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**Palm Beach Attorney  
Laura Anthony Explains  
Why 2020 May Be the Year  
of the Unicorn IPO**

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## Palm Beach Attorney Laura Anthony Explains Why 2020 May Be the Year of the Unicorn IPO

More than a few unprofitable companies completed [IPOs](#) in 2019. The in-the-red frenzy fizzled out by the fall and some underwater issuers postponed or entirely scrapped their plans to [go public](#). The topic has been beaten to death by financial wizards and industry analysts. Every conceivable opinion, outrage and examination has been chronicled and published.

### Now is the time to live and learn, then move forward.

For every action there is an opposite reaction, so the outlook for 2020 is looking quite different. The investment community, retail and institutional investors alike, are now skeptical and will need to be properly incentivized in order to come back to the table. They will only pull the trigger and infuse more cash into startup companies that are so overwhelmingly attractive they cannot be ignored or dismissed.

The Chinese Zodiac tells us that 2020 is the year of the rat, but Wall Street has made it clear that the unicorn will dominate the year ahead.

A unicorn is a privately held [startup company](#) valued at over \$1 billion. The term was coined in 2013 by venture capitalist Aileen Lee, choosing the mythical animal to represent the statistical rarity of such successful ventures.

Aileen Lee is a U.S. seed investor and the founder of Cowboy Ventures. Lee coined the often-used Silicon Valley term “unicorn” in a TechCrunch article “Welcome to the Unicorn Club: Learning from [Billion-Dollar Startups](#)” as profiled in a New York Times article.

### Valuation of Unicorn Companies

According to the [Corporate Finance](#) Institute, the valuation of unicorns is derived from valuations developed by venture capitalists and investors who participated in the financing rounds of the companies. Since all unicorns are startups, their value is primarily based on their growth potential and expected development. The unicorns’ valuations are not strongly related to their actual financial performance or other fundamental data. Note that despite their abnormally high valuations, many of the companies have yet to generate any profits.

Valuing unicorn companies is a sophisticated process that involves the consideration of various factors and the development of long-term forecasts. Additional complications often arise due to the business models of such companies. Some companies become the first business of their kind in an industry, which makes the valuation process even more complicated.

### The Great Debate Continues

The concept of the unicorn sounds too good to be true: a private company worth in excess of \$1 billion. As with all things financial, there is no room for emotion. It is imperative to understand as much as possible about unicorns, [IPOs](#), [DPOs](#) and all other opportunities before deciding to participate.



Valuations are still based on projections. Much akin to the unprofitable [IPOs](#) of 2019, some analysts claim that their valuations are just too lofty.

A 2019 Wall Street Journal article by Justin Lahart titled “Public Markets Expose the Myth of the Unicorn” explains why some unicorn valuations may be unjustified.

The danger is that, after multiple fundraising rounds, some unicorns may have been bid up so much that their private-market valuations won't be palatable to investors in the public market. That could force companies and their bankers to make the difficult choice between accepting a lower [IPO price](#) or risking a steep stock decline after their public debut.

There are some big differences between how the process of raising money and going public works now and how it worked through the early 2000s. The unicorns are generally so much better funded and more mature than the [tech stocks](#) of yore that the common practice of labeling them startups seems a misnomer.

Lahart also raises a very good question: can a company with a [\\$1-billion-plus valuation](#) still be considered a startup?

About the same time that Lahart voiced certain concerns about unicorn valuations, financial journalist Mark Kolakowski took off the gloves entirely and published the article “A New Tech 'Bubble' Threatens Massive Losses.”

Tech startups are drawing bucket-loads of investor capital, but prospective returns are plummeting. When reality finally sets in, a crash is inevitable, various observers warn. As Keith Wright, an instructor of accounting and information at the Villanova University School of Business, writes in a commentary for CNBC, “In case you missed it, the peak in the tech unicorn bubble already has been reached. And it's going to be all downhill from here. Massive losses are coming in venture capital-funded start-ups that are, in some cases, as much as 50% overvalued.” He adds, ominously, “We are now officially in a tech bubble larger than March of 2000.” In addition to overvalued tech startups that are still privately owned, some highly touted [IPOs](#) in recent years have crashed, leaving investors burned.

Kolakowski unabashedly catalogs the unicorns of 2020 and the [underwater IPOs](#) of 2019 in the same category.

## Getting to Know Unicorns

An ongoing flow of capital into private companies means one very important thing: many companies that would ordinarily feel pressured to [IPO](#) stay private longer.

“This is really a new phenomenon,” Jane Leung, the managing director and chief investment officer at Scenic Advisement, told Fortune magazine in 2019. “You really didn't have companies this size coming to market five years ago even.”

The glut of unicorns, according to Leung, can be attributed to the huge inflows of capital into the [private markets](#) since 2008, primarily from institutions. “The private markets are so big because the money is really flowing there,” Leung says. “This really stems back to the [global financial crisis] in 2008—this search for yield after the crisis.”

It is reasonable to state that a company that can afford to stay private longer should indeed make a stronger debut when it finally [IPOs](#). Be that as it may, it is essential to remember that all [IPOs](#) are still subject to extreme volatility, both economic and emotional, and unicorns are not immune.

Brian Deagon summarized some key points for the Investor's Business Daily: “IPO Stocks of Unicorn Company Giants Bring No Guarantees”: “The unicorns — private companies worth more than \$1 billion — are a lot bigger and often a lot farther from profitability,” Deagon stated. He admitted that these issues can be very exciting but “Investors should know a few things about investing in initial public offerings and avoid joining the crowd chasing lofty names just for their celebrity status.”



[Attorney Laura Anthony](#) is the founding partner of [Anthony L.G., PLLC](#), a national corporate law firm based in West Palm Beach, Florida. Ms. Anthony stated, “The unicorn IPO may be new, but old-school, objective analysis and the discipline to maintain a long-term perspective on the issuers is still imperative. Should sound decision making give way to impulse and key company fundamentals be overlooked, there is such a large valuation in the equation, investors will inevitably be disappointed.”

A recent Reuters article, “WeWork Debacle has Unicorn Investors Seeking Cover,” emphasized the overwhelming importance of investor safeguards as they pertain to IPOs.

In the months since office-sharing startup WeWork’s botched public debut, mid- and late-stage investors in big start-ups have been pushing for more safeguards in case their firms fail to go public or sell shares at a lower valuation than pre-IPO financing rounds.

Fundraising terms are rarely made public, but more than a dozen Silicon Valley-based lawyers, entrepreneurs and [venture-capital investors](#) told Reuters that since WeWork’s canceled public offering and other ill-fated IPOs, investors have been securing protections of their original investments in “unicorns” - private companies valued at \$1 billion or more.

Tougher terms are the price to pay for ensuring late-stage funding and sustaining the pipeline of initial public offerings, but also can be detrimental for founders, employees and early-stage investors, which in turn could make [M&A deals](#) challenging.

Several high-profile [unicorn IPOs](#) have derailed, but these events must be viewed in perspective. With any new breed there is always the maturation process that must be endured; growth and advancements are always accompanied by setbacks.

It was only a few years ago that a startup company with a valuation in excess of \$1 billion was considered to be a mythical creature. The unicorns have now descended, and investors, both retail and institutional, must familiarize themselves with this new species of IPO, specifically how it behaves when released on the public markets.

## The Author

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[Palm Beach securities attorney Laura Anthony](#) and her experienced legal team provide ongoing corporate counsel to small and mid-size private companies, OTC and exchange traded public companies as well as private companies going public on the Nasdaq, NYSE American or over-the-counter market, such as the OTCQB and OTCQX. For more than two decades [Anthony L.G., PLLC](#) has served clients providing fast, personalized, cutting-edge legal service. The firm’s focus includes, but is not limited to Regulation D and Regulation S and PIPE Transactions, securities token offerings and initial coin offerings, [Regulation A/A+ offerings](#), as well as registration statements on Forms S-1, S-3, S-8 and merger registrations on Form S-4; compliance with the Securities Exchange Act of 1934, including registration on Form 10, reporting on Forms 10-Q, 10-K and 8-K, and 14C Information and 14A Proxy Statements; all forms of going public transactions; mergers and acquisitions including both reverse mergers and forward mergers; applications to and compliance with the corporate governance requirements of securities exchanges including [Nasdaq](#) and [NYSE American](#). Palm Beach attorney Laura Anthony is also the author of [SecuritiesLawBlog.com](#), the producer and host of [LawCast.com](#), Corporate Finance in Focus, and a contributor to The Huffington Post and Law360.



[Ms. Anthony](#) is involved throughout the community of Palm Beach. She is on the board of directors for the American Red Cross for Palm Beach and Martin Counties, and provides financial support to the Susan Komen Foundation, Opportunity, Inc., New Hope Charities, the Society of the Four Arts, the Norton Museum of Art, Palm Beach County Zoo Society, the Kravis Center for the Performing Arts and several other organizations. She is also a financial and hands-on supporter of Palm Beach Day Academy, one of Palm Beach's oldest and most respected educational institutions. She currently resides in Palm Beach with her husband and daughter.

Ms. Anthony is an honors graduate from Florida State University College of Law and has been practicing law since 1993.

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