IPO

Ex-unicorn stocks are tanking in a post-WeWork world

By Kevin Dowd
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In the past two years, a large group of highly valued software companies with gobs of prior VC backing have made the move to the public market. Most of these companies were losing substantial amounts of money at the times of their listings. Spotify, Slack, Uber, DocuSign and CrowdStrike are some of the biggest names, but there are plenty more.

On the whole, these companies have done quite well since conducting IPOs. Many of their share prices have increased. But in the past two months, it's been a very different story. Almost every high-profile VC-backed company that's gone public since the start of 2018 has seen its stock decline since the height of summer, and some of those declines have been sharp. For most companies, the tide turned around September 5, while a couple other names hit their recent high-water mark on August 16.

The beginnings of most of those slides coincided with the release of the companies' latest quarterly earnings reports, and many of those earnings reports didn't go as smoothly as analysts anticipated. But some other notable events in the VC world also occurred on or about those dates. On August 14, WeWork made its initial, much-ridiculed IPO filing available to the public. And on September 5, reports emerged that WeWork could be in line for a valuation haircut of 50% or more.

Maybe it's just a coincidence. But there's reason to believe that WeWork's incredible collapse has already begun causing investors to reconsider the way they think about the financials of loss-making unicorns. Even if slipping stock prices are due more to each company's own individual financial metrics, the WeWork saga has changed the context in which public investors view those metrics. In the post-Neumann era, there may be a new level of skepticism baked into the valuations of companies betting on their ability to generate exponential growth in the future.

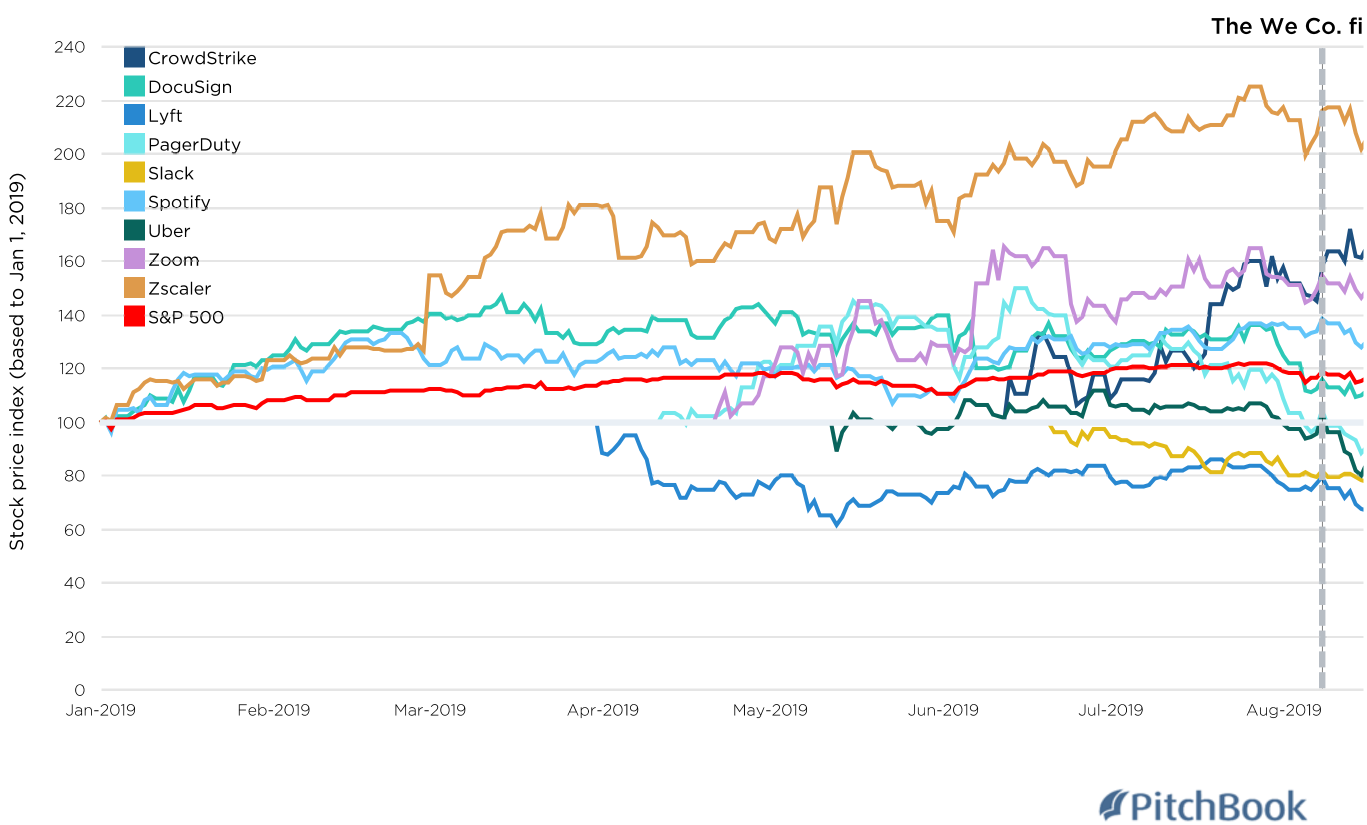
“The market as a whole has changed,” Lyft chief executive Logan Green said earlier this month at the WSJ Tech Live conference. “There has been a major shift from investors valuing growth to going to value stocks. That shift has had very broad implications that have impacted us.”

Of course, there are some enormous differences between WeWork and companies like Lyft and CrowdStrike. We aren't comparing apples to apples here; more like apples to kiwis to pomegranates. But apples, kiwis and pomegranates are still all fruits, and WeWork, Lyft and CrowdStrike are all tech-powered companies that VCs decided were worth $1 billion or more (sometimes much more) despite a whole lot of red ink on their balance sheets. There's been a host of speculation that the WeWork saga could lead to a reckoning for such high-growth startups.

That reckoning may have already arrived.

Here's a look at how a select cohort of these former unicorns have fared on the stock market so far this year (you can mouse over each individual company name in the legend to isolate the respective stock charts):

2019 share price index for recent VC-backed IPOs



As you can see, up until mid-August, most of these stocks were experiencing growth that easily outpaced the S&P 500. In the weeks since, though, all but DocuSign have experienced remarkable reversals of fortune.

Four of the nine companies announced their latest quarterly earnings on September 5, and all nine did so between July 31 and September 10. Eight of the nine posted net losses, with the exception of Zoom and its income of $5.5 million.

Uber, meanwhile, lost $5.2 billion in 2Q, with a large chunk of that total attributed to one-time IPO expenses. Those same kinds of expenses drove Lyft to a 2Q loss of $644.2 million and Slack to a loss of $359.6 million. The figures are much smaller at companies like CrowdStrike and Zscaler, but the trend remains.

Taken together, it leads to some eyebrow-raising numbers. Despite combining to lose some $6.5 billion in their most recent respective quarters, as of October 28, the nine companies had an overall market cap of more than $150 billion. That makes for a series of big bets that losses will eventually turn to profits.

We could only fit so many companies onto one chart. But if you keep looking, the population of one-time unicorns in the midst of stock slides continues to grow. Smartsheet, Anaplan, Avalara, Tufin and Dropbox are a few more examples of recent VC darlings who've experienced stock-price slippage since August. Peloton and SmileDirectClub, two other heavy money-losers that went public in September, have already experienced double-digit declines in their share prices.

We'd be remiss not to mention Beyond Meat, the plant-based protein startup that exploded onto the stock market this year; at its peak in late July, the company's share price had risen more than 800% since its May debut. The climb was so intense that it broke the scale of our above chart; we tried to include Beyond, but then every other stock's journey basically looked like a horizontal line.

But in the months since, Beyond has returned to Earth. This week, as the company's post-IPO lockup period came to an end and insiders could first begin selling their shares, stock in Beyond sunk to nearly $80 per share, meaning the company had lost about two-thirds of its market cap in the span of three months. That's despite the fact the company has turned the corner to profitability, inking a $4.1 million profit in its 3Q. Beyond is an outlier in just about every way, but it's another former unicorn for whom the past few months on the stock market have been anything but kind.

In just about every individual case, a compelling case could be made for the losses in value that doesn't even mention the name WeWork. The weight of the combined evidence, though, is more powerful. They say that two instances of something is a coincidence and three times is a pattern. When the number of examples rises to more than a dozen, the situation would seem to meet an even higher standard.

There's a chance it's a mini-trend that hardly bears watching. But there's also a chance that the game of unicorn economics has forever been altered.

**Correction: An earlier version of this story inaccurately implied that Zoom Video Communications was unprofitable at the time of its IPO; Zoom reported income of $7.6 million for the fiscal year ended January 31.*

Featured image via rudall30/iStock/Getty Images Plus

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