital leads the industry by number of investments in unicorns, with 57 known holdings (Fig. 1). The firm holds over 20 more $1bn+ companies than the next most active firms, Tiger Global Management and Accel Partners which both have 33 known holdings. While those managers top the list of most active investors in $1bn+ companies, Menlo Ventures, Union Square Ventures and DN Capital manage the top three performing funds with unicorn holdings (Fig. 2). On average, funds invested in unicorns outperformed all other venture capital funds for vintages 2007 through 2014, with an average net IRR of 18% vs. 13% for all other venture capital funds (Fig. 3).

The internet sector is home to the largest proportion of $1bn+ valuations, nearly double the amount of the next most prominent sector, software & related (21%, Fig. 4). Moreover, the internet sector holds almost half (49%) of total unicorn value, followed by telecoms with 21% of value.

More than two-thirds (68%) of institutional investors with unicorn exposure are based in North America, followed by Europe (18%) and Asia (12%). All of the top 10 investors, by number of known venture capital fund investments with at least...
one unicorn holding US-based, led by University of Michigan Endowment with 61 known commitments to funds with exposure to unicorn investments. The endowment plan is known to have made commitments to Battery Ventures IX and Technology Crossover Ventures VII, both top performing funds (net IRRs of 26.3% and 22.8% respectively) with at least one unicorn holding.

Other notable investments made by institutional investors include Washington State Investment Board’s commitments to Menlo Ventures XI and TPG Growth II, both top performing 2011 vintage funds with net IRRs of 75.7% and 26.7% respectively. Also noteworthy is University of Texas Investment Management Company’s commitments to three of the top 10 performing funds with known unicorn holdings, more than any other institutional investor.

Fund of funds managers are the most active investor type in terms of exposure to $1bn+ venture portfolio companies, accounting for 16% of all LPs with known unicorn fund holdings (Fig. 6). Foundations and public and private sector pension funds follow closely behind, each accounting for 15% of unicorn investors.

Fig. 3: Average Net IRRs by Vintage Year: Venture Capital Funds Invested in Unicorns vs. All Other Venture Capital Funds

Fig. 4: Proportion of Unicorns by Industry (As at November 2017)

Fig. 5: Number of Commitments to Venture Capital Funds with Unicorn Holdings* (As at November 2017)

Fig. 6: Investors Committed to Venture Capital Funds with Unicorn Holdings* (As at November 2017)

Fig. 7: Number of Venture Capital Portfolio Companies to Reach Unicorn Status over Time (As at November 2017)

*Venture capital funds with at least one portfolio company valued at $1bn+.
### The Rise of the Unicorn

**Fig. 8: Sample Unicorns**

<table>
<thead>
<tr>
<th>Unicorn Company</th>
<th>Total Known Funding ($bn)</th>
<th>Valuation ($bn)</th>
<th>Multiple (x)</th>
<th>Location</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Didi Chuxing</td>
<td>16.7</td>
<td>50.0</td>
<td>3.0</td>
<td>China</td>
<td>Telecoms</td>
</tr>
<tr>
<td>Uber</td>
<td>13.0</td>
<td>68.0</td>
<td>5.2</td>
<td>US</td>
<td>Telecoms</td>
</tr>
<tr>
<td>Flipkart</td>
<td>6.5</td>
<td>15.0</td>
<td>2.3</td>
<td>India</td>
<td>Internet</td>
</tr>
<tr>
<td>Grab</td>
<td>4.1</td>
<td>6.0</td>
<td>1.5</td>
<td>Singapore</td>
<td>Telecoms</td>
</tr>
<tr>
<td>Go-Jek</td>
<td>0.8</td>
<td>2.6</td>
<td>3.5</td>
<td>Indonesia</td>
<td>Business Services</td>
</tr>
<tr>
<td>Spotify</td>
<td>2.1</td>
<td>13.0</td>
<td>6.2</td>
<td>Sweden</td>
<td>Internet</td>
</tr>
<tr>
<td>Coupang</td>
<td>1.4</td>
<td>5.0</td>
<td>3.6</td>
<td>South Korea</td>
<td>Internet</td>
</tr>
<tr>
<td>Meituan-DianPing</td>
<td>7.3</td>
<td>30.0</td>
<td>4.1</td>
<td>China</td>
<td>Internet</td>
</tr>
<tr>
<td>The Hut Group</td>
<td>1.3</td>
<td>2.5</td>
<td>1.9</td>
<td>UK</td>
<td>Internet</td>
</tr>
<tr>
<td>ironSource</td>
<td>0.1</td>
<td>1.5</td>
<td>12.5</td>
<td>Israel</td>
<td>Software &amp; Related</td>
</tr>
<tr>
<td>WeWork</td>
<td>4.5</td>
<td>21.1</td>
<td>4.7</td>
<td>US</td>
<td>Real Estate</td>
</tr>
<tr>
<td>Auto1 Group</td>
<td>0.5</td>
<td>2.5</td>
<td>4.8</td>
<td>Germany</td>
<td>Internet</td>
</tr>
<tr>
<td>Airbnb</td>
<td>4.4</td>
<td>31.0</td>
<td>7.0</td>
<td>US</td>
<td>Internet</td>
</tr>
<tr>
<td>Xiaomi</td>
<td>2.5</td>
<td>46.0</td>
<td>18.7</td>
<td>China</td>
<td>Other IT</td>
</tr>
</tbody>
</table>
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