

COATUE

EMMW/2023

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Welcome to
EMW/2023









Keynote agenda

→ **Lessons from public markets**

Implications for founders

EMW 2022 Recap: we were waving red flags of caution

→ Coatue Prediction Scorecard

	Coatue Prediction	Reality
Macro	Hard landing	 Resilient economy <i>but are we out of the woods?</i>
Public Markets	-10 to -20% downside	 +20% <i>but market internals more mixed</i>
Regime Change	Era of free money is over	 Indeed!
Private Markets	Tough fundraising environment	 Correct!
Founder Strategy	Cut Burn	 “Year of Efficiency”
Innovation	“Innovation trumps macro long-term”	 AI

The world has been
much more resilient!

Inflation subsiding

Record-low unemployment

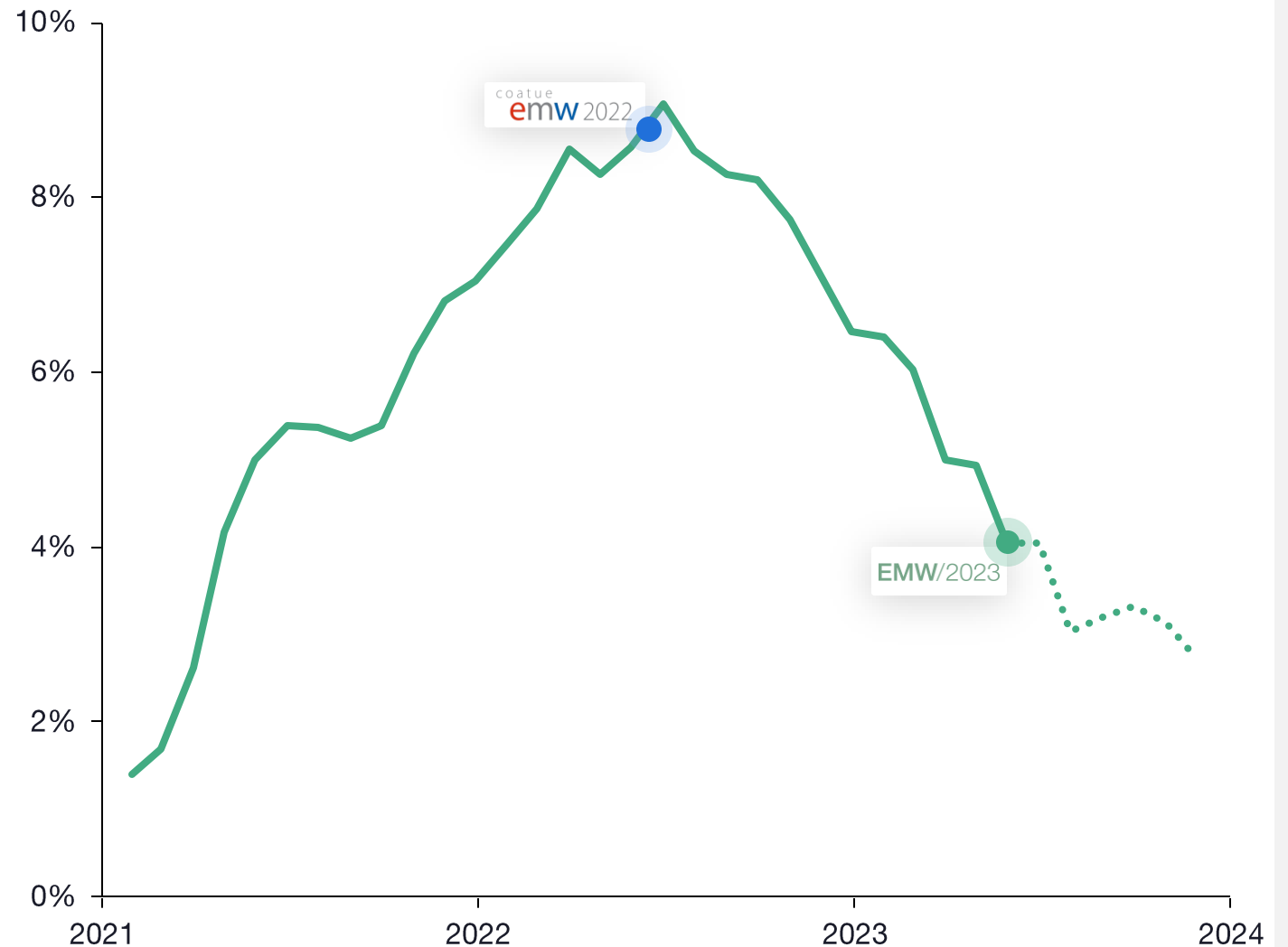
European energy crisis averted

End of China's Zero-Covid

Founder pivot: Year of Efficiency

Dawn of a new technology: AI

→ Headline Inflation (% YoY)



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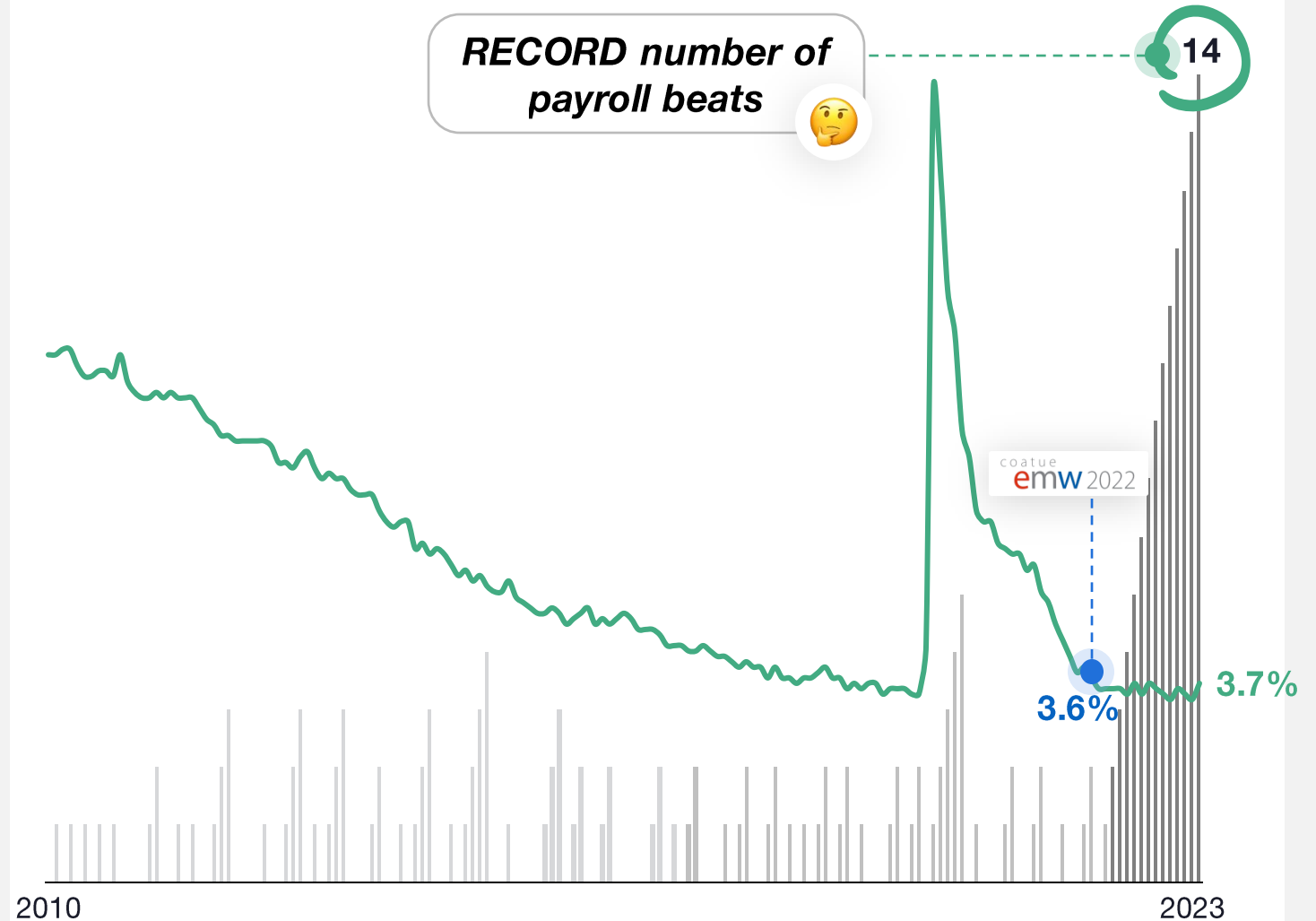
→ US Unemployment Rate and Payroll Beats

Unemployment Rate (%) —

— Sequential Payroll Consensus Beats

RECORD number of payroll beats 🤔

14



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Founder pivot: Year of Efficiency

Dawn of a new technology: AI

→ European Natural Gas Price (€/Mwh)



The world has been much more resilient!

→ China Reopening

During Lockdown (November 2022)



Chinese New Year (January 2023)



Inflation subsiding

Record-low unemployment

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Dawn of a new technology: AI

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Dawn of a new technology: AI

→ Decisive Founder Response



 Meta

 Google

 amazon



 shopify

 Uber

 salesforce

...

The world has been much more resilient!

Inflation subsiding

Record-low unemployment

European energy crisis averted

End of China's Zero-Covid

Founder pivot: Year of Efficiency

Dawn of a new technology: AI

Generated With:  Midjourney



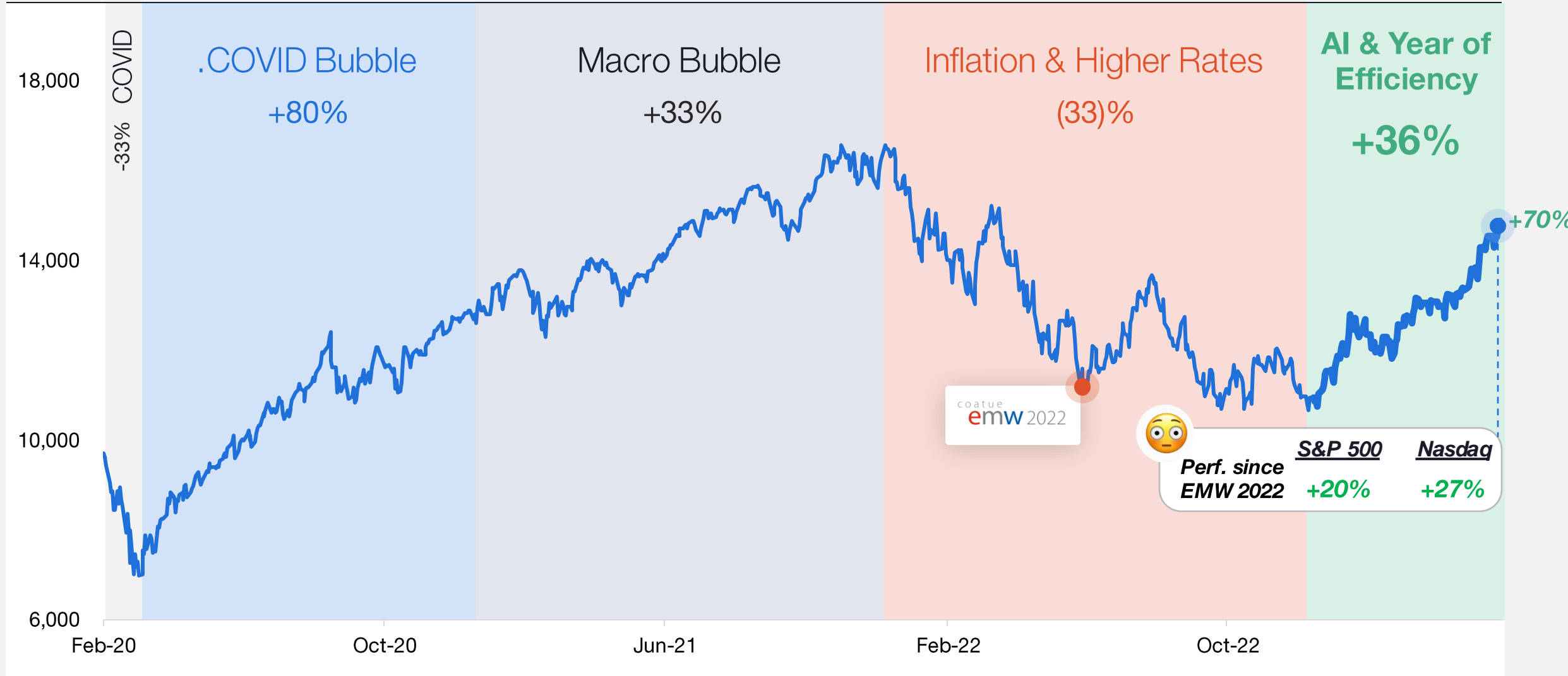
Prompt:

"Jensen to the rescue!" |



As a result, public markets rebounded off the lows

→ NASDAQ Performance by Stages





So, is that the all-clear signal?

Not so fast....



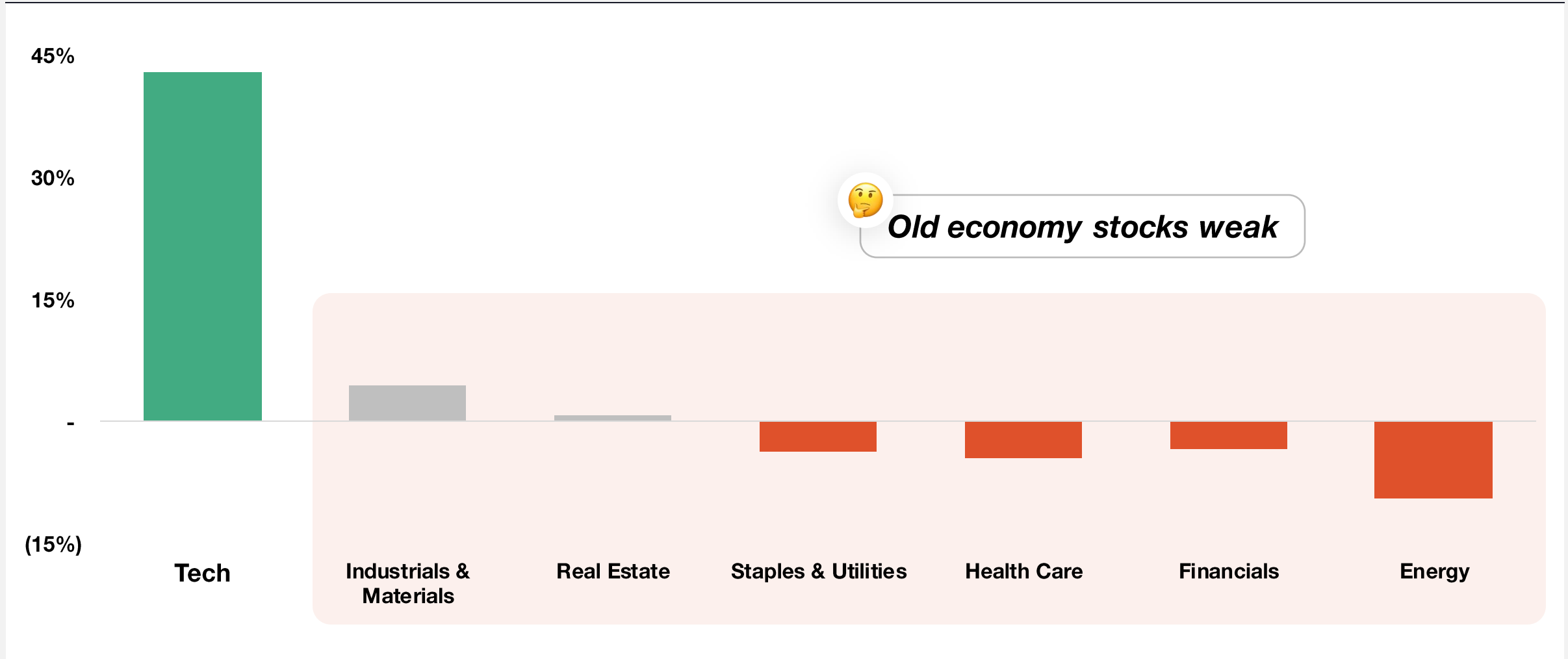
Prompt:

"Pump the brakes" |



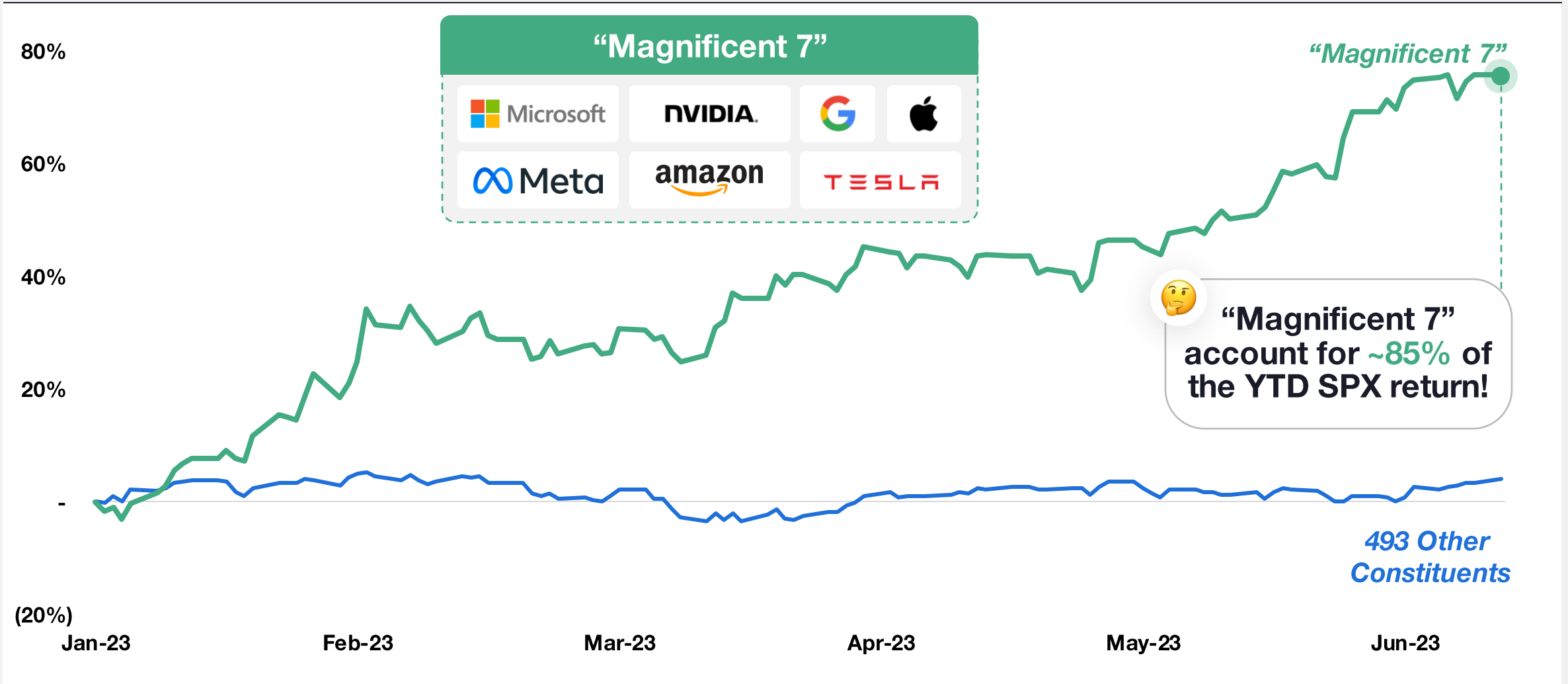
Public market internals more mixed: Only tech is rebounding...

→ 2023 YTD Returns by Sector



... and breadth is narrow outside of the "Magnificent 7"

→ S&P 500 YTD Performance

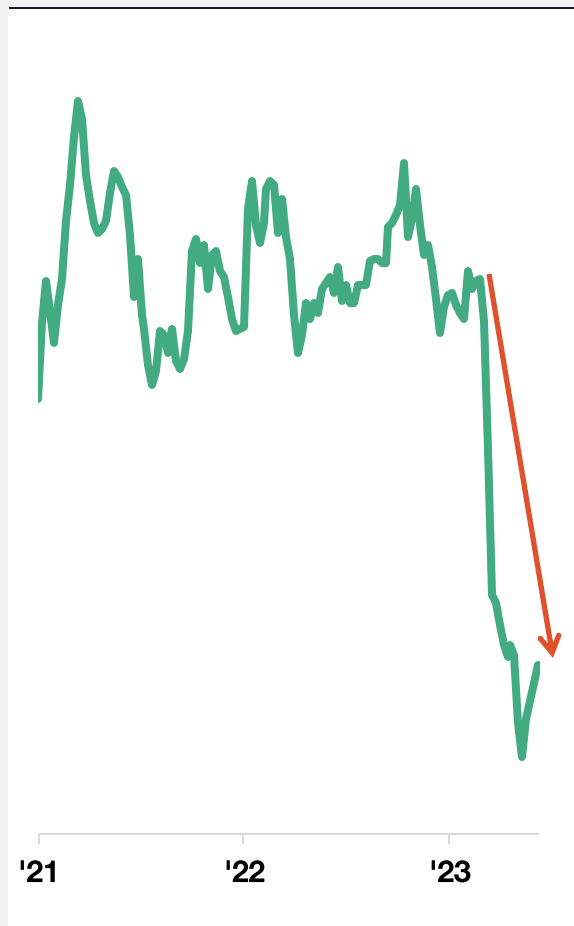


Economic-sensitive sectors suggest pressures remain

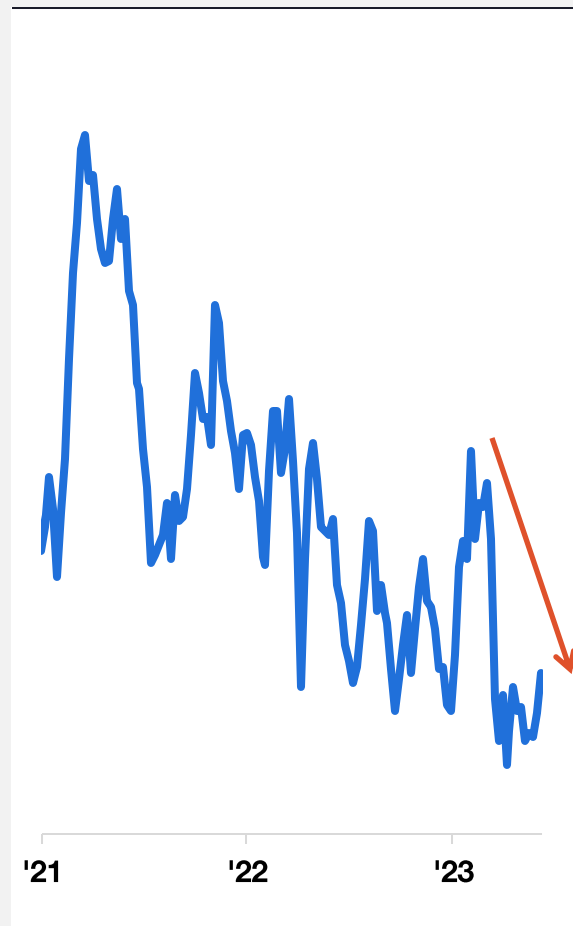
→ Brent Crude Oil



→ Regional Banks



→ Transportation Stocks



→ Retail Stocks



Note: All charts show relative performance to SXP, except Brent Crude showing Index to 2019. Regional banks defined as KRE Index, Transportation stocks defined as SPSITN Index, and Retail stocks defined as SPSIRE Index.

Source: Bloomberg and Coatue opinion and analysis as of June 2023. For illustrative purposes only; content reflects Coatue's views on the current market environment and does not constitute investment advice. See Appendix-Disclosures for important disclosures, including regarding companies and trends.

New Market Regime: Era of free money is indeed over!

Yesterday – Era of Free Money

Today – Return to Reality

**The Rules of
the Game
Have Changed**

Free Money

Abundance of Growth



5% Risk Free Rate



Potential for Lower Growth

Bubble Valuations

Capital

Drives Growth

Growth at **All Costs**

Rational Valuations

Innovation & Execution

Drive Growth

Profitable Growth

Tech valuations back to earth

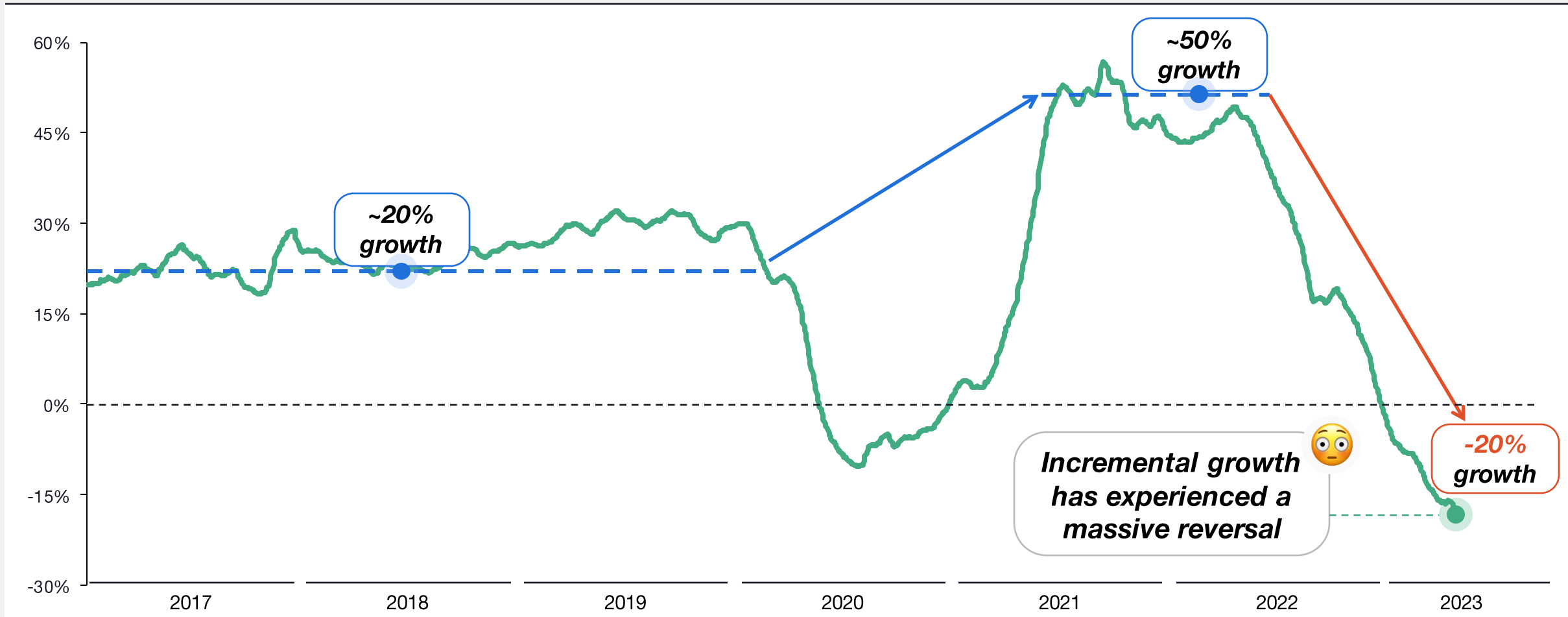
→ Tech Public Market Multiples – Software & Internet



Growth is harder to come by

Software Case Study – EM Cloud Index (68 Companies)

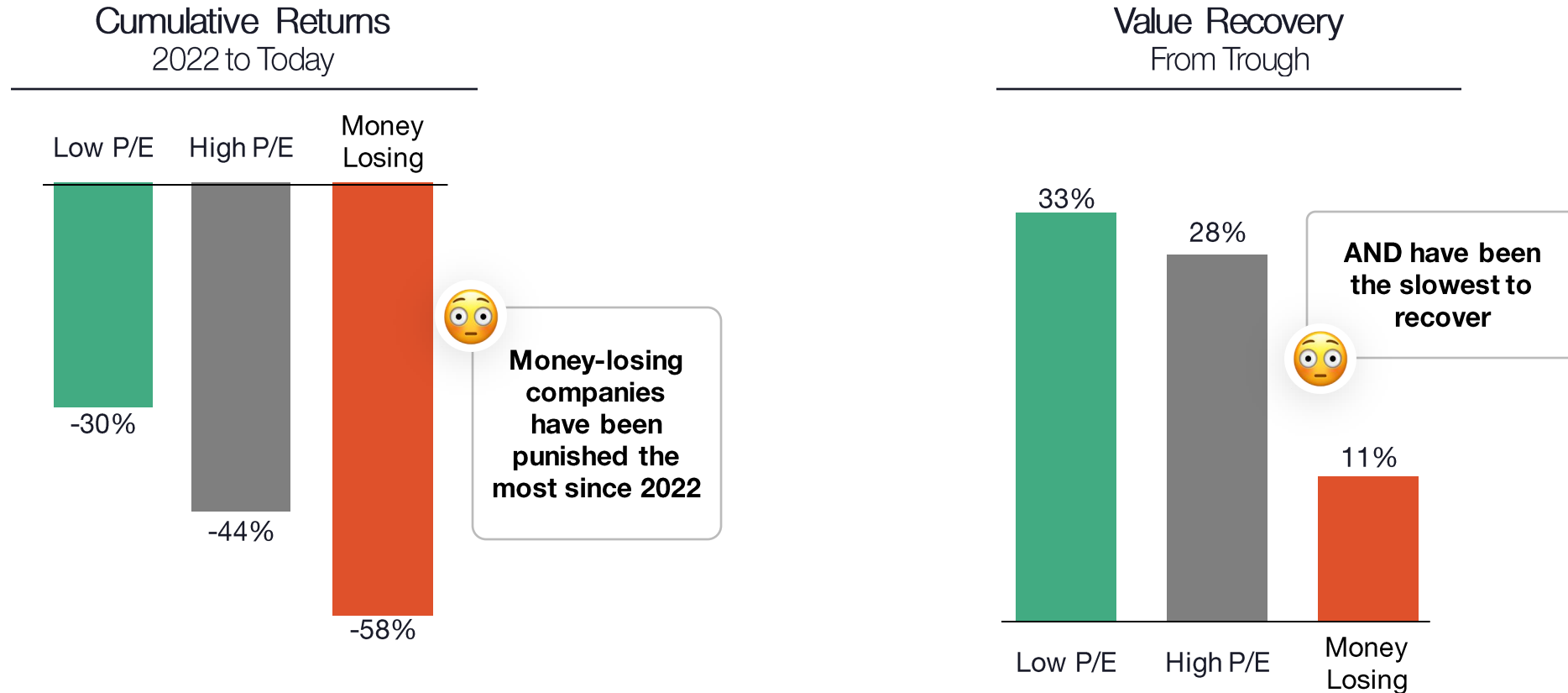
→ % Growth in Net New ARR



Market is demanding profitable growth

Internet Case Study – Coatue US Internet Universe with \$1B+ Market Cap

→ Share Price Returns



Note: Internet stocks defined as companies within Coatue US internet coverage universe with over \$1B of market capitalization (N=64). Low P/E defined as <40x, High P/E defined as >100x, "money losing" defined as companies with negative earnings.

Source: Bloomberg, FactSet, and Coatue opinion and analysis as of June 2023. For illustrative purposes only; content reflects Coatue's views on the current market environment and does not constitute investment advice. See Appendix-Disclosures for important disclosures, including regarding companies and trends.

Leading founders pivoted hard

Key Quotes



“

“We’ve cut about 80% of Twitter’s staff”

Founder Learnings

Twitter can operate without any employees...?

Key Quotes



“

“Flatter is faster, leaner is better”

Founder Learnings

Fewer people enables better and faster execution

Key Quotes



“

“The most important thing is to keep the most important thing the most important thing”

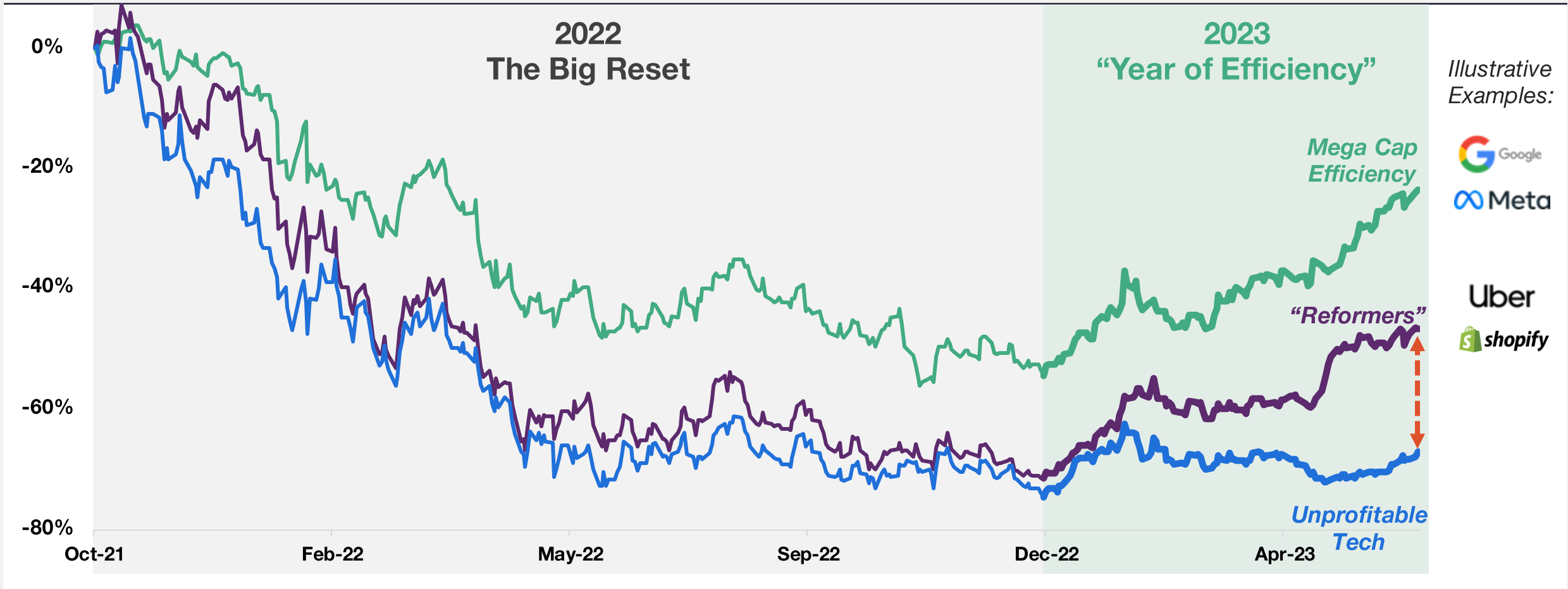
Founder Learnings

A strong core is better than broad scope

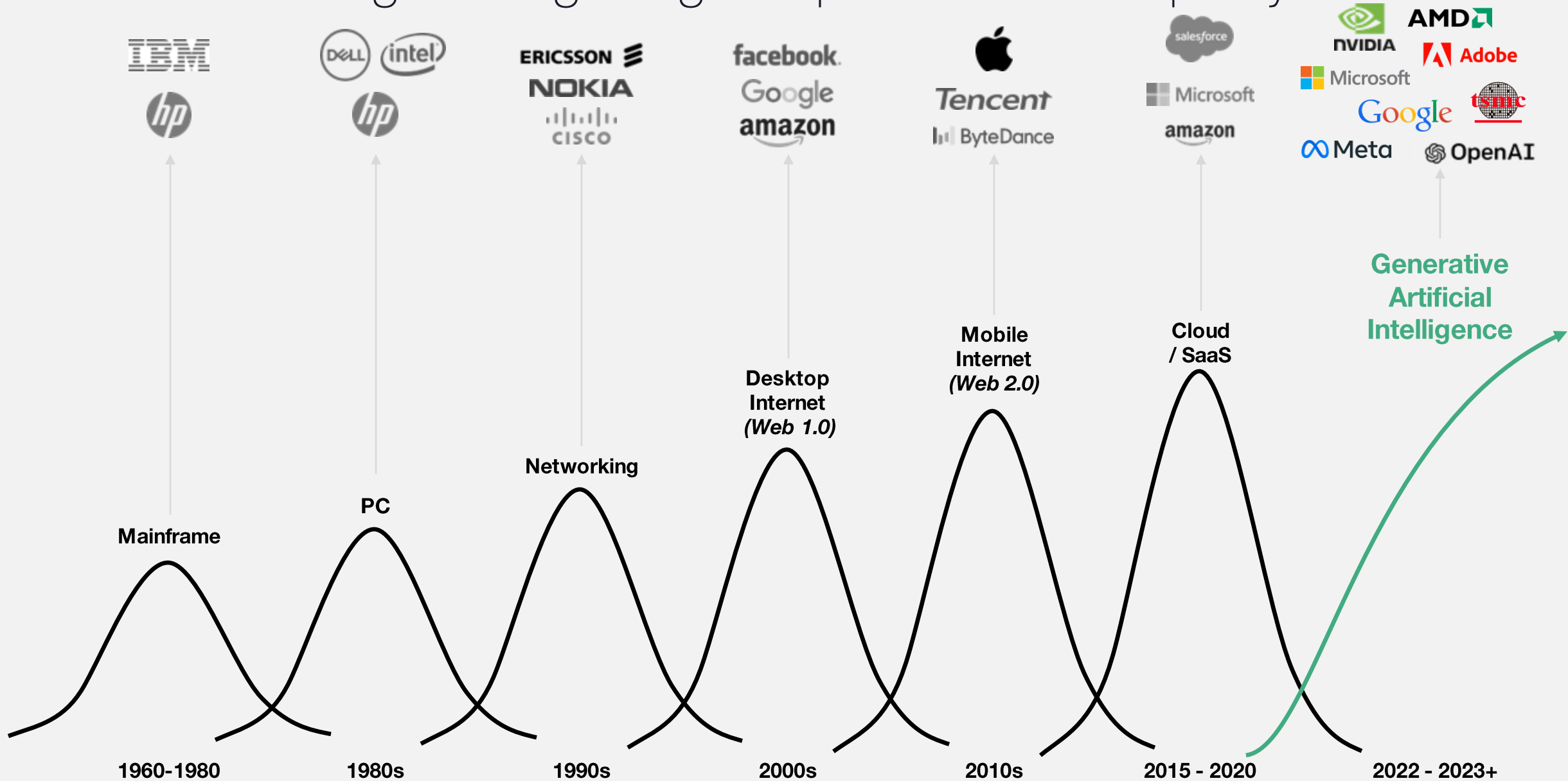
Strong founders rewarded – Unprofitable Tech still in penalty box

US Internet Case Study

→ Efficiency Winners vs. Reformers vs. Unprofitable Tech

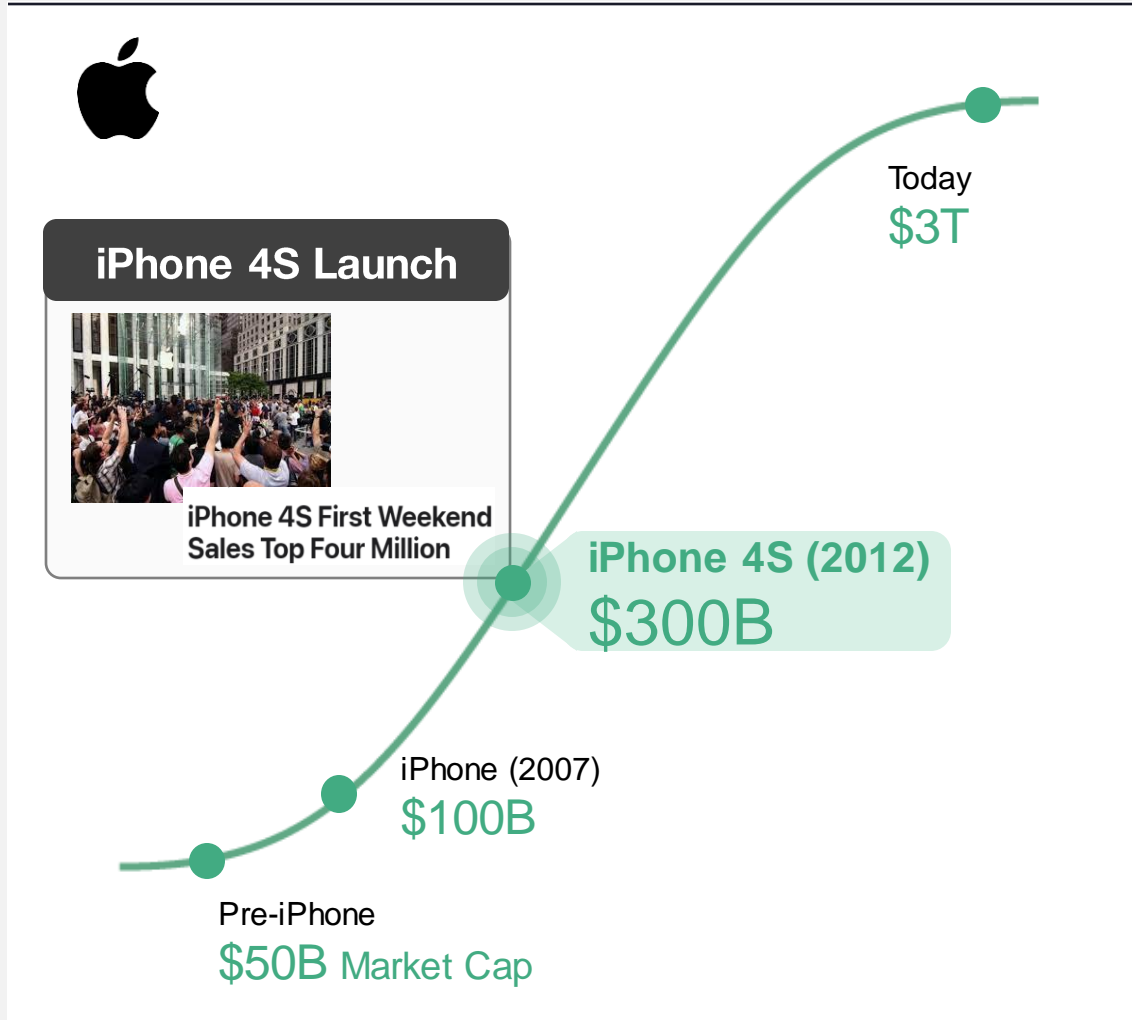


Market is sensing the beginning of a potential new supercycle



Every major cycle has a breakout moment...

→ Mobile Internet: iPhone 4S Launch



→ Shift to the Cloud: AWS Breakout

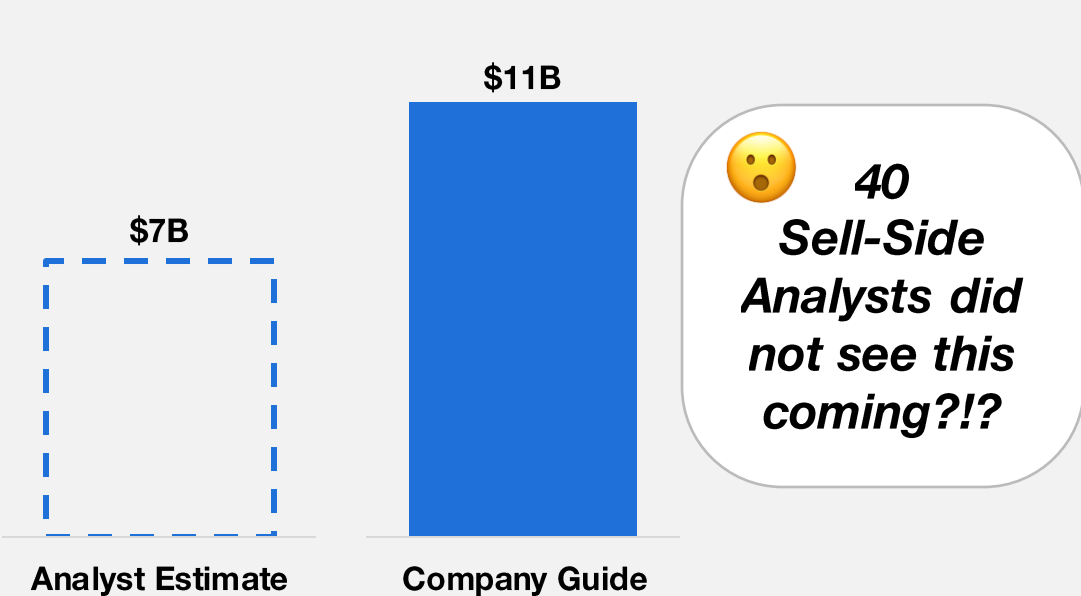


Source: Bloomberg and Coatue opinion and analysis as of June 2023. For illustrative purposes only; content reflects Coatue's views on the current market environment and does not constitute investment advice. There is no guarantee that Coatue's views and projections regarding the future potential of AI are accurate or that that Coatue or any particular Coatue portfolio companies will benefit from the AI trend. Companies are presented as examples of prior breakout moments only and may or may not be Coatue investments. See Appendix-Disclosures for important disclosures, including regarding projections and forward-looking statements and companies and trends.

Was NVDA Q2 Earning Beat the Breakout Moment for the AI Age?



NVDA FY2Q'24 Revenue



Jensen Huang, NVDA CEO

“Generative AI is driving exponential growth in compute ... You're seeing the beginning of a 10-year transition.”

- May 24, 2023 during 1Q earnings

Stock is +200% YTD

+\$650B Market Cap Gained YTD

NVDA P/E

Before 2Q:

65x



After 2Q:

48x

Conclusion: Lessons learned from public markets

1



Economy more resilient, but we may not be out of the woods yet

2



Free money era is over – new market regime here to stay

- Companies need to adapt to the “new normal”

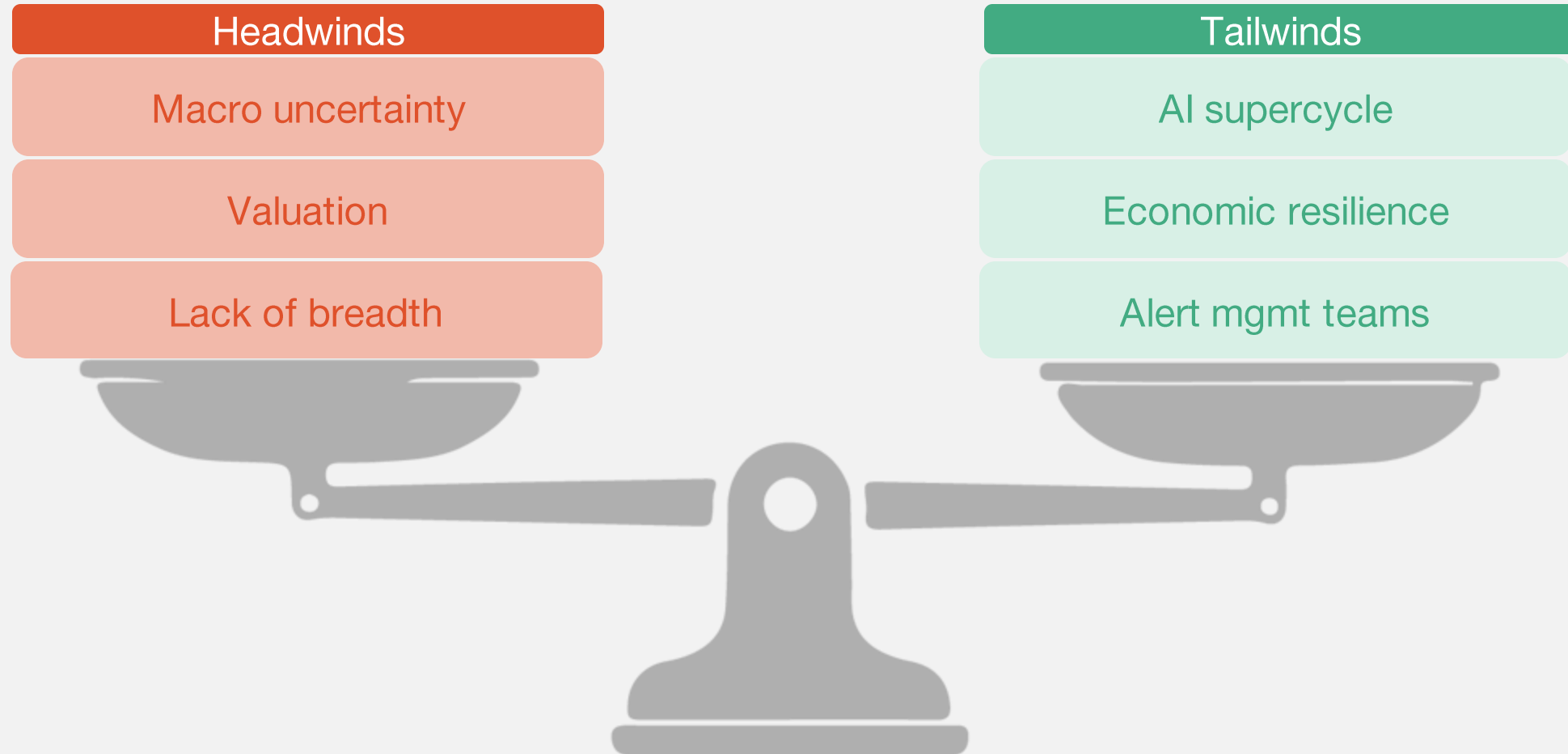
3



AI could be a lifeline to the economy for the next decade

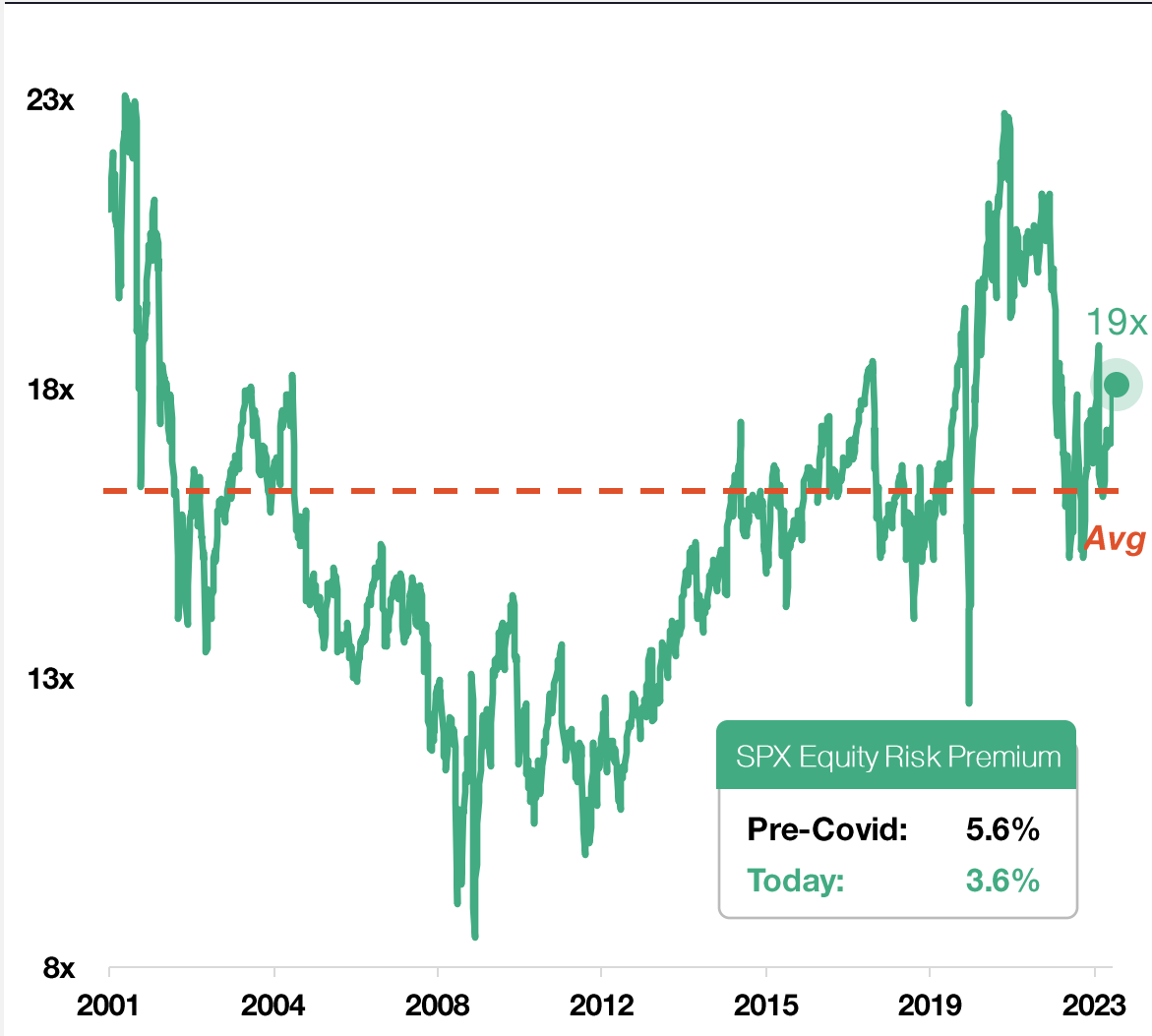
So, where
do we go
from here?

The scale looks relatively balanced to us...

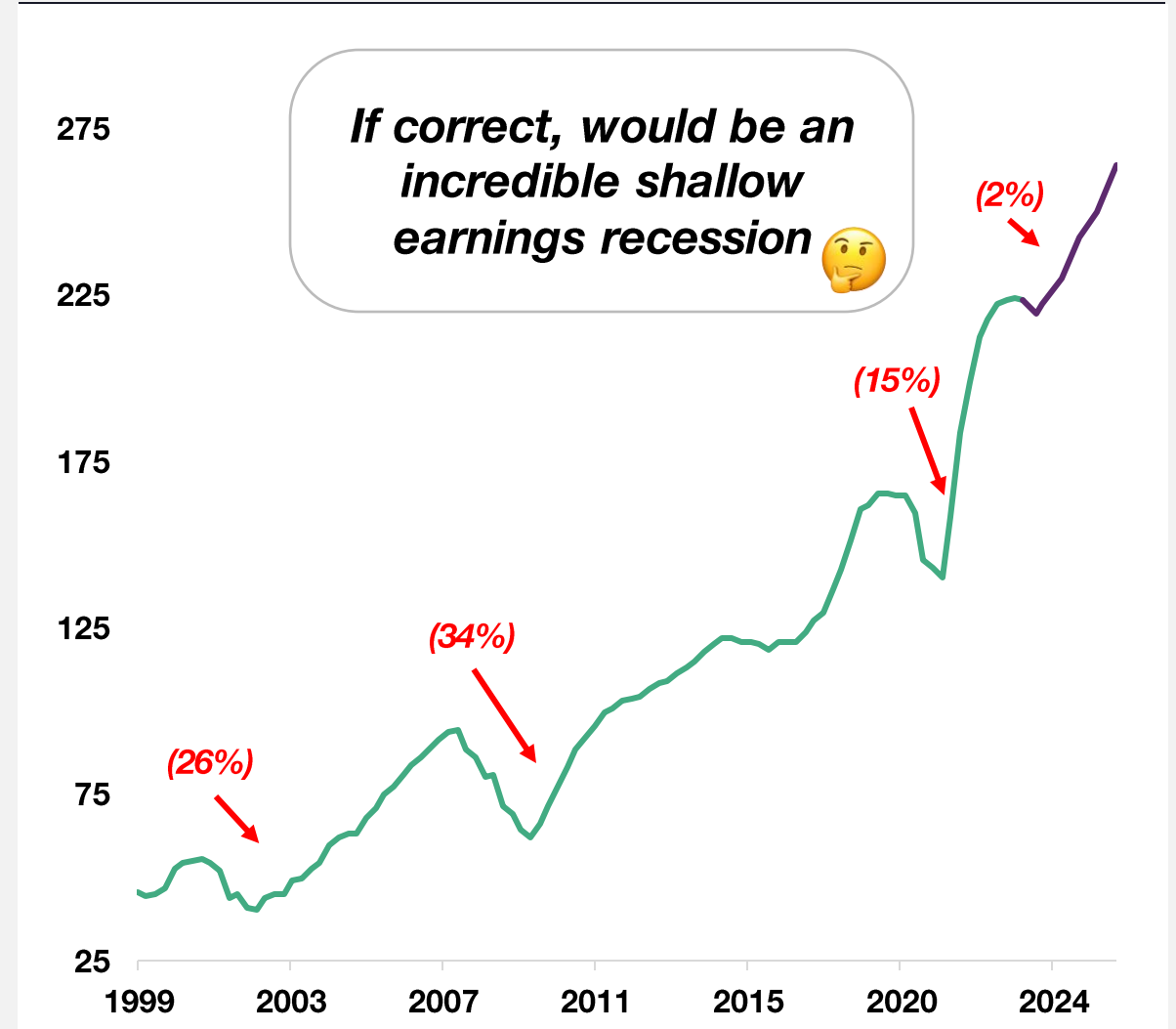


Key Concern 1: Equity valuations slightly expensive

→ NTM SPX P/E

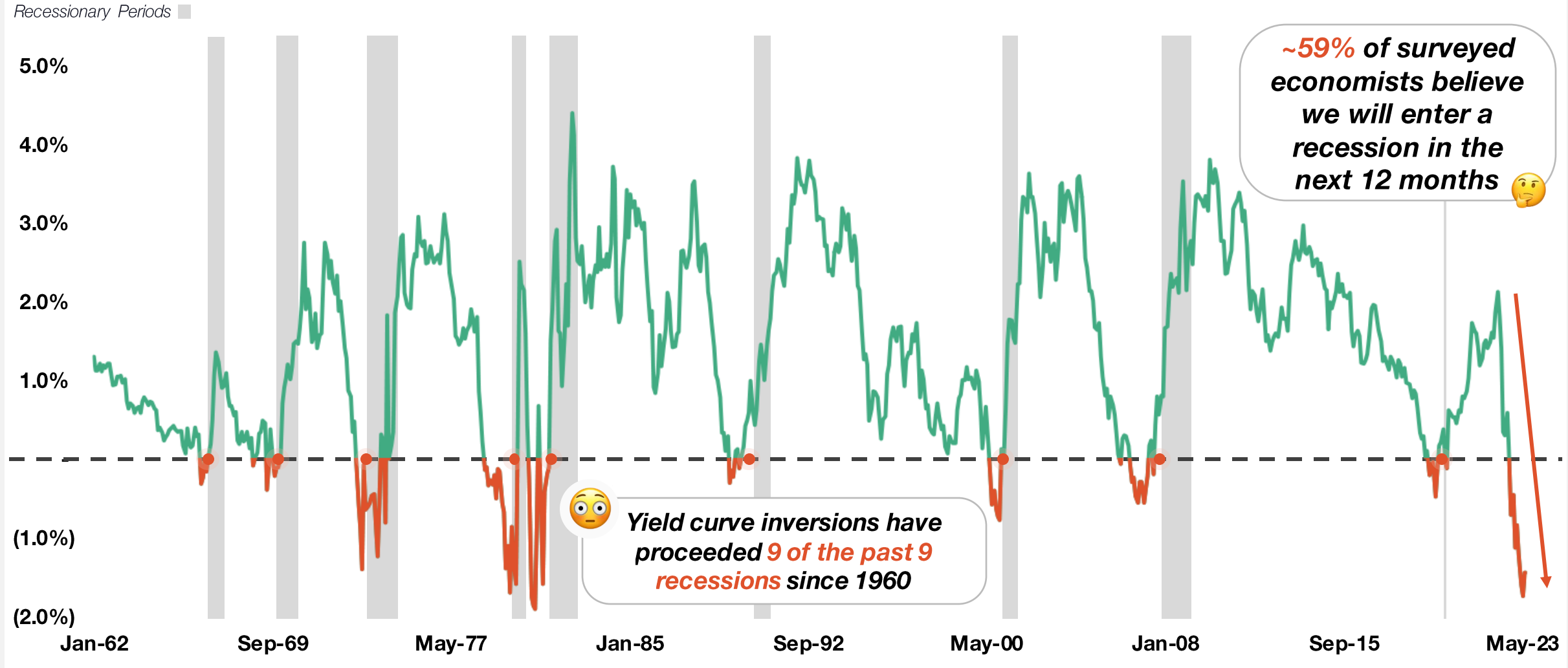


→ SPX EPS Forecast



Key Concern 2: Economy not out of the woods yet

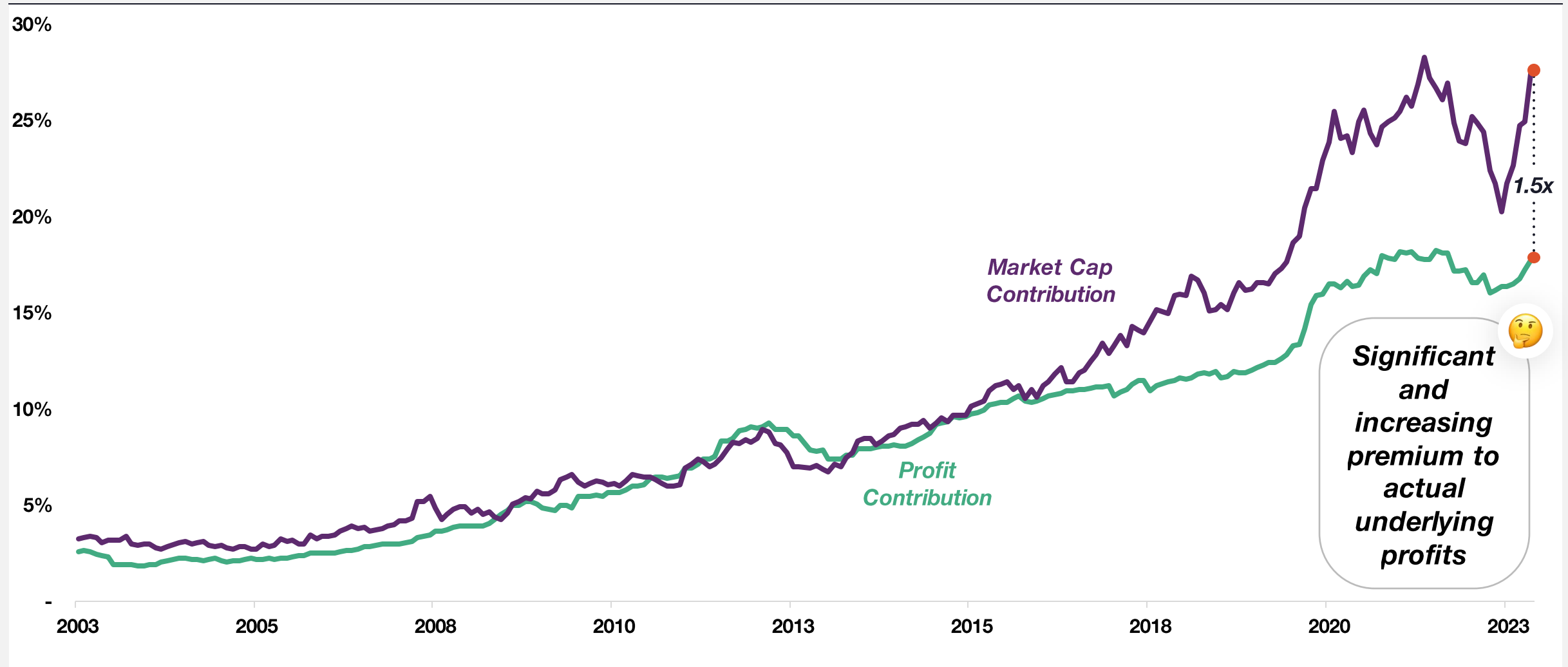
→ 10-Year / 3-Month US Treasury Yield Spread



Key Concern 3: Magnificent 7 trade at a premium

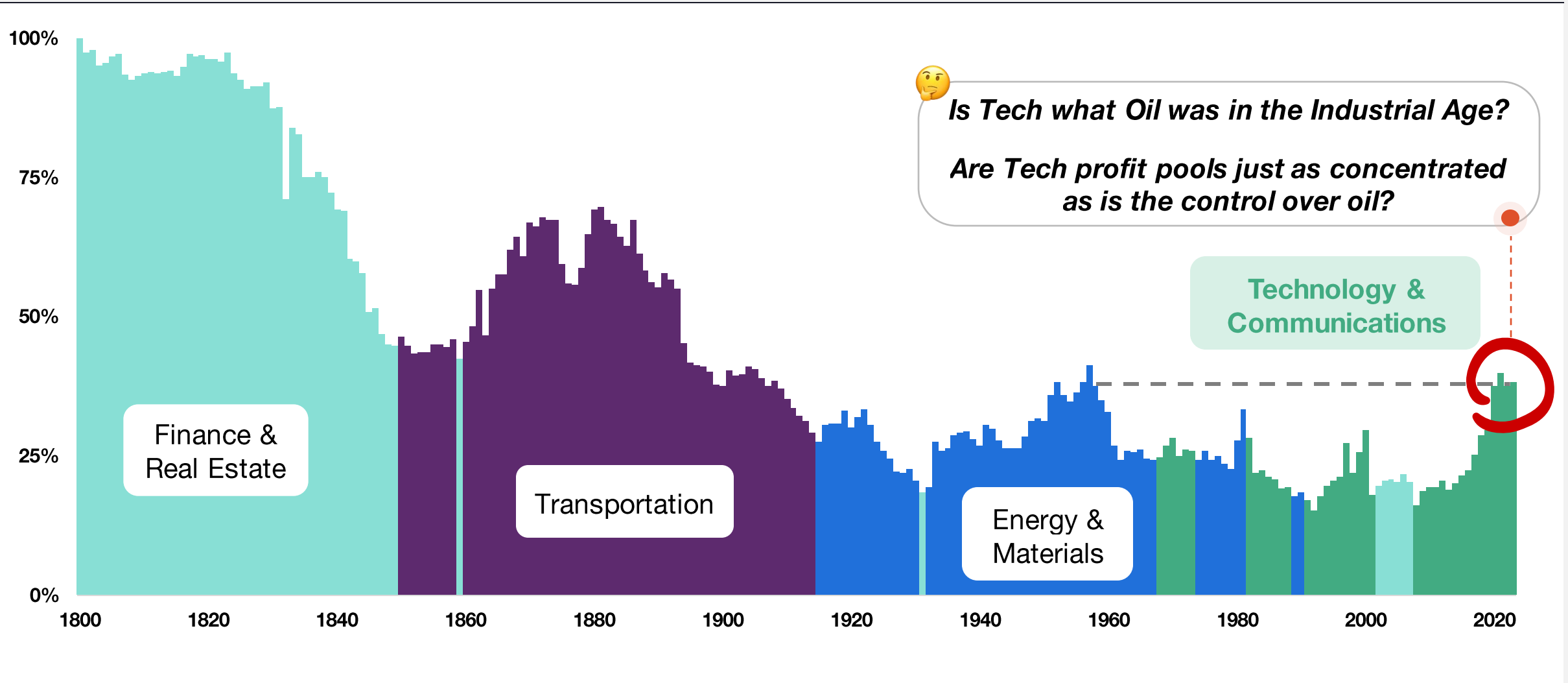
Warranted due to AI future?

→ “Magnificent 7” Market Cap and Profit Contribution to SPX



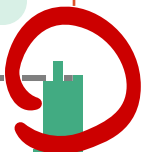
Is it crazy that Tech dominates like oil did in the Industrial Age?!?

→ Share of the Biggest Sector in the US



🤔 **Is Tech what Oil was in the Industrial Age?**
Are Tech profit pools just as concentrated as is the control over oil?

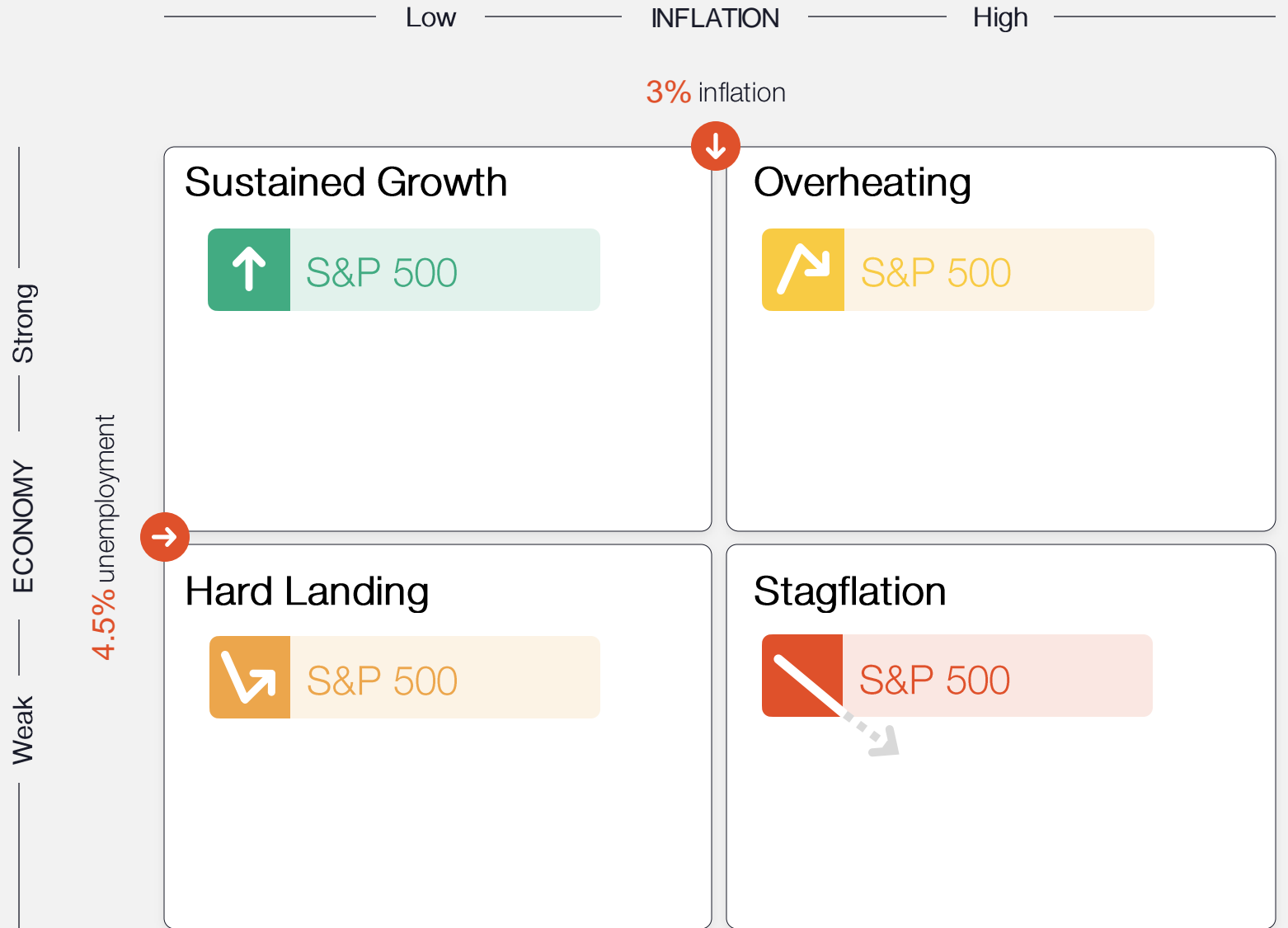
Technology & Communications



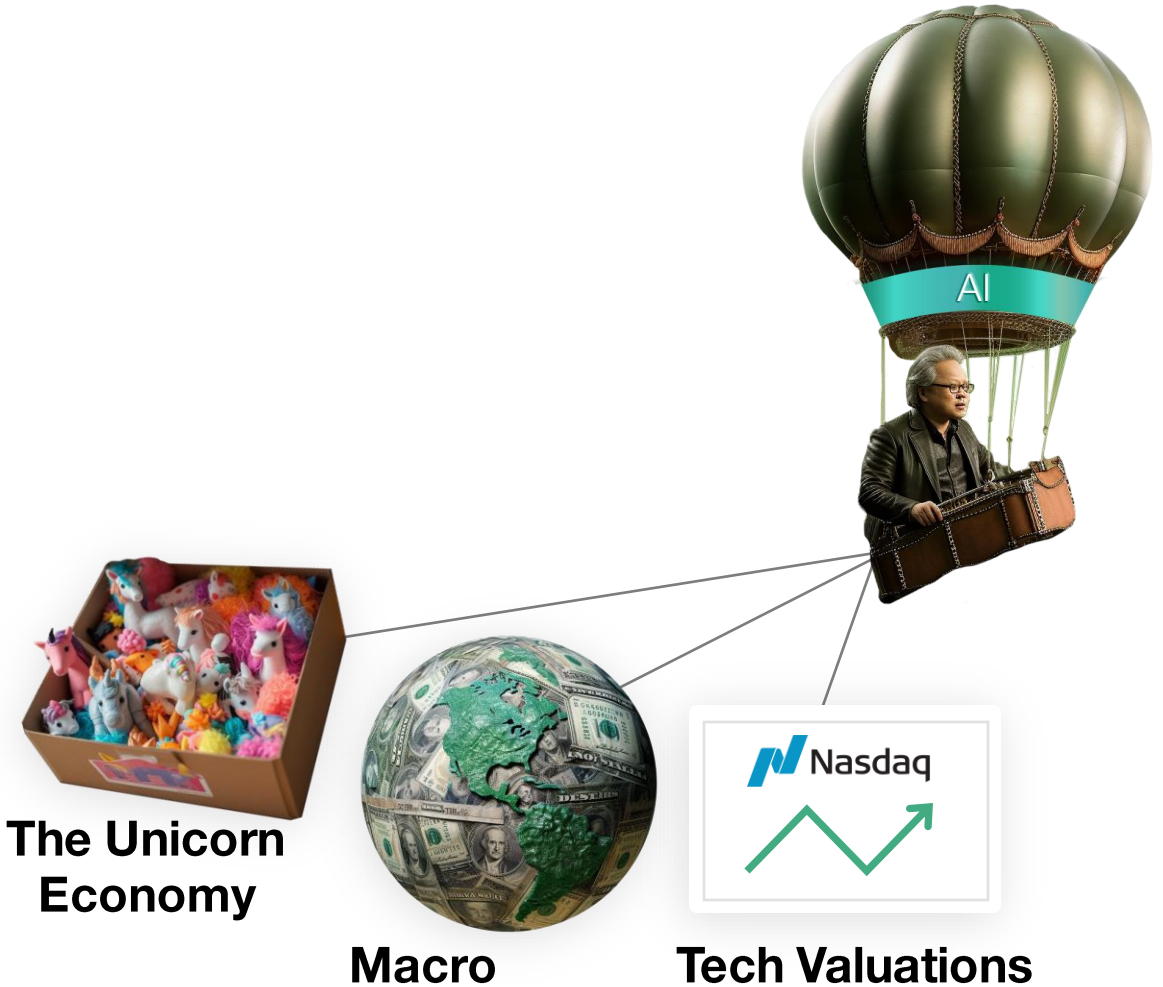
Macro uncertainty –

What are the key variables to watch?

Where Will We Land On This Matrix in 6 Months?



AI could be the balloon that lifts the economy through the next decade!



Prompt: *"AI carrying the market" |* 

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Keynote agenda

Lessons from public markets

→ **Implications for founders**

Too many unicorns requiring too much capital?

→ 10 Years Ago

→ Today

Unicorns

44



1,350

Approx. Value

~\$100B



~\$5T
At Last Round

~\$2.5T
Mark to Market

% Public MC

1-2%

~7% in 2019



16%

8%

Potential Funding
Needs / Yr

~\$15B+



~\$250B+

Investors have many investment alternatives today...

Risk-free rate: **~5%**

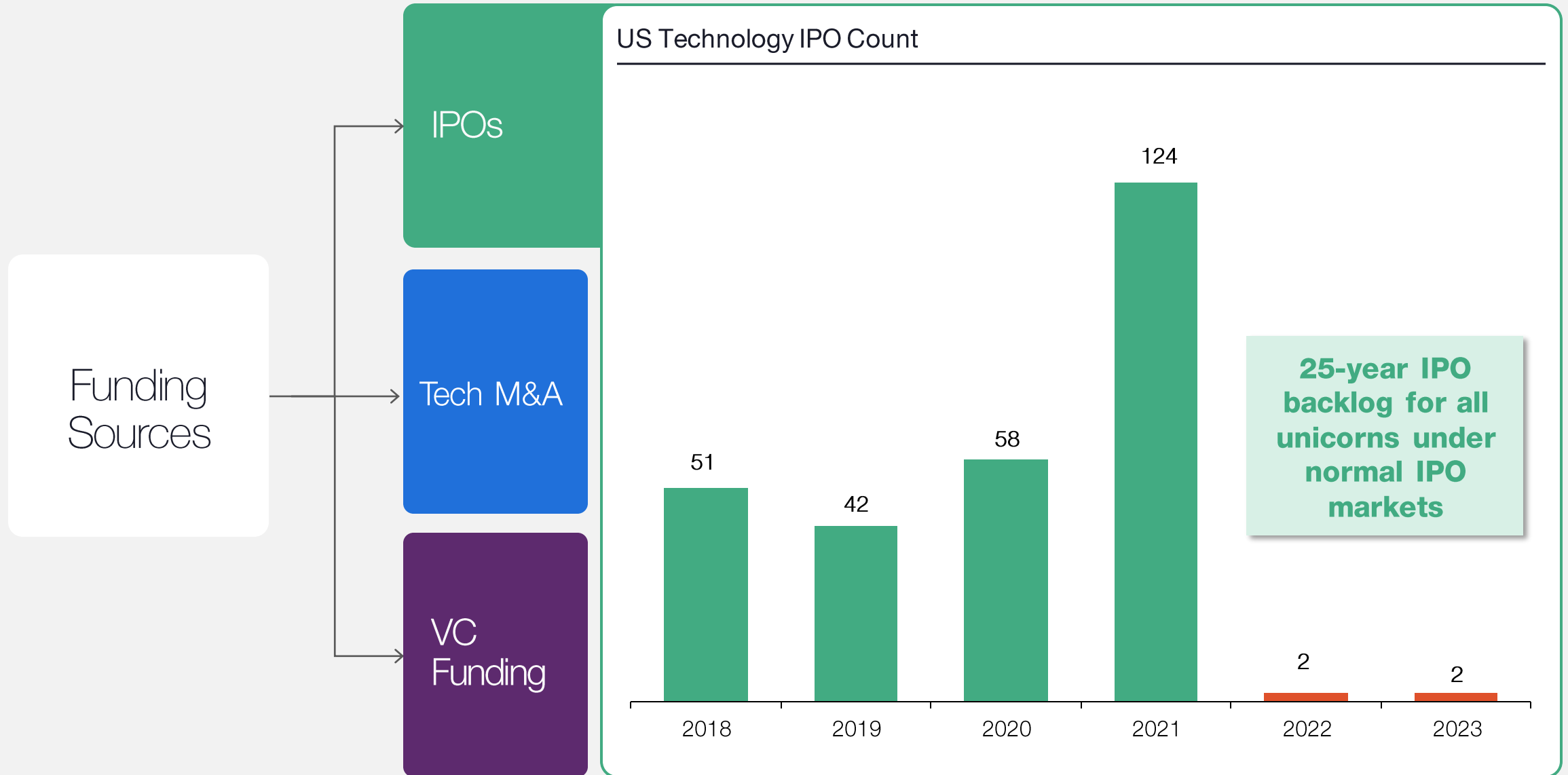
GARP: Buy Meta or Google at
~20x P/E

AI Growth: Buy NVDA at
~50x P/E

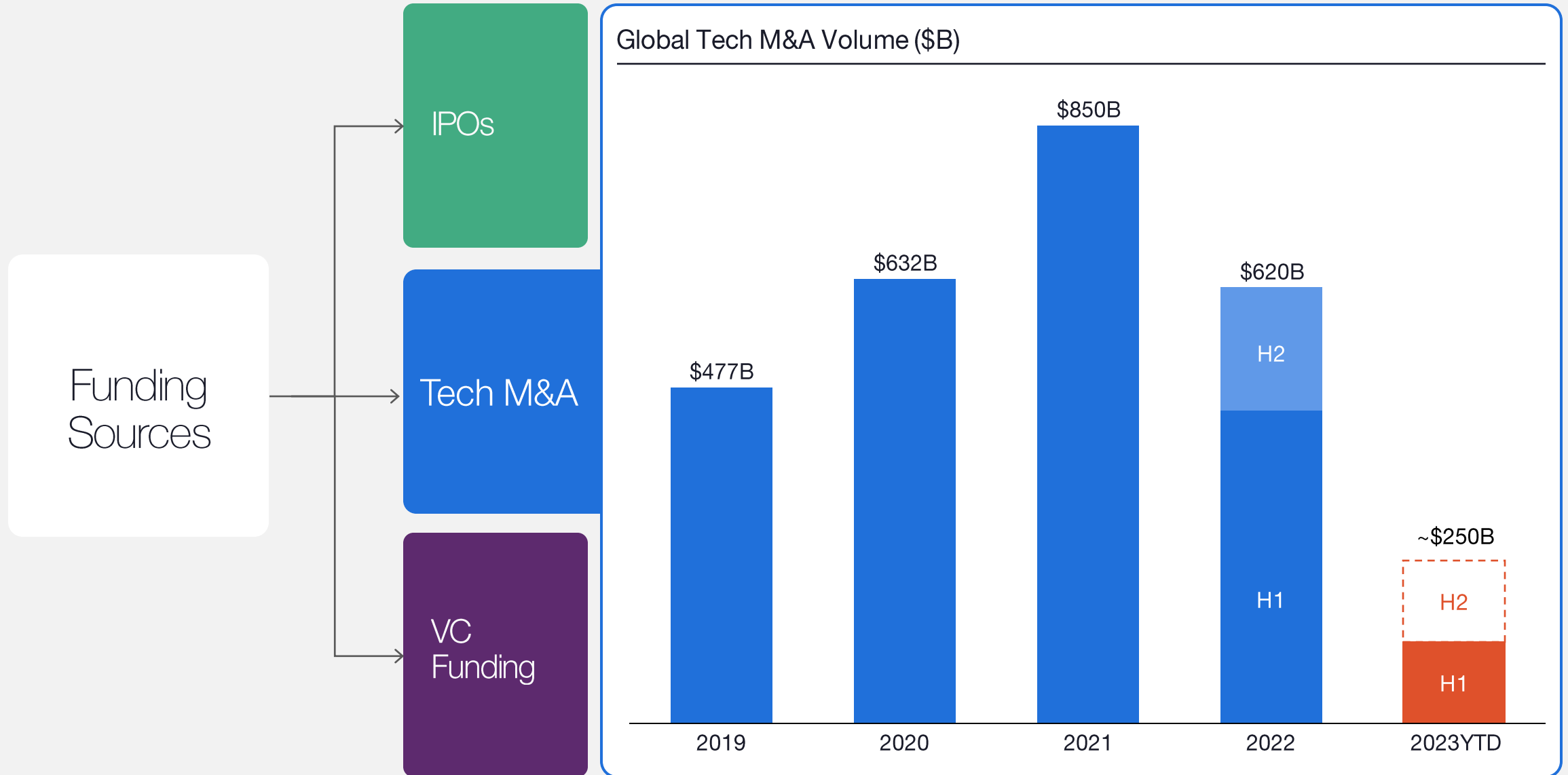


Unicorns Need
to Earn Investor
Capital Against
These Alternatives

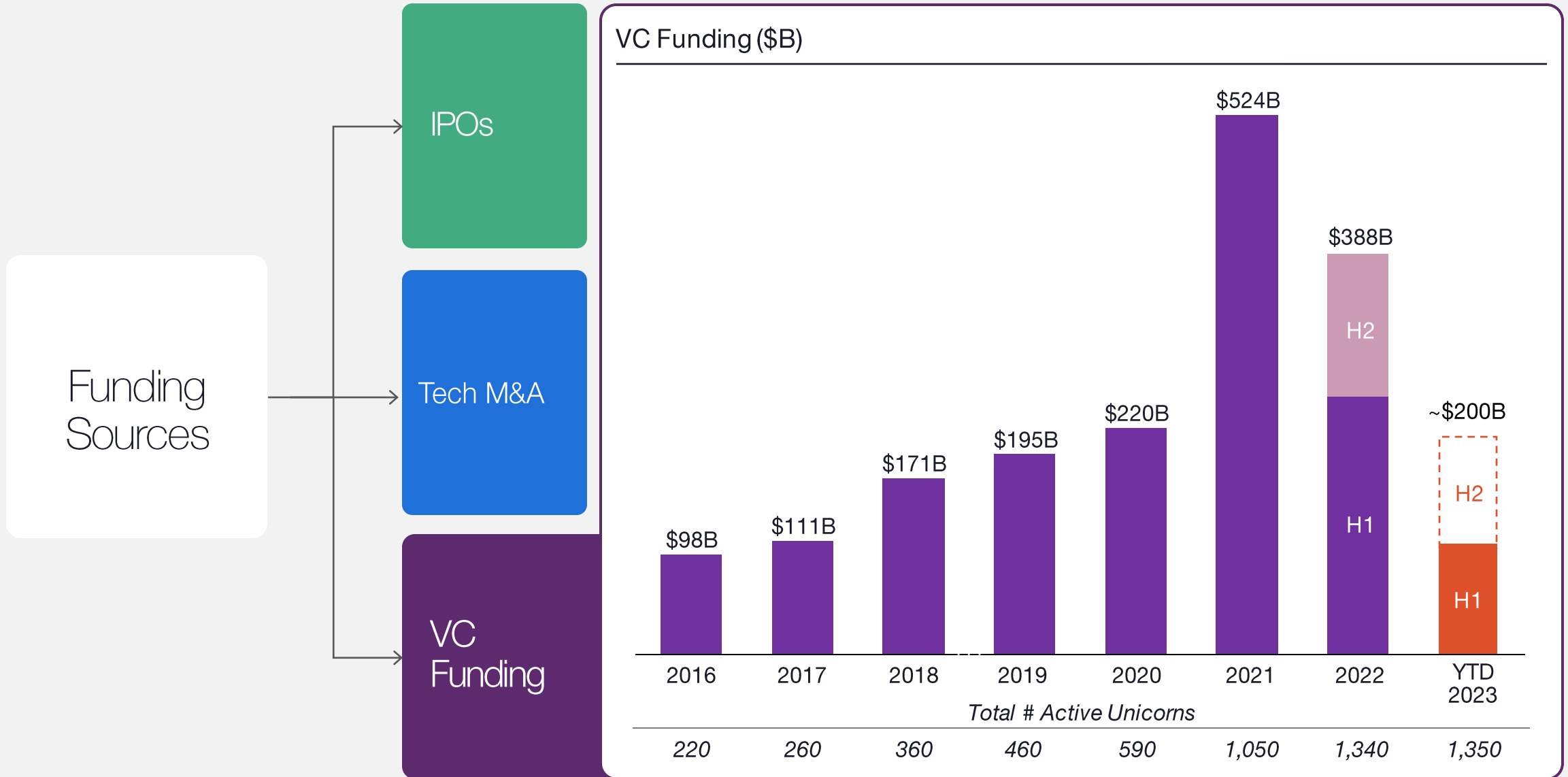
There are fewer exit & financing options today



There are fewer exit & financing options today



There are fewer exit & financing options today










Note: Unicorn defined as a private company with a post-money valuation greater than \$1B in each period. Figures are approximate and illustrative. Excludes OpenAI round in March 2023

Source: Pitchbook and Coatue opinion and analysis as of June 2023. For illustrative purposes only; content reflects Coatue's views on the current market environment and does not constitute investment advice. See Appendix-Disclosures for important disclosures, including regarding forward-looking statements.

Scaled private assets raised & re-priced in-line with public markets

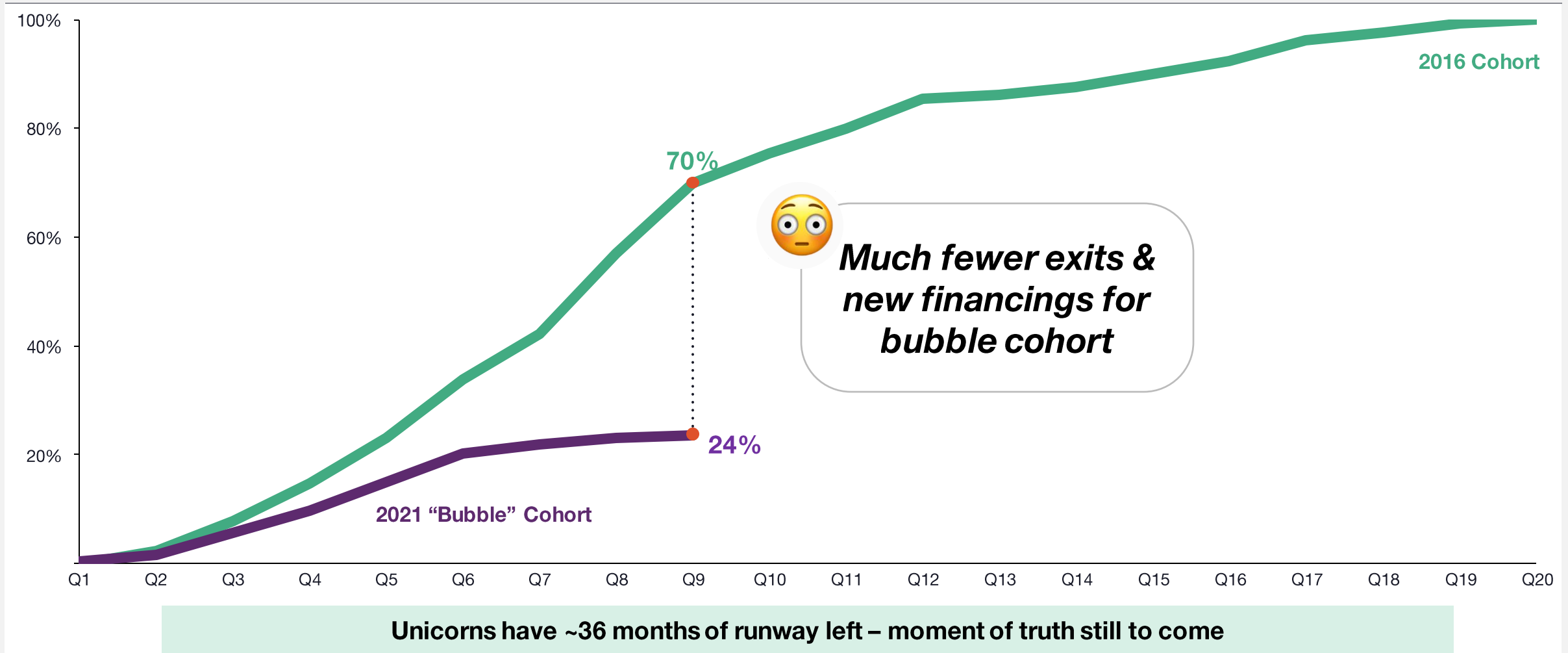
→ % Decline from Peak Valuations

	Food delivery	Payment Processing	China
Public	 DOORDASH -66%	 Square -76%	 Tencent 腾讯 -54%
Private	 instacart -69%	 stripe -47%  Klarna. -85%	 SHEIN -34%

Source: Pitchbook, Bloomberg, news reports; Coatue opinion and analysis as of June 2023. Public valuations calculated as all time stock price highs and closing price as of May 23, 2023. Last round valuations for Stripe and Instacart are based on funding rounds dated March 2021. Last round valuation for Klarna is based on funding round dated October 2021. Last round valuation for Shein is based on funding round dated October 2022. New valuation for Stripe and Shein based on March 2023 funding rounds. New valuation for Instacart is based on public news reports as of April 2023 regarding internal Instacart valuation. New valuation for Klarna is based on funding round dated July 2022. For illustrative purposes only; content reflects Coatue's views on the current market environment and does not constitute investment advice. See Appendix-Disclosures for important disclosures, including regarding forward-looking statements.

But many unicorns not yet re-priced and may never get new capital

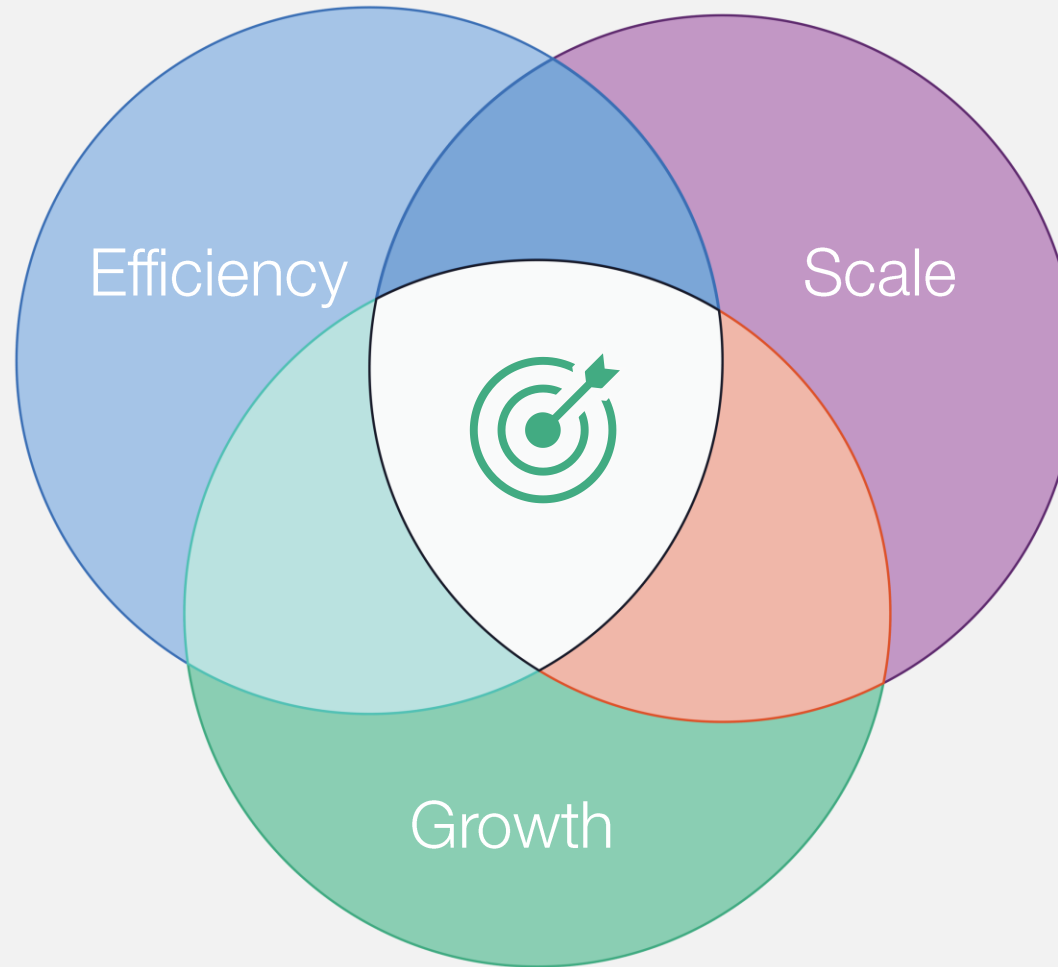
→ % of Unicorns that Raised or Exited by Quarter



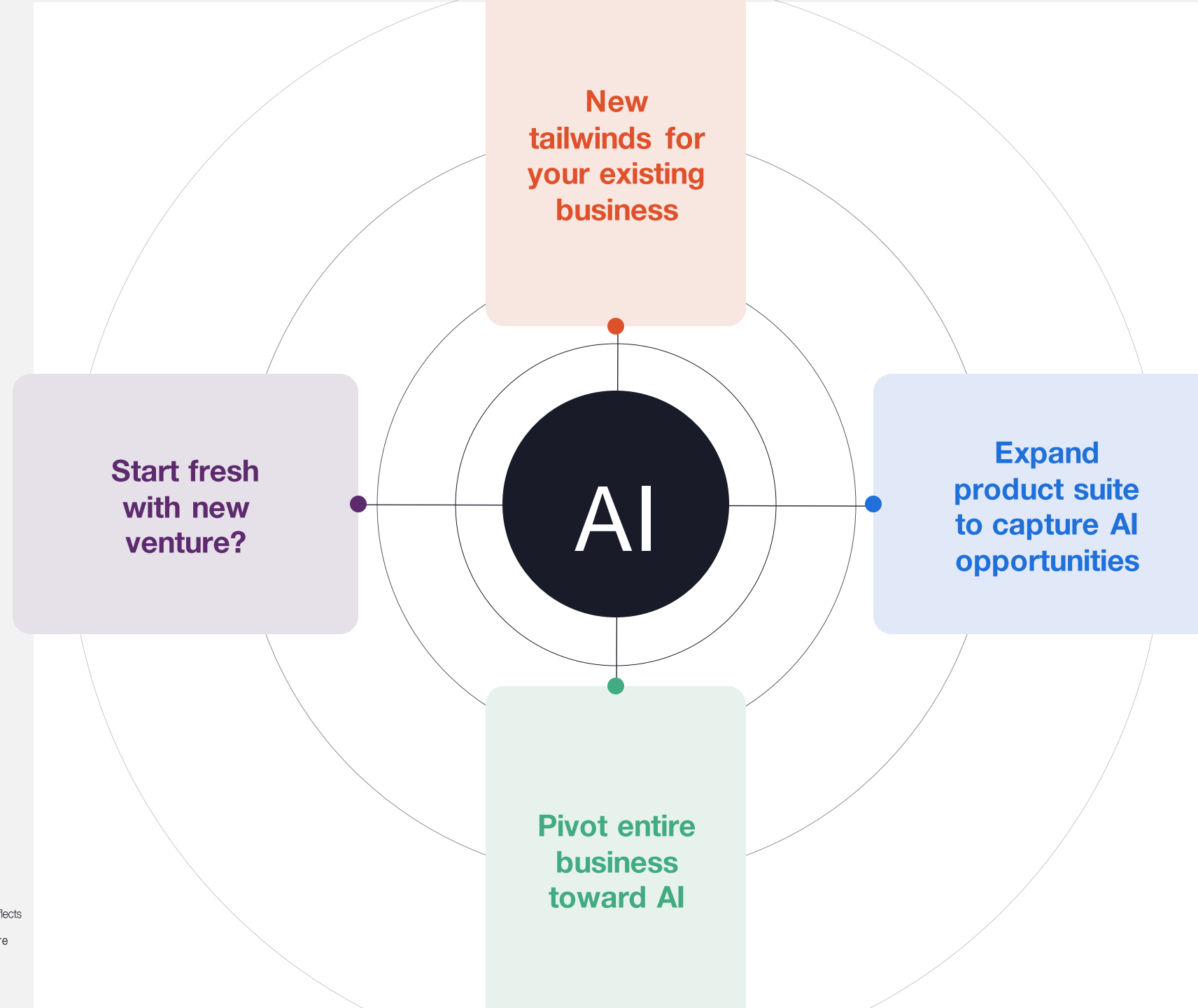
So, what does this mean for founders?

	2021: Bubble		2022: Crash		Today
Fundraising	Free money	→	Zero funding	→	Funding available for offensive deals
Exit Options	Any unicorn can IPO	→	Closed IPO markets	→	Need scale to IPO
Hiring	Can't hire fast enough	→	Hiring freeze & layoffs	→	Labor market looser: draft MVPs
Investments	Invest in every moonshot project	→	Cut all costs and make payroll	→	Invest in high ROIC projects
Key Player	Head of Growth	→	CFO	→	Chief of Strategy / Head of M&A / BizDev
Key Focus	<i>Growth</i>		<i>Efficiency</i>		Efficiency + Scale

How to win & earn path to liquidity?



Could AI change the game for you?



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