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RESEARCH ARTICLE

IMPROVING THE MECHANISM OF INCREASING THE LEVEL OF PRIVATE PROPERTY INDIVIDUALITY AND CAPITALIZATION IN THE NATIONAL ECONOMY

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Abstract

Importance: The article addresses unicorn companies as the most successful and fastest-growing start-ups. It analyzes to what extent their capitalization is justified, what prospects for growth they have after IPO, and how they meet investors' expectations.

Objectives: The objectives of the study include a comprehensive review of creation and development of unicorn companies, identifying the sources of their growth and credibility of their open market valuation.

Methods: The study employs methods of analysis, synthesis, retrospective analysis, comparison, and compilation.

Results: The paper shows why unicorns are overvalued in the market. It emphasizes that the possibility and expediency of unicorn capitalization depends on the interests pursued by market actors. The practicability of IPO and its implications also vary from company to company.

Conclusions: and Relevance High capitalization of unicorn companies is not reasonably feasible in every instance: investors are often riding on the wave of a boom, after which the value of business falls to zero. However, high-tech and innovative unicorns, on the contrary, are drivers of development and their high capitalization is indeed justified.

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Introduction:-

Exploring† the origin of the term unicorn shall precede any studies into the capitalization of companies. In the Middle Ages, a unicorn was believed to be a sign of good luck. Encountering a unicorn, to say nothing about taming it, is also great luck for today's venture investors. The unicorn in their way promises incredible wealth to the lucky one. Unicorns are private startups, which are appraised to be worth more than USD 1 billion and initially financed with venture capital. Such startups undergo one and the same challenge. Their stability and viability are tested when they go public or larger companies absorb them (in most cases, unicorns benefit more from absorption because larger corporations infuse their resources to further develop the unicorn startup) [1–5]. Here a question arises. Is the capitalization of international unicorns reasonable? What opportunities for growth do companies get after an IPO? Does it meet investors' expectations? The phenomenon of unicorns originated not so long ago. Three triggers may cause such startups to appear:

1) globalization. The world creates more and more inner ties. Startups with the proven business model scale their business globally using venture capital. For example, Google, Facebook, Whatsapp, Instagram, Uber, AirBnB, etc.;

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2) digital economy. Information products (goods and services) differ from conventional tangibles. If information is transferred, it is still available for the seller, being replicated many times. Information products are sold with almost zero costs. Considerable expenses for development are earmarked for each copy sold. Therefore, the more large scale the project is, the cheaper the product may be. Hence producers are not constrained, tending to dominate the market (if LinkedIn is present in the market, other social network for professional will not exist);

3) avoidance of intermediaries. Many unicorns are so successful because they eliminated intermediaries and created the c2c market model (customer to customer). Any emerging competition makes prices fall dramatically. The flip side of the situation is that it brings requirements of the State and public to such products down (for example, safety and occupational standards in Uber). Public companies are bound to comply with such requirements since they are constantly monitored by supervisory and regulatory bodies, which may easily signal any breaches in legal compliance.

Having settled the origin of the term unicorn, I proceed to statistical data. How many unicorns are there? What industries do they inhabit? How much time does it take a startup to morph into a unicorn? What countries have the most favorable conditions for a unicorn boom? According to Crunchbase, there are 267 unicorns with their total market value amounting to USD 920.8 billion.

As reported by The Wall Street Journal, as of October 2017, there were 168 unicorn companies. It takes a relevant startup six years on average to become a unicorn. Most unicorns were born in the North America (61.4%) and Asia, primarily in China (26%). Growth in the number of unicorns reached its peak in 2014–2015. In 2015, the investment environment was favorable for investors, offering low interest rates. Alibaba, China's e-commerce company, became a pioneering unicorn in 2005. From perspectives of the world economy, it is no surprise it was China where such a company originated since the Chinese market grows, being closed and driven by high-profile companies, though the capital market is insufficiently developed. Most unicorns are concentrated in e-commerce and software development (Table 1).

What distinguishes unicorns from other companies is the time it takes them to reach the value of USD 1 billion. Jet.com, U.S. trade company, is a prominent example as its value reached the respective amount in a four months' time after its incorporation. The company operates in e-commerce and focuses on more thrifty buyers, who seek lower prices more than fast delivery. The reason why Jet.com skyrocketed so quickly was that venture investors got interested in the founder's experience. Before Jet.com, Marc Lore developed and sold Diapers.com to Walmart. Having got a grip of the process, he raised USD 820 million from venture investors to sell Jet.com to Walmart, estimating it to be worth USD 3.3 billion. Until the moment only seven companies managed to turn into unicorns for one year, and other 13 ones pursued so for two years after their incorporation (Table 2).

As for Uzbekistan, the small national market (approximately 2 percent of the global IT market in comparison with 40 percent in the USA), long distance from principal global business centers and impossibility to integrate into global technological chains restrict the potential of the Russian technological companies. Escalating tensions in foreign policy affairs affect companies, which seem to have already deserved the global reputation and recognition. For example, Kaspersky Antivirus has been accused of the National Security Agency data leakage, thereby actually losing its share in the U.S. market. After the 2012–2013 peak, startups became less active as the Russian venture capital market went down in 2015 due to the outflow of venture capital funds from Russia [6–10]. Belorusseesa similar situation.

Dealing with the capitalization of unicorns, first of all, it is necessary to make it clear that the value of such companies is almost always overestimated. So, unicorns undertake funding rounds, which boost their capital. Investors participate in such funding rounds. Investors consider an IPO as an opportunity to break free from investment and sell their stake. However, it is noteworthy that unicorns shall use as much investment as they really need for their development but not more. When the team spends the raised funds inefficiently, it signals the lowest likelihood of its business success. The hungrier and more able to save money the startup, the higher its competitiveness. However, everything should be in balance in this case since the startup competes with 10 identical rivals. If the startup is hungry, it may lose the race.

The market basically displays no response when there appears a unicorn. If the company is public, its quotations will be higher because it has a good information trail, being more transparent for investors. The quotation will be formed by the market, thus being more unbiased. On the contrary, unicorns are not bound to disclose their performance

results unless they are regulated by financial markets. Large stock exchanges require listed companies to present audited financial statement for at least three years. This is one of the reasons why unicorns abstain from going public and IPO.

Second, in certain cases unicorns are reluctant to have an IPO since it is a protracted process generating no benefits for them. The period from the first funding round up to the potential entry may take, on average, about 6–8 years, and 9–10 years until an IPO. Besides, IPO is rather long, and respective bankers' services are rather expensive. As circulated in the investment environment, it is economically unreasonable to go public with quotations lower than USD 100 million. On the one hand, companies undertake an IPO for their liquidity. If the company's shares are deemed valuable in the capital market, there will be demand for them. On the other hand, unprofitable startups (those ones generating income, without deriving profit) face a drop in the quotations of their stocks when they enter the open market. It happens because investors now have another sentiment about the companies' future profit. Furthermore, projected income is higher than the company's quotation in the stock market. High quotations stem from excess capital in the market. When investors hardly have any expectations, stocks will be difficult to sell at a high price. Companies should wait for the IPO window to break open meaning that they may benefit from more favorable macroeconomic conditions. So, if investors have changed their sentiment (worse expectations), an IPO is not reasonable for unicorns.

Third, investment in startups becomes more common nowadays. The modern market inhabited by unicorns has neither securities, nor liquidity. Stocks usually cost as much as buyers are willing to pay for them, while unicorns' stocks are so unusual that it is even hard to imagine where to sell them. That is why the bubble is seen in private investment – in the market, where there are no quotations and liquidity is worse than it was in the stock market of 2000. Why do investors put up their money for unicorns then? The potential and growth opportunities of such companies are the main drivers of their overestimated values. Investors are gazing at startups, which have not been incorporated yet but still have a big potential for growth.

Fourth, overestimated quotations of unicorns may plummet. Even if the quotations are far from being truth, the drop will not entail considerable consequences. Founders and shareholders will not get what they intend to, but it will not be a surprise since the high rate of return always implies high risks. We shall note that investors can afford it during the period of low interest rates. Investment funds will also suffer losses. However, they allocate some part of their assets for alternative investment (venture capital), thereby protecting themselves from tremendous losses. They will see only their yields drop. As for private investors, they generally put up their money for such companies indirectly through mutual investment funds, thus alleviating consequences of the bubble burst. Therefore, the economy will not be seriously affected. However, considering the dot.com crisis (the bubble in the U.S. market in 2000), I shall admit its strong effect leading to the transformation of the venture capital segment.

Conclusion:-

I would like to note that every unicorn entrepreneur pursues his/her own interests, which determine whether it is possible or reasonable to capitalize a unicorn startup. It is not always reasonable to capitalize unicorn startups. The venture capital segment sets up its rules, which will be mastered only by the strongest contenders. Large venture capital funds search for the potential hype, which would be understandable for everyone and can change the world, i.e. change the way people do things. Financial injections and lobbying warm up the topic, luring new investors. The capitalization reaches the billion level. The startup starts generating earnings. At this point, the unicorn startup had better be sold to a larger company, which would be affected more if the unicorn startup had grown up and become a strong competitor. The probability is low but the successful result may offset investment many times. There is a probability, albeit very little, that the company will go public successfully. However, such cases do exist. In fact, investors need to get on the right side of the founder and persuade him/her to perform as much effectively as possible so that the product in question be placed in the market. The founder therefore tries to retain the majority share and hold levers of the project so as not to be expelled out of his/her own business.

Table 1:- Top 10 unicorn companies as of 2017.

Company	Country	Activity	Time before reaching the value of USD 1 billion
Uber	USA	Transportation	4 years 6 months
ANT Financial	China	Financial services	–
Didi Chuxing	China	Internet technology for end users	–
Xiaomi	China	Hardware	1 year 9 months
Airbnb	USA	Internet technology for end users	3 years
Space-X	USA	Defense and aerospace industry	10 years
Palantir Technologies	USA	Software	8 years
Toutiao	China	Internet technology for end users	–
WeWork	USA	Real estate	1 year 6 months
Lufax	China	Financial services	3 years 4 months

Source: Authoring, based on TechCrunch website data. URL: <https://techcrunch.com/>

Table 2:- The fastest-growing unicorn companies.

Company	Country	Incorporation year	Activity	Year of the Unicorn status	Time before reaching the value of USD 1 billion
Jet.com	USA	July 2015	E-commerce	November 2015	4 months
APUS Group	China	June 2014	Software	January 2015	7 months
Rong360	China	March 2015	Financial services	October 2015	7 months
BeiBei	China	April 2014	E-commerce	January 2015	10 months
Illumio	USA	June 2013	Software	April 2014	1 year
Iwiyw	China	June 2014	Real estate	June 2015	1 year
Lashou.com	China	March 2010	E-commerce	March 2011	1 year
58 Daojia	China	September 2014	Internet technology for end users	October 2015	1 year 1 month
Lamabang	China	December 2013	Internet technology for end users	March 2015	1 year 3 months
Uptake	USA	June 2014	Analytics	October 2015	1 year 4 months
WePiao	China	June 2014	E-commerce	November 2015	1 year 5 months
WeWork	USA	August 2012	Real estate	February 2014	1 year 6 months
Xiaomi	China	April 2010	Hardware	December 2011	1 year 9 months
Oscar Health Insurance CO	USA	July 2013	Health care	April 2015	1 year 10 months

Source: Authoring, based on Fleximize website data. URL: <https://fleximize.com/>

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