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Living in a world of unicorns

Venture-backed giants are scaling up and transforming markets as varied as fintech, electric vehicles, and healthcare.

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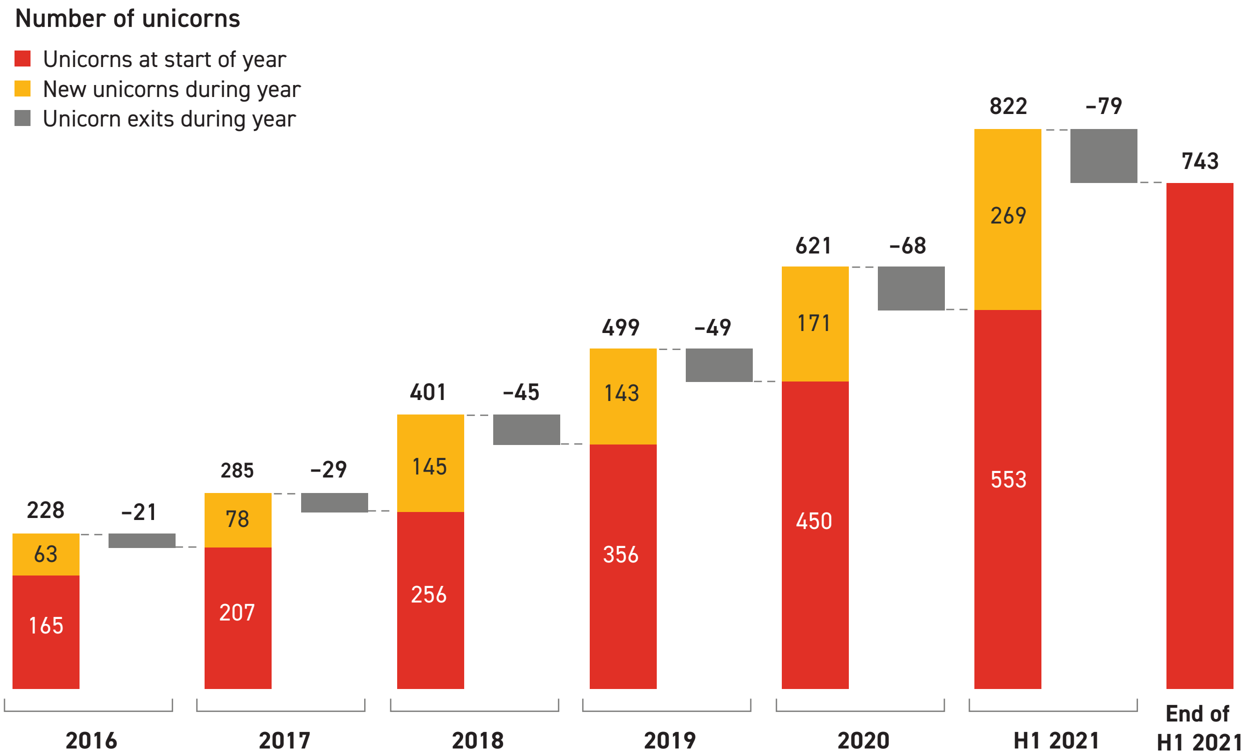
Many kinds of personal financial transactions that used to be expensive, cumbersome, or downright impossible can now be completed with a few taps on our phone. Consumers the world over can 'buy now, pay later' with point-of-sale loans through Affirm and Klarna, make peer-to-peer transfers using Toss, send money across borders using Remitly, Payoneer, or Airwallex, and connect financial accounts with Plaid—all at low costs. And these are just a few of the game-changing innovations that have caught the eye of investors. According to PwC analysis using data from PitchBook Data Inc.,[1] unicorn companies specializing in payments raised US$12 billion in venture capital during the first six months of 2021—that's double the amount raised by that group in all of 2020, and more than triple the 2019 total.

The surge in fintech investment is one example of the unprecedented amount of capital flowing into unicorns—defined as privately owned, VC-backed companies valued at $1 billion or more—which are in turn scaling at a never-before-seen rate. If 1999 was the year of the IPO, when companies going public raised a record $69.2 billion, the 2020s have ushered in an era of innovation overdrive that the pandemic has only accelerated. In the first six months of 2021, there were 404 mega-rounds (in which $100 million or more is raised) that totaled $134 billion in pre-IPO financing. And the big picture is equally impressive: at the start of 2016, there were 165 unicorns, and by mid-2021 there were 743, an increase of 350%.

This is not your typical tech that takes 20 years to scale. Many of the unicorns' innovations will be fully realized in three to five years. Of course, history

Rapid growth

In five and a half years, the number of unicorns grew from 165 to 743.



Source: PwC analysis, PitchBook Data Inc.

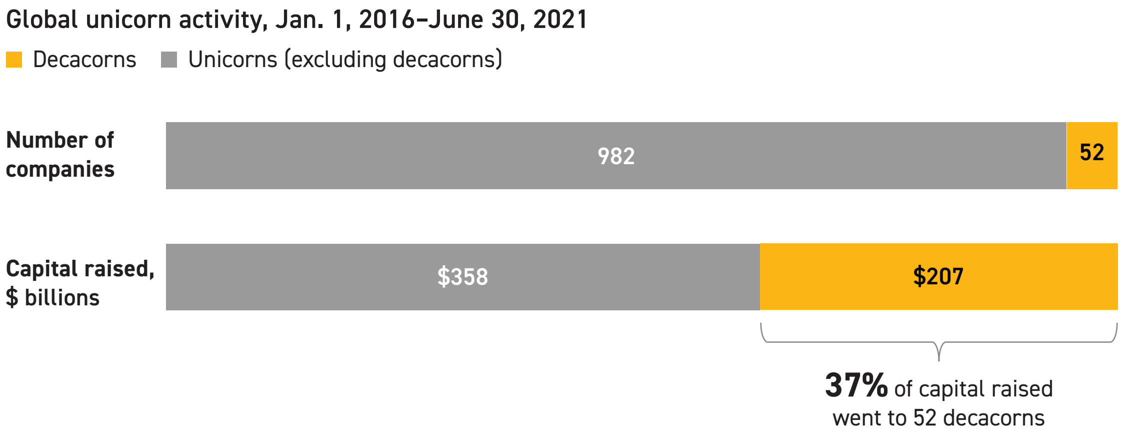
has shown that some of the unicorns will falter, and it is natural to be wary of today's high valuations. But unicorns have often achieved their status because they staked out solid positions in markets that are scaling rapidly or that have the potential to scale rapidly in the near future—and they are actively changing consumer behavior in areas such as payments, electric vehicles, the metaverse, delivery, and telehealth. Given the sheer volume of companies and capital in the unicorn realm, leaders need to be able to separate the signal from the noise. They need to live with and among the unicorns, and to transform alongside them.

Unicorns here, there, everywhere

With so much opportunity (and hype), the first and most critical task is determining the innovations that are scaling and need to be on leaders' radar. This is the purpose behind a recent PwC analysis of late-stage venture capital in the past five years. We analyzed the companies that achieved unicorn status between January 1, 2016, and June 30, 2021, and created a snapshot of their key

Few but mighty

Decacorns, though small in number, attracted a significant amount of the total capital raised.



Note: Decacorns are companies that raised $10 billion or more between 2016 and 2021.
Source: PwC analysis, PitchBook Data Inc.

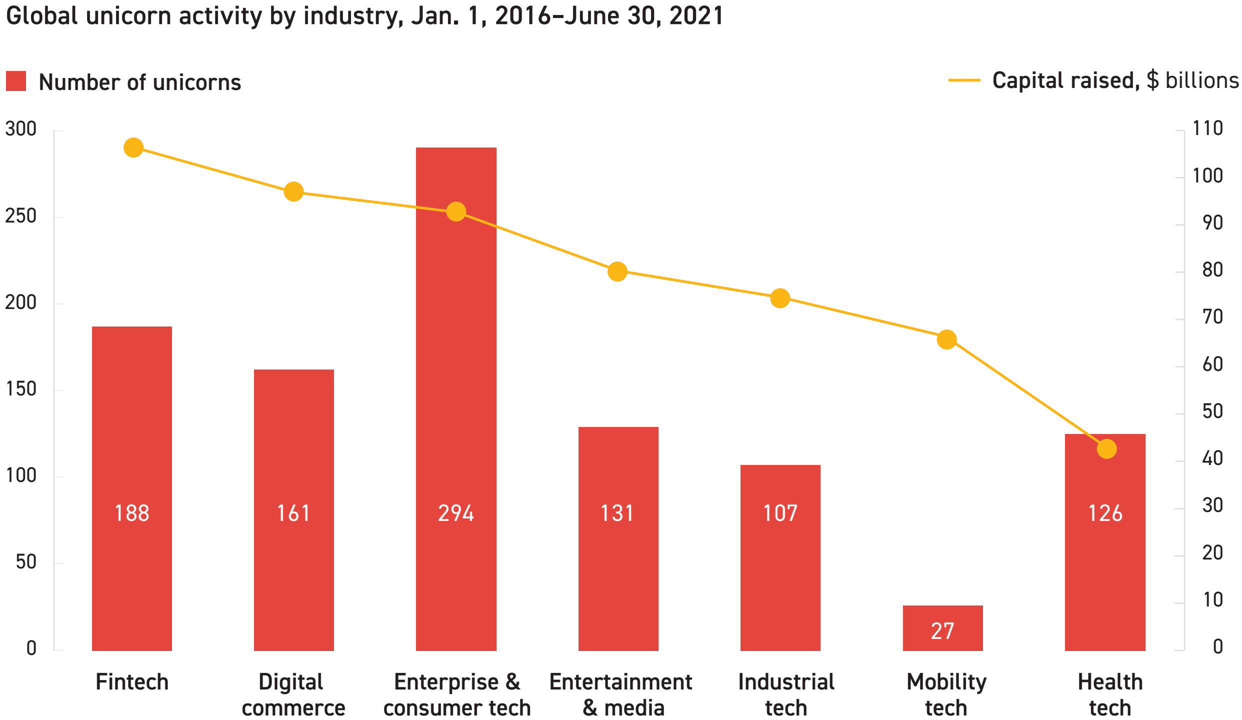
characteristics. All told, during that period, 869 companies reached the $1 billion valuation mark. This is a milestone that was once exceedingly difficult and rare. For comparison, Crunchbase reports that between 2005 and 2010, only 14 companies became unicorns. The unicorns in our study period raised $565 billion in capital,[2] with 37% of that total sum going to 52 decacorns (a decacorn is a company that has achieved a $10 billion-plus valuation).

Although they are spread around the world, unicorns are concentrated in the US and China, the world's two largest economies, where roughly 80% are headquartered (and where 80% of the money raised during our study period flowed), and the remainder are based in 40 other countries and territories. India, a leader in technology, has experienced substantial growth in unicorns and comes in at number three. India was home to five unicorns at the start of 2016, and now has 31.

Whereas in the 1990s, nearly all venture capital was being poured into high-tech, internet, and telecommunications companies, today's record-high funds are being invested in fintech (now the largest destination for pre-IPO capital), industrial tech, mobility tech, health tech, digital commerce, and entertainment and media. Tech is now influencing so many verticals that the investments and business processes in those verticals are evolving and beginning to blur industry lines.

A diversifying landscape

Fintech unicorns led the pack, raising $106 billion.



Source: PwC analysis, PitchBook Data Inc.

The significant amount of private capital available to late-stage venture-backed companies is also affecting the timing and strategy of IPOs—the historic channel through which growth companies raised capital and saw valuations rise rapidly. Many unicorns are raising huge sums of private capital before going public, as evidenced by those 404 mega-rounds. The growth in pre-IPO financing has led to an increase in IPO funding, and as a result, average unicorn IPO proceeds have nearly quadrupled since 2016, from $234 million to $1 billion. Also notable: of the 1,026 companies that achieved unicorn status during our study period, only 28% exited in the same time frame (through M&A, IPO, SPAC, or going out of business). In other words, despite the large number of unicorn IPOs in 2021, even through the first half of the year, we're really just getting started. And regardless of the near-term future of the IPO market, unicorns are sitting on hundreds of millions of dollars with which to innovate.

Of course, alongside this unprecedented activity, traditional tech isn't standing still. During our study period, 106 enterprise tech unicorns emerged that are focused on artificial intelligence (AI), machine learning, data analytics, and robotic process automation. In the US, companies are mostly using AI to improve performance, gain greater insights from their data, or automate business operations. In China, AI companies are primarily focused on facial recognition and computer vision. Alarmingly, investment in cybersecurity hasn't kept pace; of the $96 billion invested in enterprise and consumer tech unicorns during our study period, only $10 billion went to 41 cyber companies.

The new "roaring '20s"

Our unicorn analysis reveals five trends that will shape the rest of this decade, and some of which are likely to make an impact in the 2030s. Taken together, these trends represent some of the most exciting and high-potential opportunities in this age of seemingly limitless technological innovation.

1. The platformization of consumer financial services. The growth of the platform economy and e-commerce created an unprecedented need for seamless, cross-border, highly scalable digital payments. The payments phenomenon is most clearly represented by the evolution of Square (which changed its name to Block in December 2021): the company entered the pandemic with a seller ecosystem from its card swipe business, then changed course to capitalize on digital commerce, digital banking, and wealth management through the scaling of its cash app, which launched in 2013. In SEC filings, Block reported $435 million of cash app revenue in 2018; by 2020, this had grown to $6.0 billion, and it is at $9.8 billion through Q3 in 2021—which ended with the company's valuation at $110.6 billion.

Consumer app platforms are now expanding beyond payments to lending, through 'buy now, pay later' (BNPL) products, digital banking, mortgages, insurance, and wealth management. The number of fintech unicorns grew more than fourfold, from 36 in 2016 to 159 in 2021, a CAGR of 35%. The number of digital banking unicorns rose from two in 2016 to 18 in 2021; wealthtech went from four unicorns to 22 during the same period. Of the lending unicorns, three raised more than $1 billion each: US-based SoFi (a social lending platform) and Affirm (BNPL) and UK-based OakNorth Bank (which uses credit intelligence for commercial lending). Wealthtech unicorns, which are scaling apps that

Consumer app platforms are now expanding beyond payments to lending, through "buy now, pay later" products, digital banking, mortgages, insurance, and wealth management.

enable customers to buy stocks online without the high trading fees charged by traditional brokerages, were led by Robinhood (based in the US) and JD Digits (based in China).

The digitization of the economy is also establishing the foundation and infrastructure for digital currencies to eventually go mainstream. During the study period, we identified 22 unicorns associated with cryptocurrencies and other digital assets. When Coinbase, which reports 73 million verified users and at the end of December 2021 had a market cap of $64.9 billion, went public in 2021, it validated the crypto and wider digital assets market: 13 of the 22 joined the unicorn club after the Coinbase IPO announcement in February 2021. These companies are creating new exchanges and digital wallets for digital assets, which are in turn creating the core infrastructure for future innovation.

2. From electric vehicles to energy transformation. EV sales rose 40% in 2020, hitting 3 million, and have the potential for 98% year-on-year growth in 2021—fueled by rising consumer uptake, incentives, and, in many areas, government mandates to increase the size of the market. The EV market is expanding to meet this demand, with many major global automakers now offering electric models or committing to an electric transition. And lithium battery makers, energy storage companies, and charging network providers are supporting this growth by scaling up industrial tech.

For example, charging network unicorns such as ChargePoint in the US, and Teld New Energy, NewLink Group, and Star Charge in China, are rapidly expanding the presence of EV charging stations globally. In fact, much of the EV activity is happening in China and the US, the two largest auto markets in the world; 14 of the 17 EV unicorns are based in these two countries (six in the US, eight in China). China was an early mover in this space, and unicorns rapidly expanded its auto market.

The birth of electric vehicles was the first step in the creation of new ecosystems that will engage not only the automotive sector, but also energy, logistics, and financial services. The result will be transportation that is platform-based, offering services to consumers and enterprises. This evolution will occur over the current decade as the speed of charging technology accelerates.

Yet even as auto markets electrify rapidly, autonomous cars remain further out. To achieve maturity and scale, they will require both cultural and regulatory acceptance, and are unlikely to appear on the streets in large numbers until the 2030s. Still, there were 21 unicorns working in the autonomous space during our study period. Some companies, such as US-based Waymo, Faraday Future, and Rivian Automotive, and China-based BAIC BJEV, Xiaopeng Motors (which went public in 2020), and Nio (which went public in 2018), are working on the cars themselves and have each already raised more than $1.5 billion. The rest of the unicorns in this field are component providers—for example, companies scaling AI engines and sensors.

3. Meeting Gen Z in the metaverse. Unicorns in edtech, gaming, and streaming were already attracting significant interest before 2020; they collectively raised $23.5 billion between 2016 and 2019. But it was during the pandemic (defined in our study as January 2020 through the end of our study period, which was June 30, 2021) that they took off, bringing in $29.8 billion. Members of Gen Z, the digital natives born between 1997 and 2012, found themselves uprooted during their formative years both socially and academically. Around the world, this cohort had to quickly make key parts of their lives fully virtual through learning remotely and playing games online to stay connected with friends.

This transformation has become a social phenomenon that is bringing the metaverse, a tech-enabled digital world, to life. Innovation often looks to the next generation, and much of Gen Z is now mature enough to start driving behaviors and usage of technology—with the rest of society following suit. And increasingly the tech world is going to cater to their needs and preferences. For example, demand for the products and services of edtech, gaming, and streaming unicorns has skyrocketed, as have their valuations. Thirty-three entertainment and media companies have achieved unicorn status since 2020.

- Edtech scaled rapidly when many school buildings shuttered and students were forced to quarantine for prolonged periods, and when employees sought virtual options for professional and personal skill development. During the pandemic, edtech unicorns raised (on an annualized basis) eight times the annual amount raised from 2016 through 2019. Tutoring platforms Byju (based in India) and Yuanfudao and Zuoyebang (based in China) received massive investment (each attracted \$3 billion to \$4 billion in funding between 2016 and 2021). The Business Standard reported that Byju had 100 million registered students and 6.5 million paid subscribers as of September 2021.
- Gaming unicorns raised (on an annualized basis) more than double the amount of capital during the pandemic that they raised during the previous four years. This reflects gaming's transformation into an environment for social connectivity, and, in the near future, marketplaces. Gaming industry analytics firm Newzoo reported that the global gaming market generated \$177.8 billion in 2020, a year-on-year increase of 23%. Growth in gaming unicorns has been driven by US-based pre-pandemic unicorns Epic Games and Magic Leap.
- Similar to gaming unicorns, streaming unicorns more than doubled the annual billions raised during the pandemic compared to 2016–19. Streaming has become omnipresent. For example, Sweden-based music streaming company Spotify, which was a unicorn until it went public in 2018, grew its user base from 77 million in 2015 to 365 million in 2021. TikTok (founded in 2016) and its competitor Kuaishou (founded in 2011) have each grown to a staggering 1 billion monthly active users during the pandemic.

This trend is just getting started—the convergence of the metaverse, crypto, and 5G has the potential to create a web 3.0 economy that we can't yet fully envision, and that will evolve over the course of the decade.

4. Mobility companies make an epic pivot. Prior to the pandemic, unicorns created the mobility industry. At first, this meant moving people around through ride-sharing. Over the course of the study period, $67 billion flowed into 26 companies, led by Uber and Didi. But the pandemic fundamentally changed people's mobile behavior overnight. In 2018, mobility companies raised $23.6 billion; in 2020, they raised $7.2 billion. Mobile ridership dropped off rapidly, and this still-new industry was forced to make a significant pivot to delivering food and other products.

At the same time, food, grocery, and meal-kit delivery companies ramped up to respond to consumers' new needs—13 of the 32 companies in our study achieved unicorn status during the pandemic. Investments in digital commerce, which had tailed off before the pandemic, accelerated. Having raised $12 billion between 2016 and 2019, delivery unicorns then raised $16 billion in the pandemic. Established mobility outlets like Uber Eats, which started in 2014, saw a sudden spike in users as well as in usage (average sales) per user. With Uber trip bookings down 75% between April and June 2020, orders to Uber Eats more than doubled. US unicorn DoorDash grew from 4 million users in 2018 to 20 million users in 2020.

This shifting concept of where and how we buy, and the impact of the mobility players, is resulting in new ecosystems that are based on services traditionally provided by retailers, digital commerce companies, and logistics providers. For example, the growth of digital commerce combined with payments innovations is creating huge opportunities for companies that pick up delivery items from retail stores (such as Instacart and Gopuff, both US unicorns) or restaurants (such as DoorDash and China-based Ele.me). There are also opportunities for logistics unicorns, such as Indonesia-based J&T Express and China-based Lalamove, with which the seller contracts to deliver goods that the customer buys on the seller's e-commerce platform.

5. Health and wellness go virtual. The pandemic has also profoundly changed how people access healthcare. Consumers and providers rapidly adopted telehealth and telemedicine services, enabling people to monitor medical conditions, meet virtually with their care providers, and manage prescriptions remotely. In the US, the CDC reported that telehealth visits rose 154% in the last week of March 2020 from the same week in 2019. Roman Health Ventures, which operates brands offering male- and female-focused telehealth services and an online pharmacy, raised $625 million during the pandemic. Moreover, since the pandemic started, there have been 13 new telehealth unicorns—nine of which became unicorns during the first half of 2021.

But it's not just about the delivery of prescriptions and medical treatment. We've also seen wellness unicorns such as US-based fitness companies Peloton and Tonal burst onto the scene, as well as mental health unicorns such as Calm, a meditation app, and Lyra, Cerebral, and Modern Health (all of which are based in the US), which connect patients virtually with therapists. The increase in this platform approach for delivery of health and wellness services is paving the path for data and analytics opportunities. Fourteen health analytics platform unicorns have raised $3.4 billion during our study period, $2.4 billion of which flowed in during the pandemic. For example, US unicorn VillageMD, which reports having 1.6 million users, achieved unicorn status in 2021.

Looking ahead, there is great promise in biotech—for example, in drug and vaccine development that uses mRNA and other technologies. A case in point: US unicorn Moderna's success in developing a COVID-19 vaccine. During the first half of 2021, there were eight new biotech unicorns that raised a total of $1.9 billion, including three that are publicly highlighting their use of AI and machine learning in their drug development process. Of course, the regulatory market must adapt to these new innovation techniques—which means we are unlikely to see their full impact in the health market until the 2030s.

Competing in the digital economy

Today's unicorns aren't just shaping capital markets and investment strategies, they are shaping and redefining the industries in which they operate—by developing new products and services, expanding rapidly into new geographic markets, and using their cash (and valuable stock) to attract talent. Of course, there are elements of froth. Not every unicorn will become a decacorn, and the market may experience corrections.

Still, many unicorns will keep raising significant sums, and investors and traditional companies need to think about how to compete with a growing number of well-funded digital native companies. They may find that if valuations drop, new acquisitions become possible. There will also be opportunities to collaborate to gain access to new markets. Consider how McDonald's innovates with unicorns: in recent years, it has partnered with Uber Eats and DoorDash for delivery, WeChat for mobile payments, and Beyond Meat to roll out plant-based menu options. The message is clear: as new innovations are scaled and complete our transformation into a digital economy, incumbent companies will increasingly be operating in the unicorns' world. +

Notes

1. PitchBook Data Inc. is the underlying data source for unicorn funding throughout this report. The analysis conducted by PwC has not been reviewed by PitchBook, and industry terminology used in this article may differ from PitchBook's.

2. Excludes Ant Financial, which independently raised $85 billion during our study period. Also excludes amounts raised prior to 2016 and prior to becoming a unicorn, and amounts raised in exit rounds.

Study methodology can be found at www.pwc.com/world-of-unicorns.

Stefan Kontschinsky of PwC US, who is a thought leader for PwC Global New Ventures, also contributed to this article.

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