REPRINT FROM FEBRUARY 13, 2019

PRIVATE BRIEFING: RUMBLINGS OF UNICORN STAMPEDE TO MARKET START TO APPEAR

While the year is getting off to a slow start for IPOs, the venture capital world is expected to generate some major unicorn exits in 2019. For Peloton backer True Ventures, an IPO could mark the latest in a series of big exits for the Silicon Valley firm.

BY STEVE GELSI

While IPOs just a few years ago tended to be from smaller companies often with little or nothing to show for a bottom line, nowadays more multibillion-dollar behemoths are grabbing the headlines.

Starting possibly with the $1.9 billion IPO of a relatively mature Google Inc. (GOOGL) back in 2004, Silicon Valley has seen a growing roster of unicorns that may bulk up to the size of an S&P 500 component before they even start to sell common stock.

With the growing backlog of major venture capital-backed private companies now including Uber Technologies Inc., Pinterest Inc., Lyft Inc., Airbnb Inc., WeWork Cos., Peloton Interactive Inc. and others, 2019 may be the year that some or even all of them finally debut initial public offerings on the New York Stock Exchange or Nasdaq.

Morgan Hayes, a partner in Debevoise & Plimpton LLP's capital markets group, said the plentiful private financing market for both debt and equity stands out as one contributor to the crop of large VC-backed companies that have not gone public.

"This has allowed the largest companies to stay private longer, which in turn allows them to retain control," Hayes said. "It also delays the cost of becoming a public company as well as the regulatory scrutiny that comes with a public listing."

Despite volatility in the markets and a slow start to Securities and Exchange Commission reviews of new listings due to the government shutdown, the year ahead is expected to be relatively healthy. Even bigger companies with plenty of levers to pull for capital may decide to go public partly to give their venture capital investors an exit and to get public stock for compensation and acquisitions.

"The trend line has been going in the right direction. There seems to be a backlog of companies waiting for the right window," Hayes said. "2019 should see its fair share of IPOs."

Among the bigger companies waiting to go public, New York-based interactive bike and exercise specialist Peloton Interactive is now shopping for bankers, according to a source. Banks have not been selected yet, but the leading IPO investment firms in Silicon Valley remain Goldman, Sachs & Co. (GS), Morgan Stanley (MS) and Allen & Co.

Phil Black, co-founder of True Ventures

Peloton's market value was put at $4 billion in its latest venture round in August, led by TCV. The valuation means that two of Peloton's earliest investors, Tiger Global Management LLC and True Ventures, may realize large returns when the company goes public as expected this year.

True Ventures declined to disclose its expected investment return from Peloton. But it appears to be a successful investment.

True Ventures remains "super supportive" of founder John Foley, firm co-founder Phil Black told The Deal.

True Ventures co-founder Jon Callaghan sits on the board of Peloton. A fitness enthusiast who founded a mountain bike company when he was 17, Callaghan heard about Peloton from another entrepreneur he knew from working on Nook, the Barnes & Noble Inc. (BKS) e-books unit. True Ventures has bonded with Peloton founder John Foley.

"As a company, Peloton has already had a huge impact on people's lives, fitness and overall health," Black said. "The investment was made based on the founder, the market and the deal opportunity."

The investment also fit the True Ventures objective of working with companies that offer a social benefit.

"We do 50 investments per fund, and we think every one has the potential to be 'The One,'" Black said. "Time has a way of showing you if you're right or not. Peloton had all the ingredients we look for. It turns out that the founder's energy was something to behold. We have a saying that we invest in founders of movements and products that capture the imagination. John Foley has done both. He's behind this movement, where copycats are trying to weave in content and classes through a screen. It's so powerful when you're the first to a big market."

Peloton could be the latest in a series of major exits for San Francisco- and Palo Alto-based True Ventures since roughly 2017:

- *True Ventures earned a return of about 37 times on its True Ventures Fund II investment in Duo Security Inc. on its acquisition by Cisco Systems Inc. (CSCO) last year for $2.35 billion. True Ventures initially invested $700,000 in 2010 and then re-invested in every subsequent round. Last year, Cisco made a "super attractive" offer for the company. "We like to start small, but we don't think small," Black said of the investment.*
- *B-Stock Solutions Inc., an online marketplace, was sold for more than $100 million to Spectrum Equity Management LP in June. Susquehanna Growth Equity LLP and True Ventures were shareholders in the company.*
- *Ring Inc., a maker of doorbells with smart cameras, was acquired by Amazon.com Inc. (AMZN) for about $839 million net of cash in April.*
- Evident.io Inc., an application performance management software maker for NOSQL and Java applications, was acquired in March 2018 by Palo Alto Networks Inc. (PANW) for $292.9 million.
- Datos IO Inc., a cloud software company, was acquired by Rubrik Inc. for an undisclosed sum.
- Blue Bottle Coffee Inc. was acquired by Nestlé SA in 2017 for a reported $425 million. Ventures doesn't just do tech.

These exits – all through sales to larger companies – illustrate the strong appetite for deals from strategic buyers. The ample supply of deep-pocketed acquirers marks another reason why IPOs remain on the back burner as an exit path. But True Ventures remains focused on its model to continue investing with companies and supporting them through their life cycle, even though the IPO runway has lengthened.

"The ethos of the firm is still intact despite the changing funding environment," Black said. "These days it's taking a longer period of time [for exits]."

Looking ahead, True Ventures continues to focus on enterprise application software companies and internet infrastructure software companies – hardware sensors, devices. True Ventures has been big in this space since the success of Fitbit Inc. (FIT), which drew an investment from the firm in 2008.

"Our experience with Fitbit has led us to make 50 subsequent investments in the hardware sensor and devices space," Black said.

True Ventures is also looking at computational science, digital health, digital biology – companies on the intersection of technology and health.

The firm's investment in Peloton in 2015 fit the Fitbit model to some extent, except it also weaves in software-as-a-service elements through its interface with customers, Black said.

True Ventures' more recent investments include Zymergen Inc., which raised a $400 million round with support from SoftBank Vision Fund in December. True Ventures is an early investor in the company.

True Ventures invested in Piavita AG, similar to Fitbit but for horse owners to track equine health and conditioning.

One firm favorite is Wefarm Ltd., a London-based peer-to-peer network for small-scale farmers in Kenya, Nigeria and Tanzania. Farmers can use SMS to communicate with one another in areas where internet connectivity is sparse.

"Wefarm helps bring cutting-edge technology to bear to make it possible for farmers to do what they do in real time and be more effective," said True Ventures partner Om Malik. "The heartbeat of agriculture is still small farms. This is a big opportunity to help that community. We could not be more proud of this company."

True Ventures was introduced to Wefarm by a founder of one of its portfolio companies in Fund II. The founder of Wefarm, Kenny Ewan, is helping to democratize farming.

"They've tapped into the needs of individual farmers, whether it's tips on the weather, planting, harvesting, issues around financing," Black said. "If you think about the impact that Wefarm can have on the world, it's staggering."

One newer exit method for Wefarm and other companies backed by venture capital firms is through direct listings, which do not raise IPO proceeds. This is how Spotify Inc. (SPOT) went public last April. Slack Technologies Inc. also has announced it's taking the same route in a $7 billion share sale, according to a Bloomberg report.

Debevoise & Plimpton's Hayes said he sees some interest in direct listing IPOs, but he doesn't expect it to become a huge trend.

"For venture capital-backed companies, it could be an option on the table when they're considering what they should do," Hayes said. "It's less likely for private equity-backed companies with leverage because they usually rely on IPO proceeds to pay down debt. But it's another option for companies – especially large, well-funded companies, whose primary goal is liquidity as opposed to a strict capital raise."

AS FEATURED ON The Deal
TheDeal.com (ISSN 1547-7584) is published by The Deal.