The world as zoo: of unicorns, bunnies and penguins, elephants, birds (flappy or angry)...

Jean Paul Simon
Summary

➢ Study of companies with high market capitalization
  ▪ Criteo
  ▪ King
  ▪ Rocket Internet

➢ Learning from EU unicorns
  ▪ conclusions
Study of companies with high market capitalization: three examples
The strength of a sophisticated predictive engine
Criteo (France)

- Criteo was founded in 2005. Criteo SA provides web advertising services.
- With revenues of 7 million euros in 2009, the company went up to 611.76 million US $ in 2013.
- As of 2014, Criteo has a market capitalization of roughly $1.8 billion.
  - It took 5 years to the company to reach the 1 billion market cap threshold.
- The Company offers clients a range of solutions such as click per cost, online banner displays, user optimization, data security, and search management tools to control campaign costs.
- The Company serves more than 4,000 e-commerce companies across 37 countries globally.
Revenues and profits growth 2009-2013.
Major innovation: The Criteo Engine

- Their cost-per-click model is supported by sophisticated predictive technology
- The Criteo Engine has been developed over the past eight years (2005-2013)
  - It consists of multiple machine learning algorithms—in particular, prediction and recommendation algorithms
  - and the proprietary global hardware and software infrastructure that enables our solution to operate in real time and at significant scale.
- Criteo processes a vast amount of rich purchase-intent data in real-time to identify buyers and deliver dynamically-created ads which are personalized for each consumer, as well as from insights gained through its extensive operational history.
  - Criteo analyses 230 terabytes of data daily (representing 2 petabytes of raw uncompressed data).
The Criteo Engine
“bitesize entertainment” , virtual items
King.com (Sweden/UK)

- King Digital Entertainment (headquartered in London), founded in 2003, is a casual-social games company providing online games for global portals, websites and other media companies. The market cap reached US$ 7.6 billion during at the time of its IPO (2014).
  - It took the company eleven years to reach the threshold.
- With more than 195 titles in over 200 countries.
  - Major hit: Candy Crush Saga.
  - The company has 356 million average monthly unique users, as of fourth quarter 2014, across web and mobile platforms with 8.3 million of them spending money.
- King has game studios in Stockholm, Bucharest, Malmö, London, Barcelona, Berlin and Singapore along with offices in San Francisco, Malta, Seoul, Tokyo and Shanghai.
- Sales increased from nearly US$ 60 million in 2009, to over $2.6 billion in 2014.
Core strengths of the company
Major innovation:
“bitesize entertainment”, free-to-play games and virtual items

- The company designs casual games easy to learn and challenging to master
  - players can switch seamlessly between devices and platforms and continue their game wherever they left off, so they can play anywhere, any time and on any device.
  - This gaming practise is described by the company as “bitesize entertainment”.
  - Games are played on an in-house built technology platform
- Games are available for free, while players can purchase virtual items priced relative to the entertainment value they provide.
  - These virtual items include: extra lives and skill-enhancing boosters, as well as the ability to unlock additional game content.
  - Their micro-transaction model includes multiple opportunities throughout gameplay for users to buy virtual items.
  - While 97.7% of people are playing King’s games for free, the 2.3% (4% of monthly unique users as of December 31, 2013) that pay are spending an average of $23.42 a month within the games.
The value is in the platform
Rocket Internet (Germany):

- The Berlin-based company, founded in 2007, described itself as a global network of companies (114 were consolidated in the group financial statement) focusing on online business models across four sectors:
  - e-commerce.
  - marketplaces: seeking to displace traditional supply chains by creating venues where buyers and sellers can transact directly.
  - financial technology: to facilitate payments, bring together borrowers and lenders in regions and segments that are underserved by traditional banks.
  - travel.

- An ambitious goal to become “the world’s largest Internet platform outside of the United States and China”.
  - The company is building on the growth of the smartphone markets,
  - and betting on the younger segment of the population as well as on the emergence of middle-classes in these markets.

- The IPO prospectus (2014) gives 137.9 million euros of revenues for the year 2013.
  - It took five years to the German start to reach the threshold.
  - In its prospectus it pushes forward a 2.6 billion euros valuation for the network of companies (noting “unaudited” though).
A global network of companies.
Distribution of the “ground force” of the network of companies
Major innovation: a platform based investment vehicle

- The company:
  - identifies and builds proven Internet business models
  - and transfer them to new, underserved or untapped markets where it seeks to scale them into market leading online companies.

- The business model involves routine launches of new companies with a direct or indirect stake of 80% to 90% in the company at the time of launch.

- Rocket Internet finances launches of the new companies with its own funds and initiates financing rounds,
  - typically with third-party equity contributions, at a later stage in their development cycles.

- The company developed a unique technological platform to systematize, to accelerate the process of identifying, building and scaling Internet companies.

- This platform rests on four pillars: Global infrastructure/Standardized processes/Proprietary technology/Networking.
Lessons from unicorns

Source: Mashable composite Rob Boudon JPS Public Policy Consulting
Conclusion
The sample is by far too small for any general conclusion.

But with a somewhat bigger sample, although by large not comprehensive, some elements come to the fore.

These companies introduce themselves as global.
  - This has been a standard feature of MNEs for quite a while, however MNEs were mostly supplying goods and services customized with variations for each domestic market they were serving.

In the case of the companies reviewed most of them would link their “globality” with their acting as a platform.

That means they don’t target specifically their “domestic market” (or the EU market)
  - As clearly indicated with the distribution of the network of Rocket Internet companies.

Criteo and King.com are listed on the Nasdaq which seems to be the regular fate of successful EU start-ups.
  - Rocket Internet may be an exception to the rule.
An Asian model? more profitable companies based on organic growth

- Hybrid model as after a while these companies go for M&A
- Close to a regular industrial growth model
- These companies are betting on:
  - Growth of the mobile market
  - Emerging economies
  - Emerging middle-classes
  - And young customers.

Lessons are not that clear for other companies:

- A faster time to market cap,
- A “winner take all dimension” whereby new markets are being dominated by one company

Except the combination mobile internet/ platform + in some case disrupting legacy businesses