

COATUE

**EMW/2023**

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Welcome to  
**EMW/2023**



## Keynote agenda

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→ **Lessons from public markets**

Implications for founders

# EMW 2022 Recap: we were waving red flags of caution

## → Coatue Prediction Scorecard

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

The world has been much more resilient!

### Inflation subsiding

Record-low unemployment

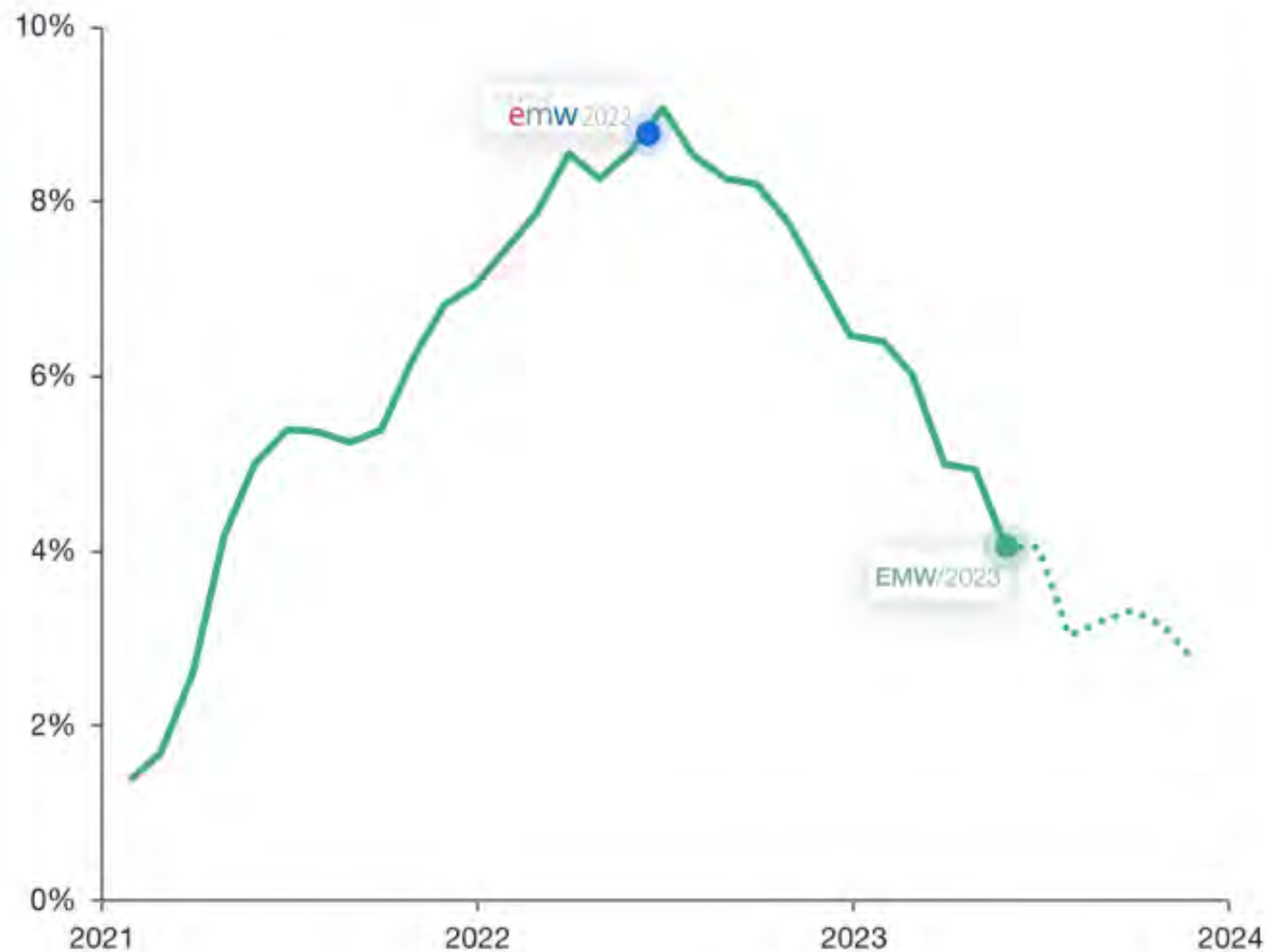
European energy crisis averted

End of China's Zero-Covid

Founder pivot: Year of Efficiency

Dawn of a new technology: AI

→ Headline Inflation (% YoY)



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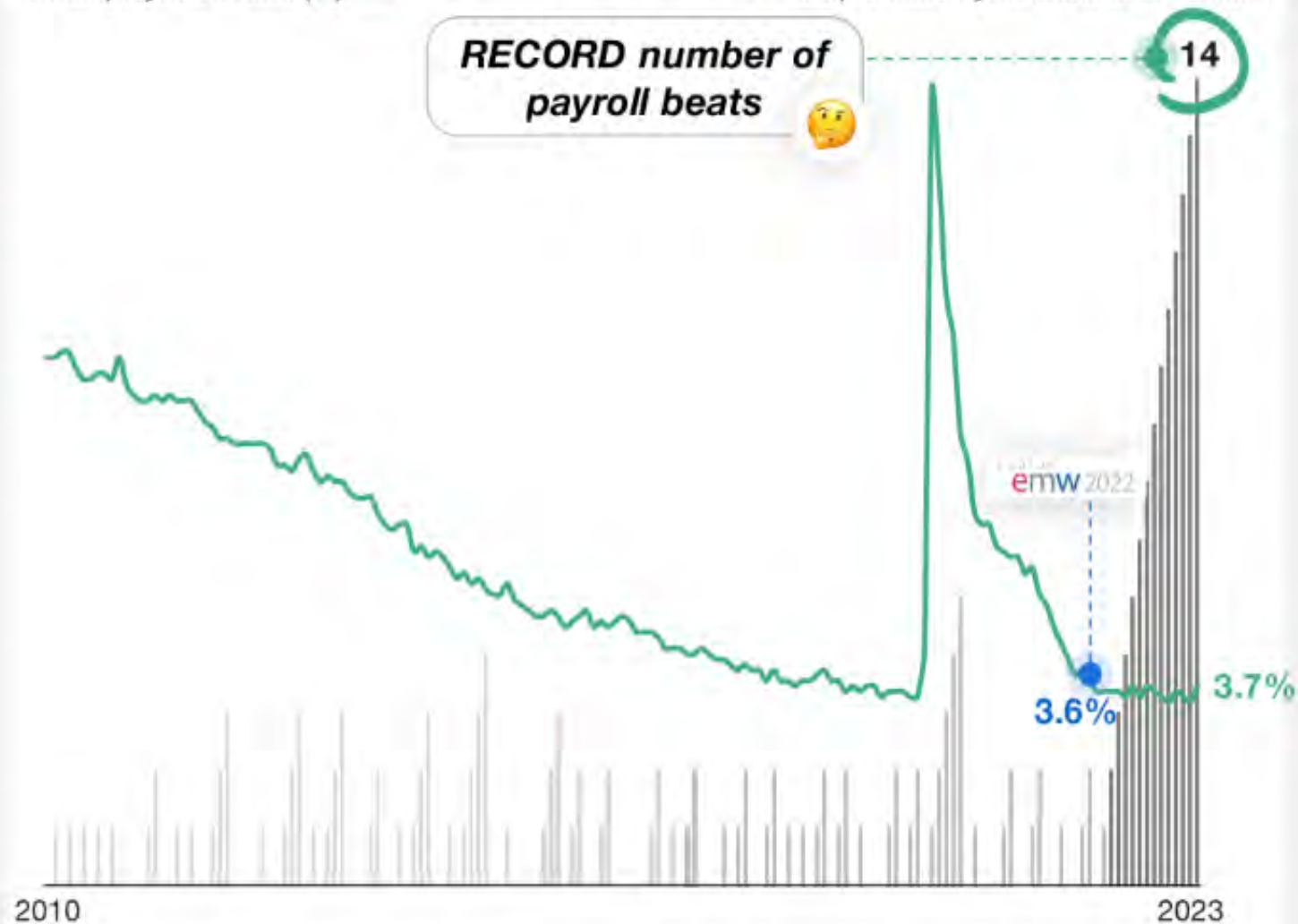
## → US Unemployment Rate and Payroll Beats

Unemployment Rate (%) —

— Sequential Payroll Consensus Beats

**RECORD** number of payroll beats 🤔

14



The world has been  
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Inflation subsiding

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**European energy crisis averted**

End of China's Zero-Covid

Founder pivot: Year of Efficiency

Dawn of a new technology: AI

→ European Natural Gas Price (€/Mwh)





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

→ China Reopening

During Lockdown (November 2022)



Chinese New Year (January 2023)



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

→ Decisive Founder Response



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....

Generated With:



EMW/2023



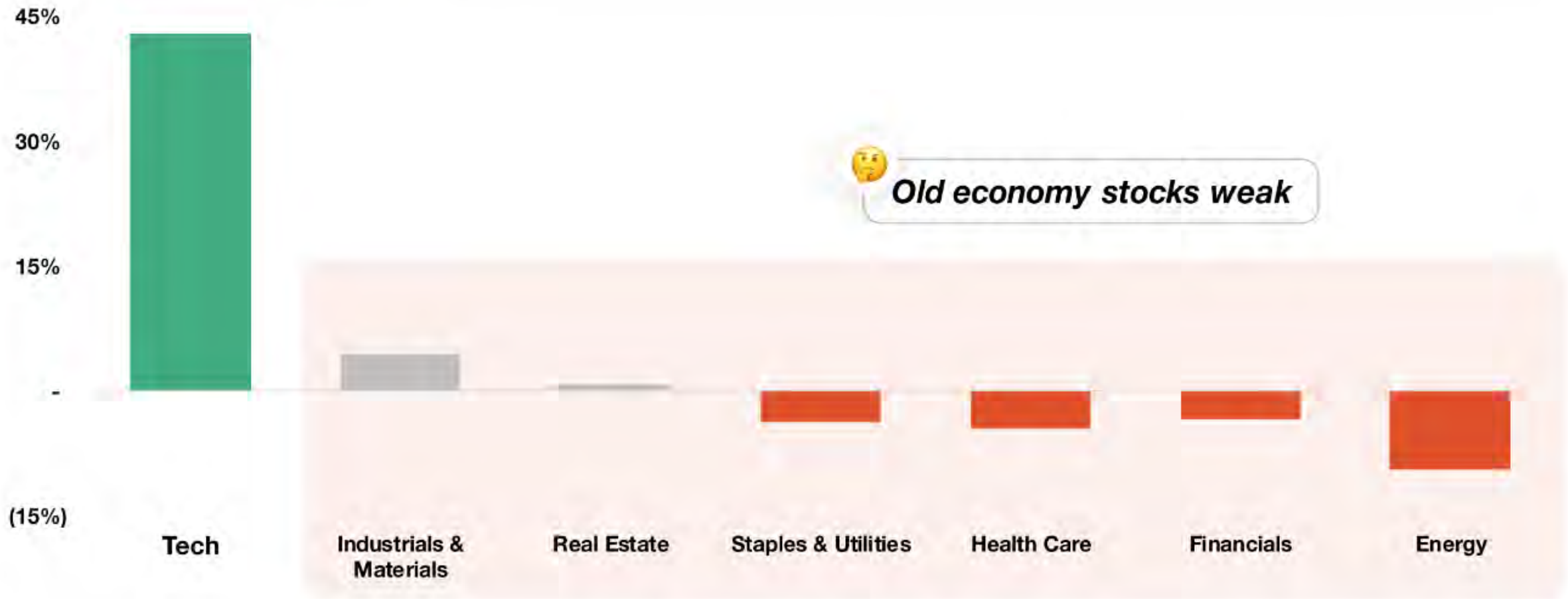
Prompt:

"Pump the brakes" |



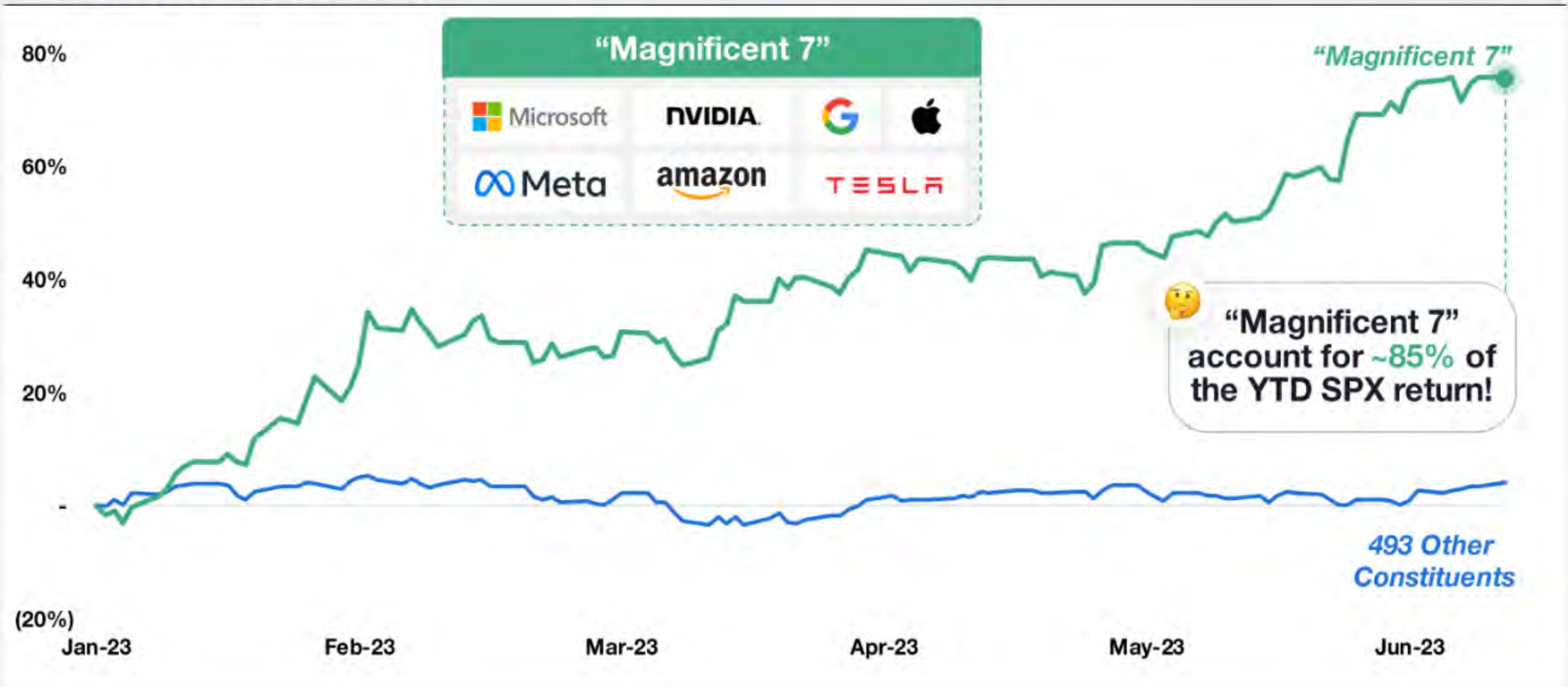
# Public market internals more mixed: Only tech is rebounding...

→ 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

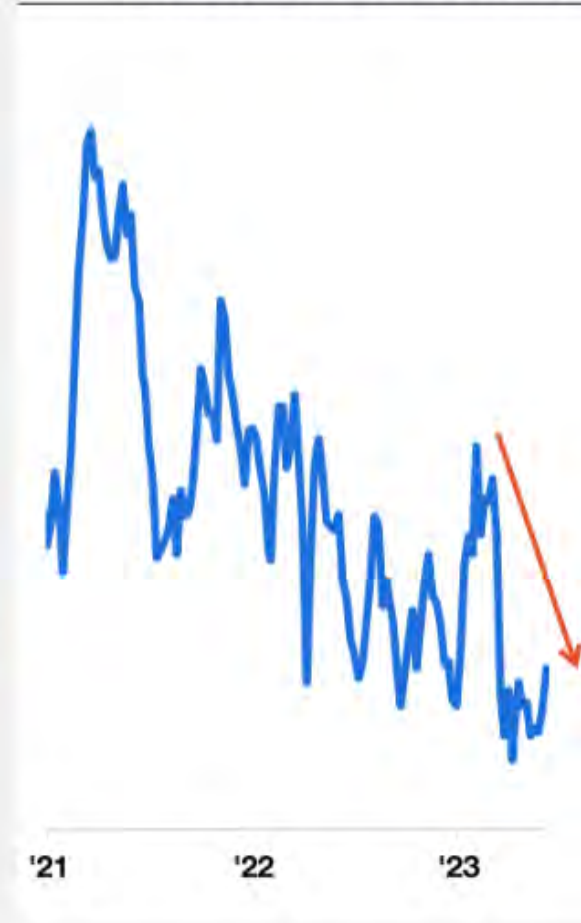
→ Brent Crude Oil



→ Regional Banks



→ Transportation Stocks



→ Retail Stocks





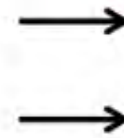
# New Market Regime: Era of free money is indeed over!

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

**Rational** Valuations

**Capital**  
Drives Growth

**Innovation & Execution**  
Drive Growth

Growth at **All Costs**

**Profitable** Growth

# Tech valuations back to earth

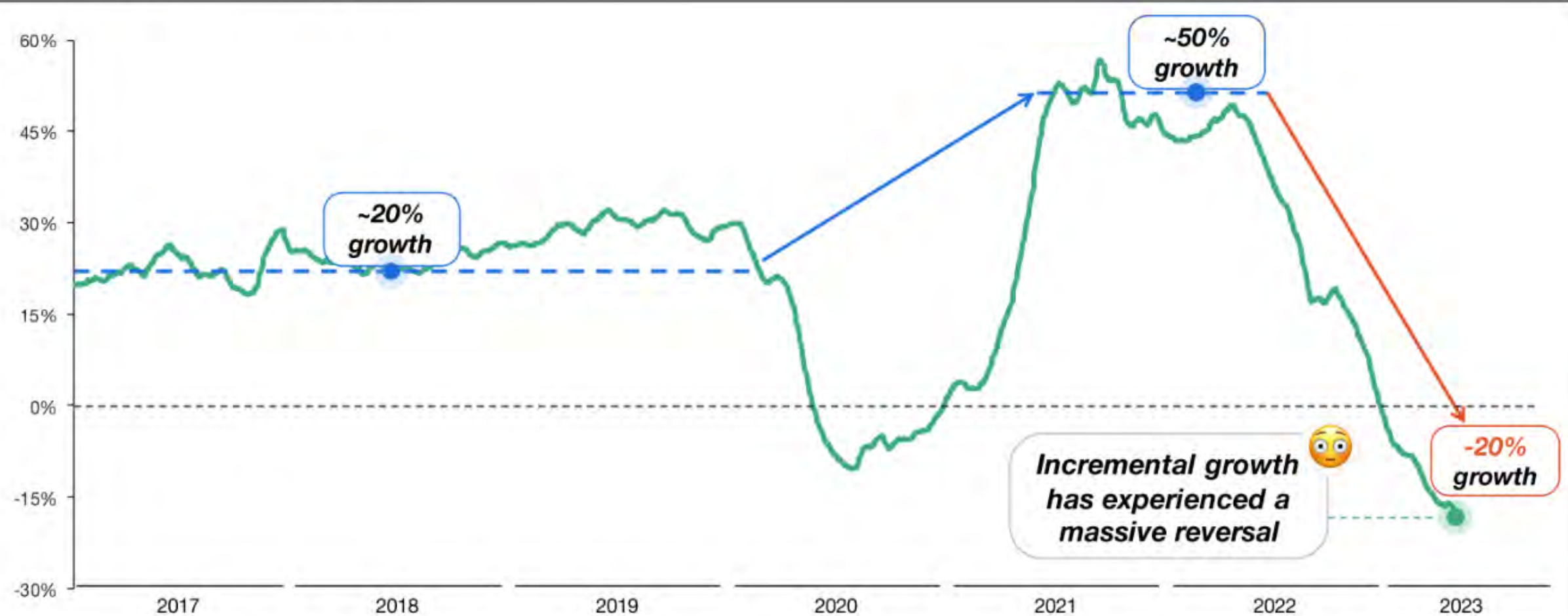
→ Tech Public Market Multiples – Software & Internet



# Growth is harder to come by

## Software Case Study – EM Cloud Index (68 Companies)

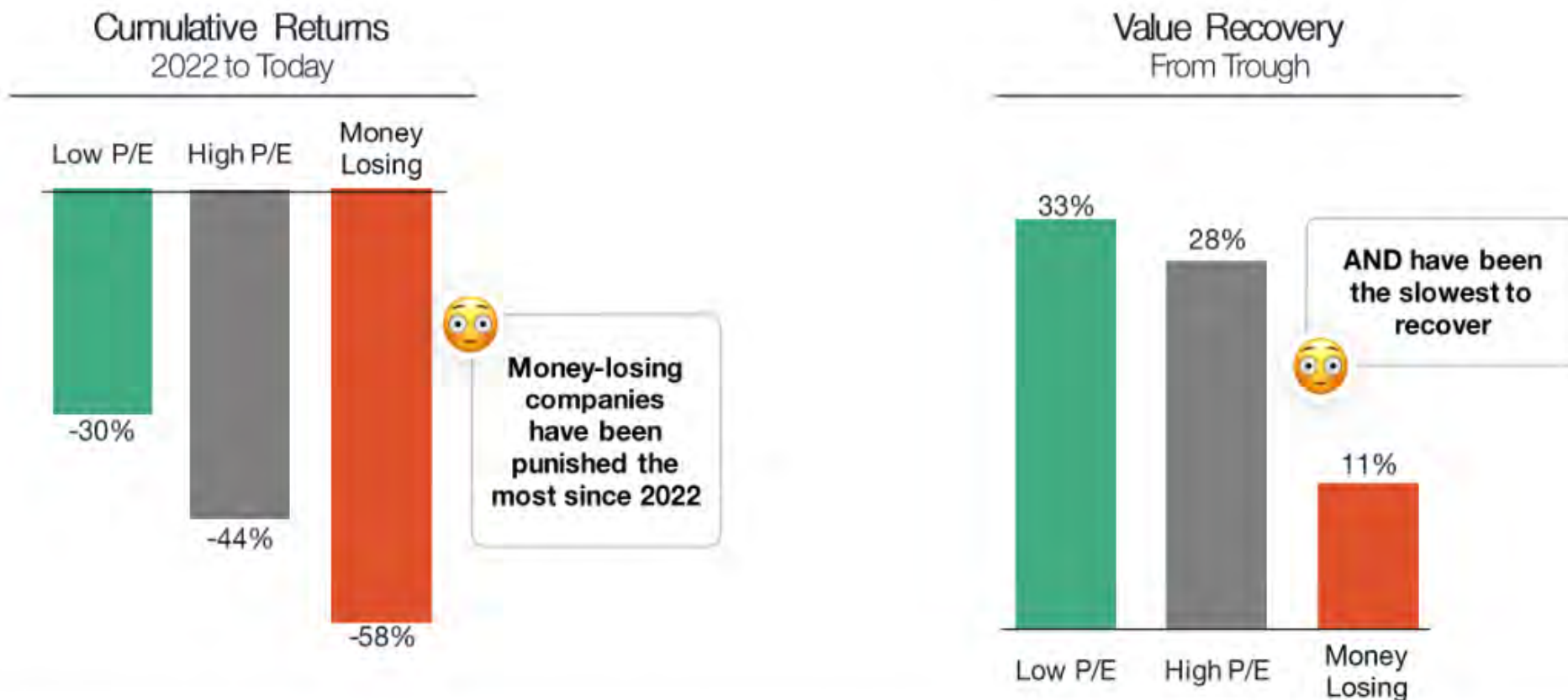
→ % Growth in Net New ARR



# Market is demanding profitable growth

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

→ Share Price Returns



# 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”

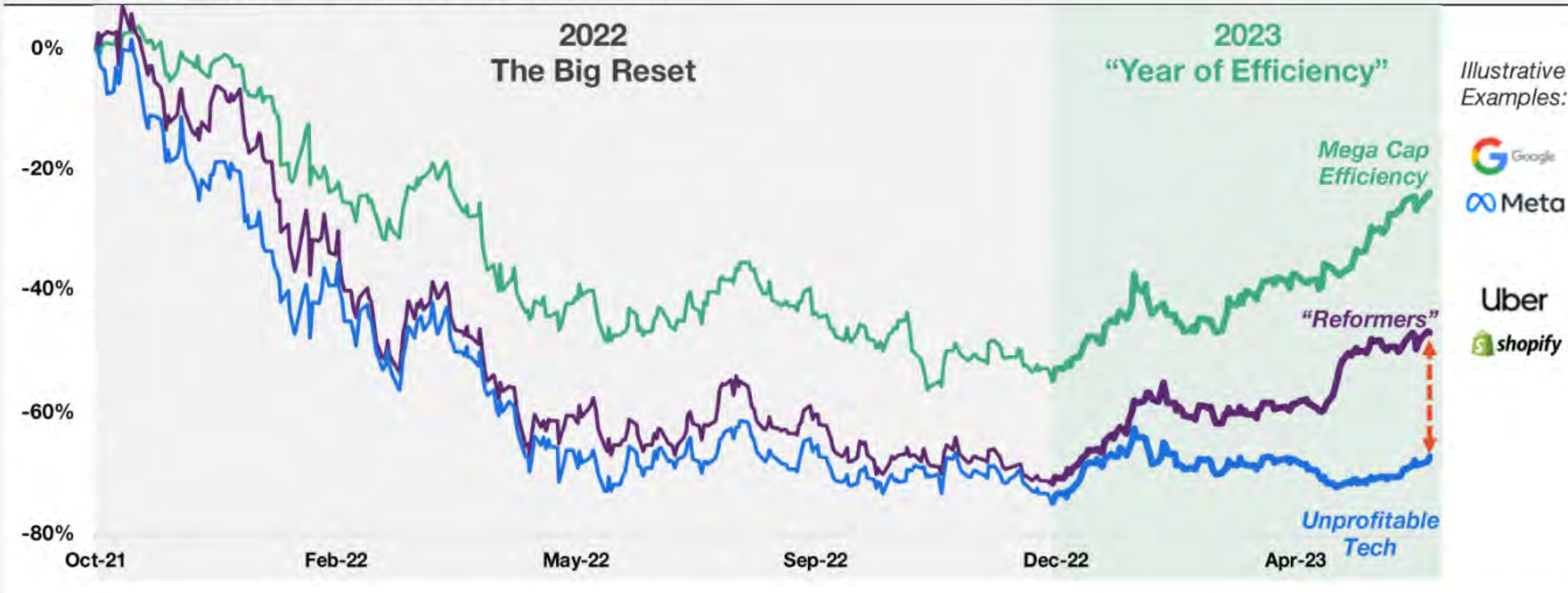
## Founder Learnings

A strong core is better than broad scope

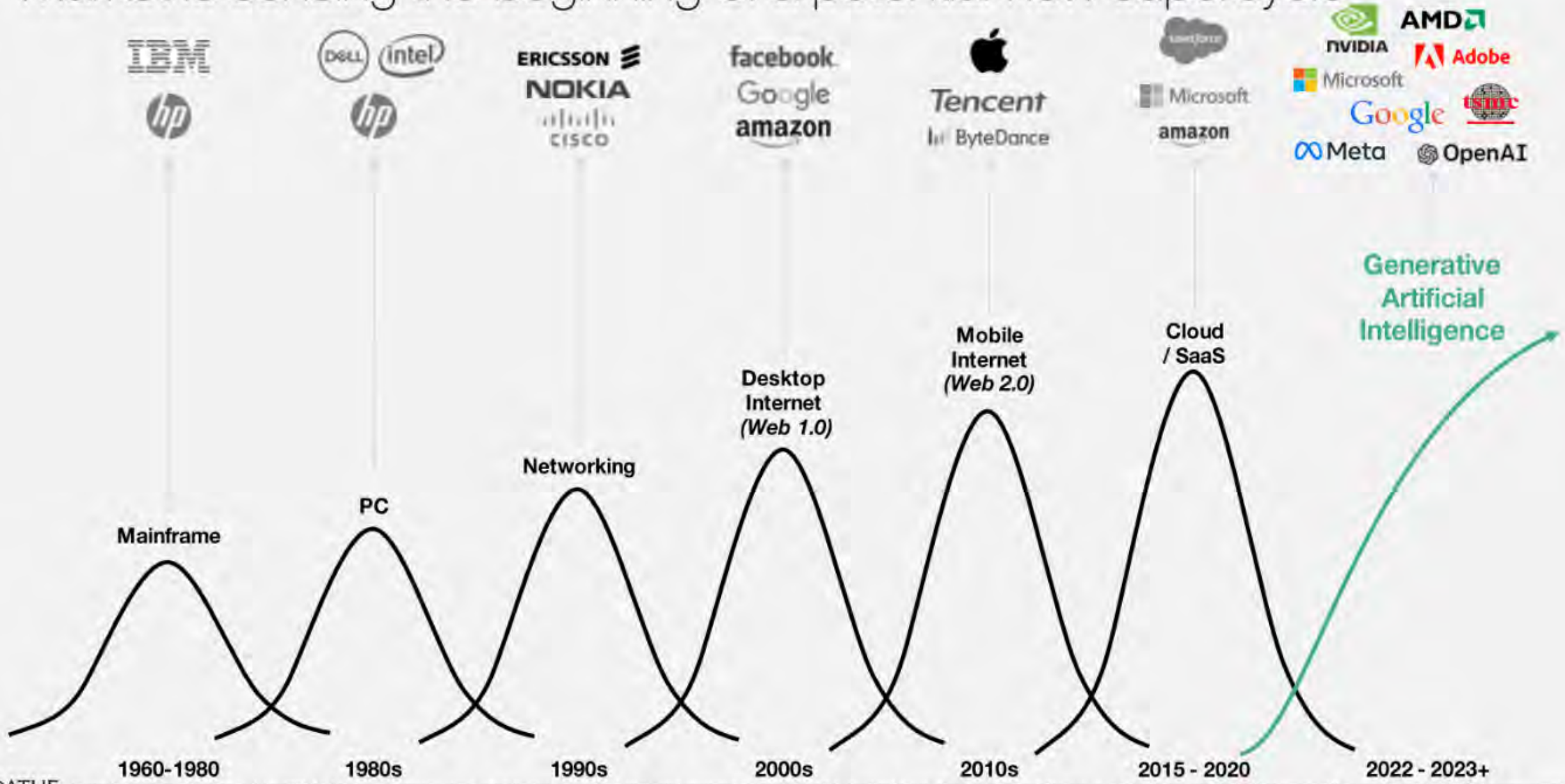
# Strong founders rewarded – Unprofitable Tech still in penalty box

## US Internet Case Study

→ Efficiency Winners vs. Reformers vs. Unprofitable Tech

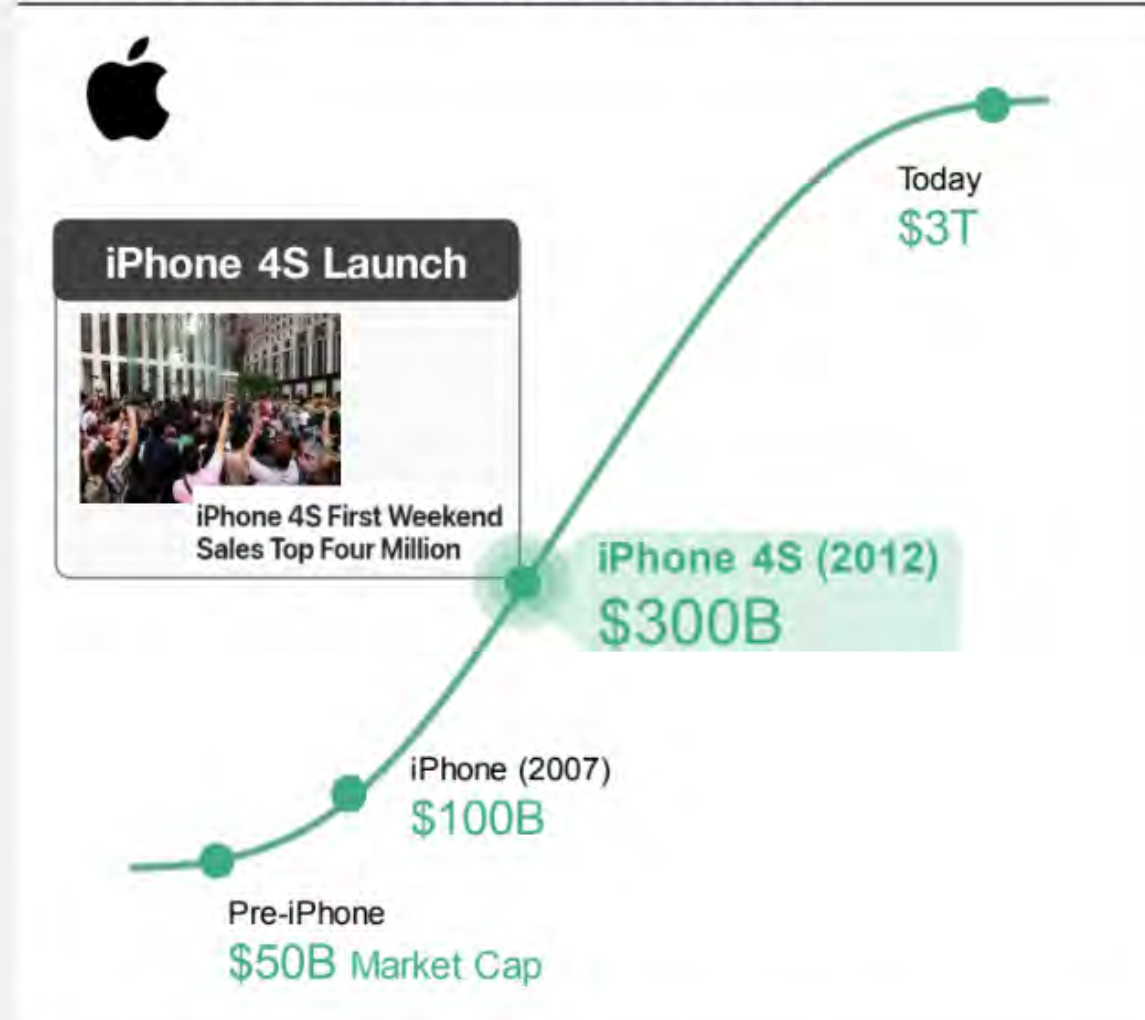


# Market is sensing the beginning of a potential new supercycle



# 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 or 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

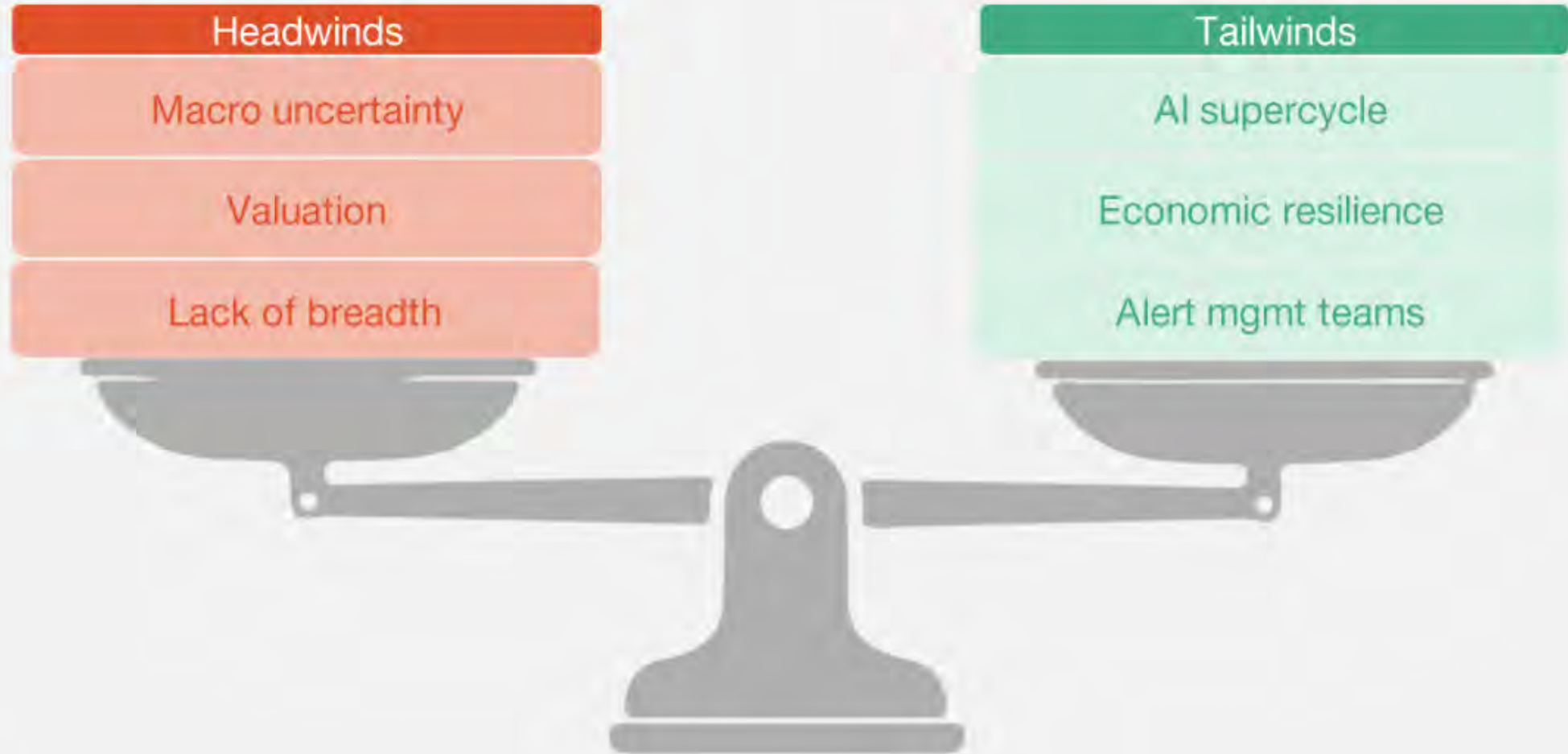
- Companies need to adapt to the “new normal”



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

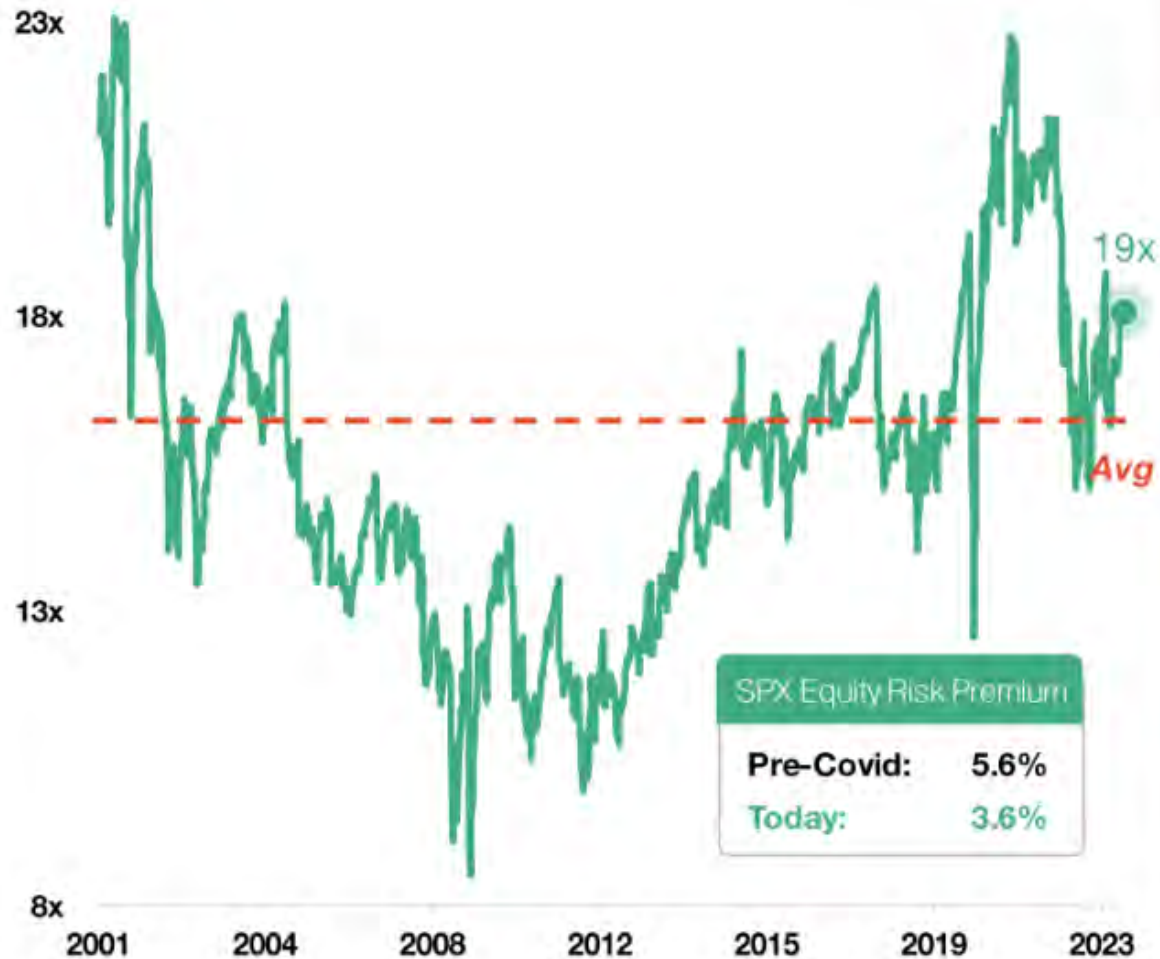
So, where  
do we go  
from here?

The scale looks relatively balanced to us...

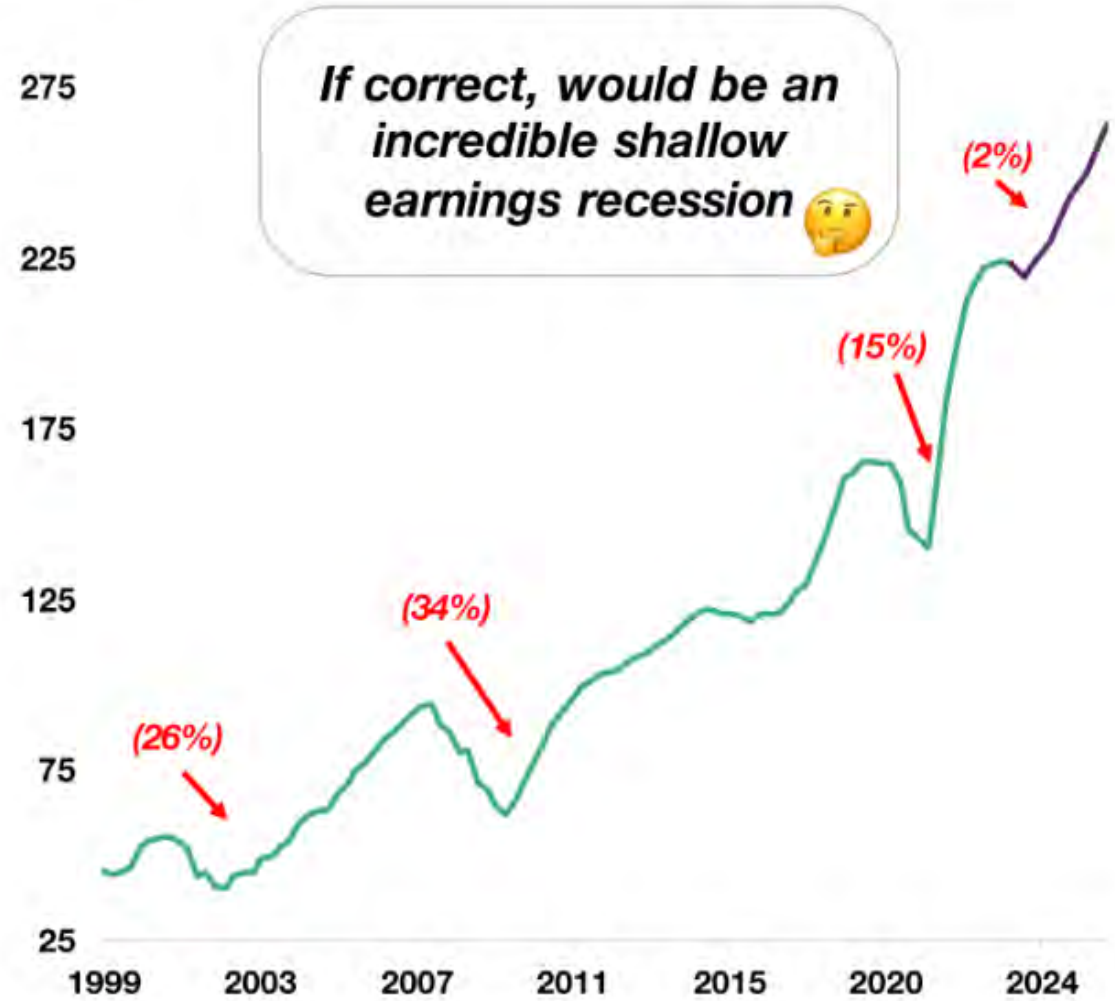


# Key Concern 1: Equity valuations slightly expensive

→ NTM SPX P/E

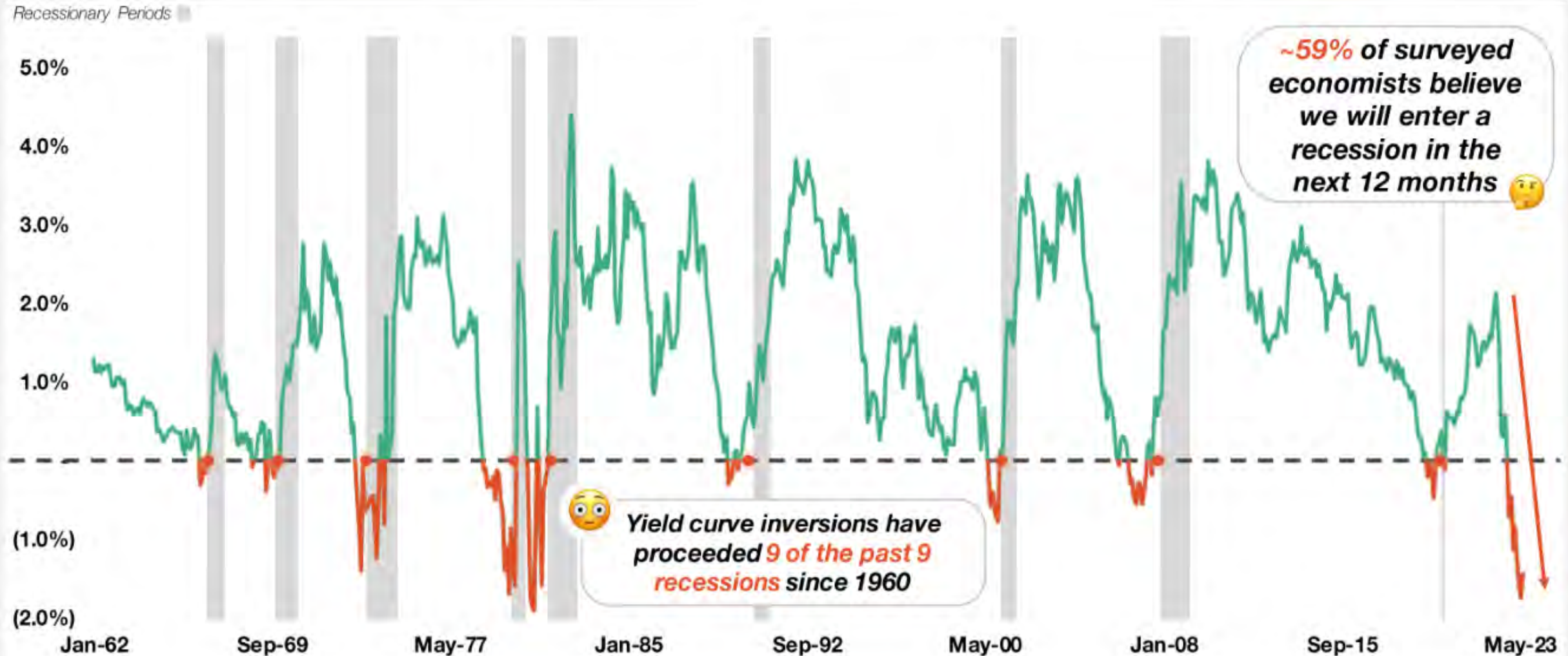


→ SPX EPS Forecast



# Key Concern 2: Economy not out of the woods yet

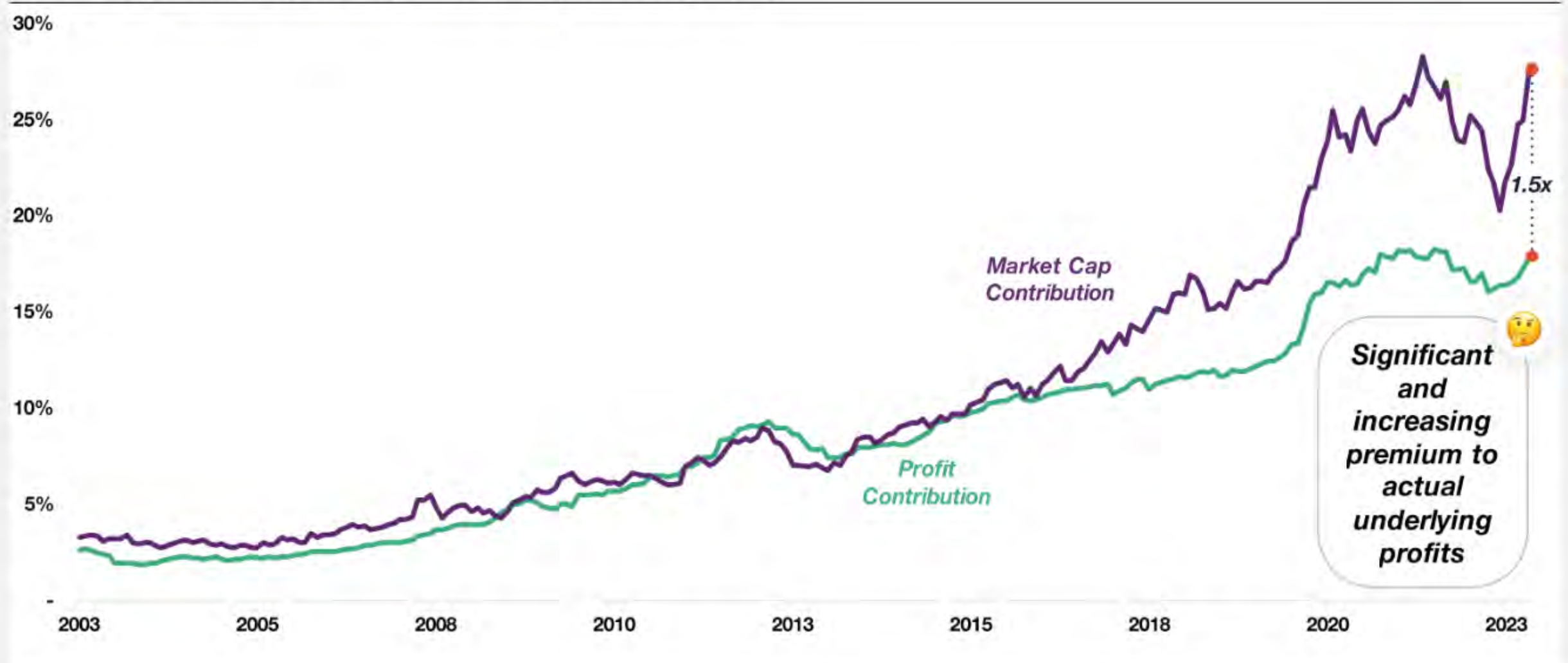
→ 10-Year / 3-Month US Treasury Yield Spread



# Key Concern 3: Magnificent 7 trade at a premium

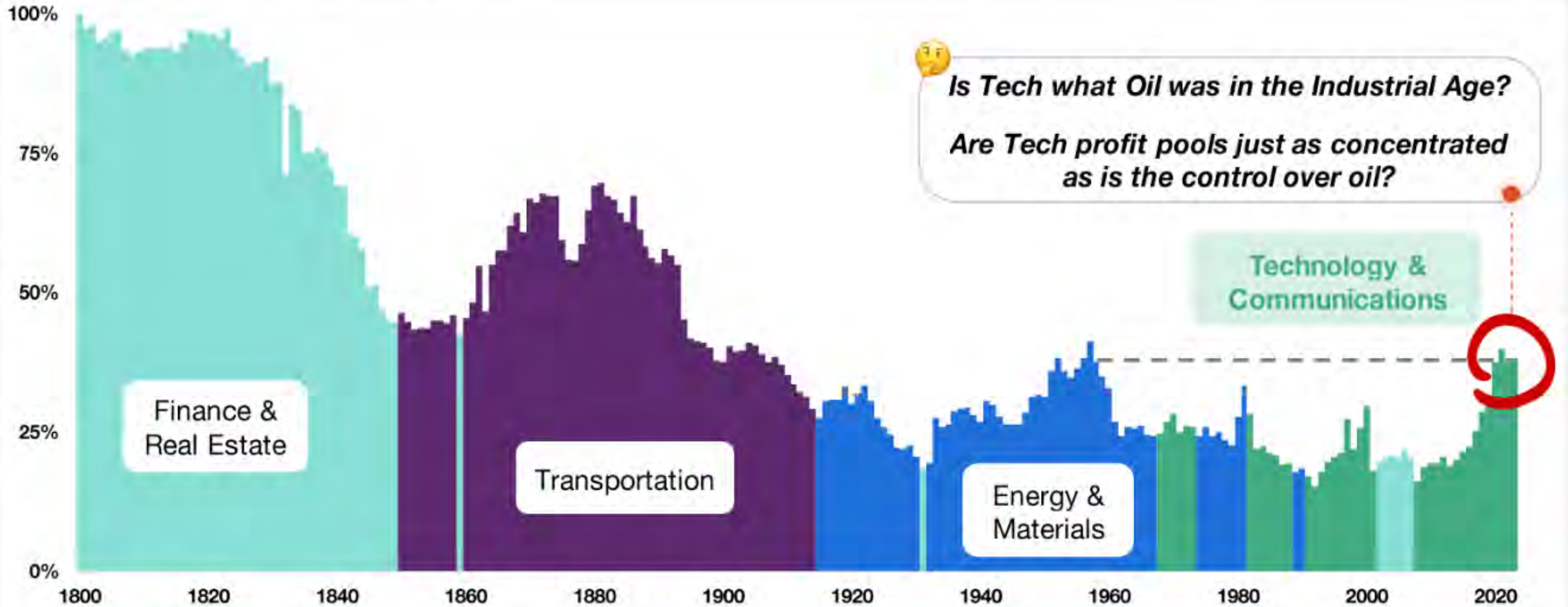
*Warranted due to AI future?*

→ “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

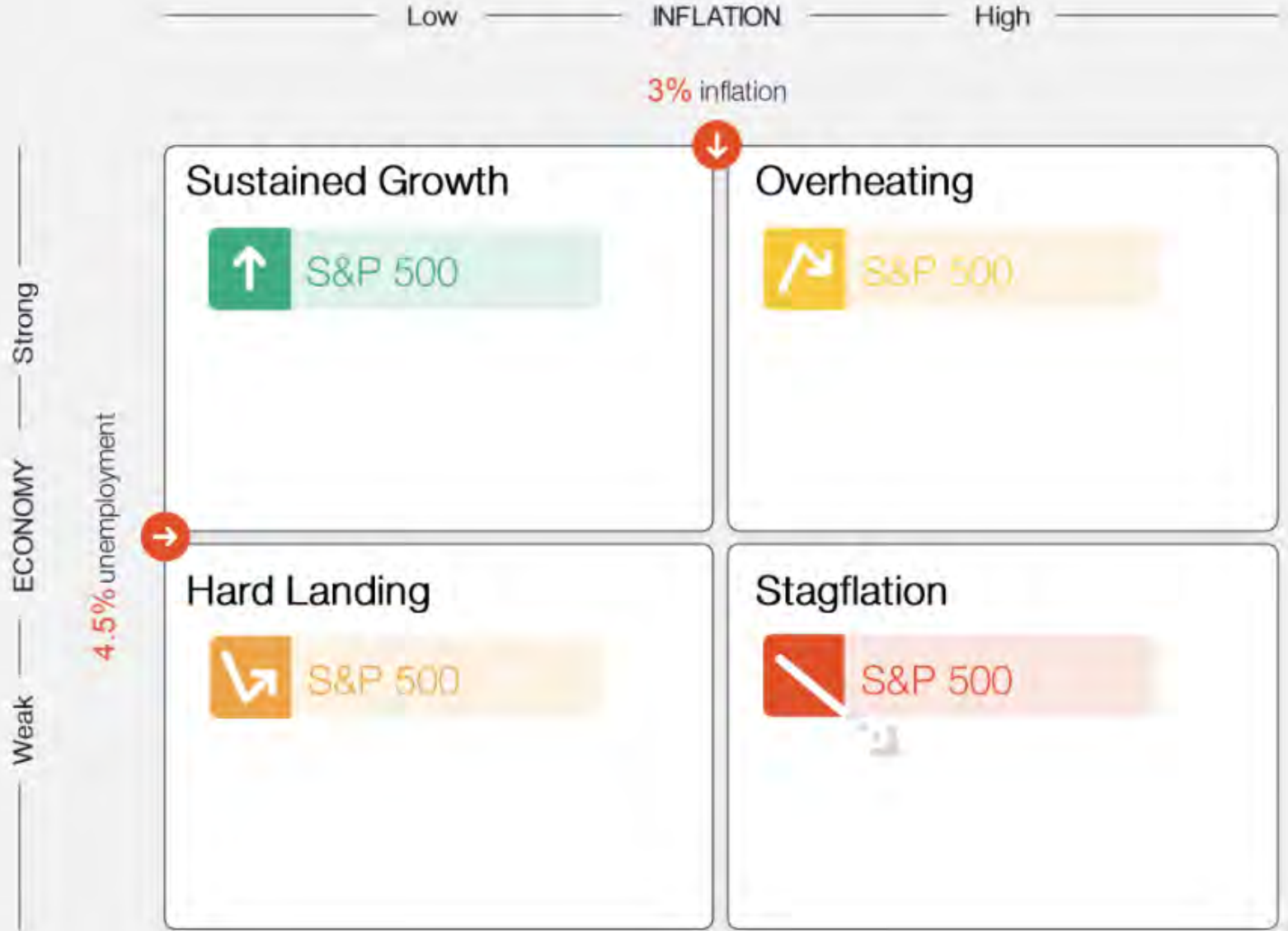




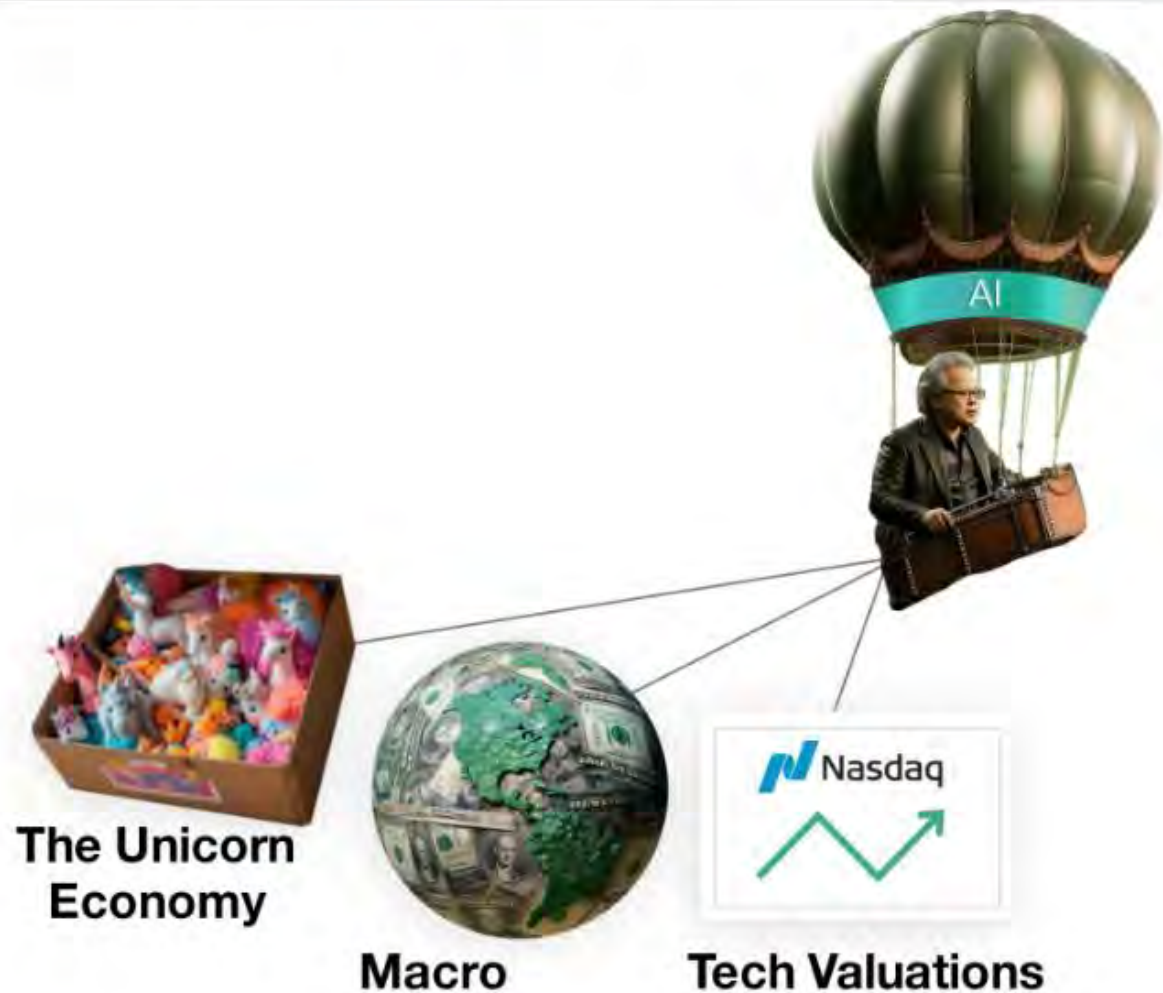
Macro uncertainty –

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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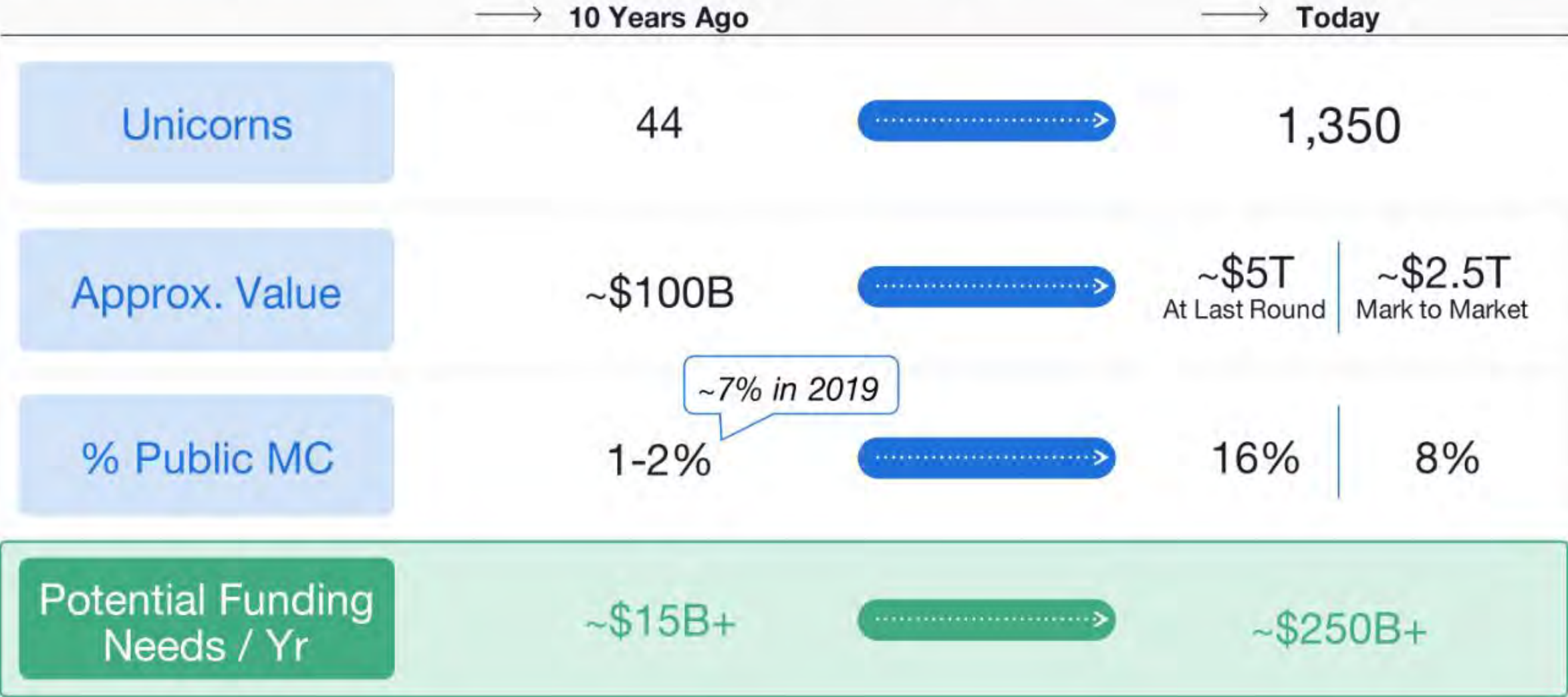
# Keynote agenda

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Lessons from public markets

→ **Implications for founders**

# Too many unicorns requiring too much capital?



Note: Unicorn defined as a private company with a post-money valuation greater than \$1B in each period. Funding needs figures are approximate and estimates. Mark-to-market values and funding need levels are Coatue estimates based on Coatue analysis of historical values and funding level. 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 forward-looking statements.

Investors have many investment alternatives today...

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

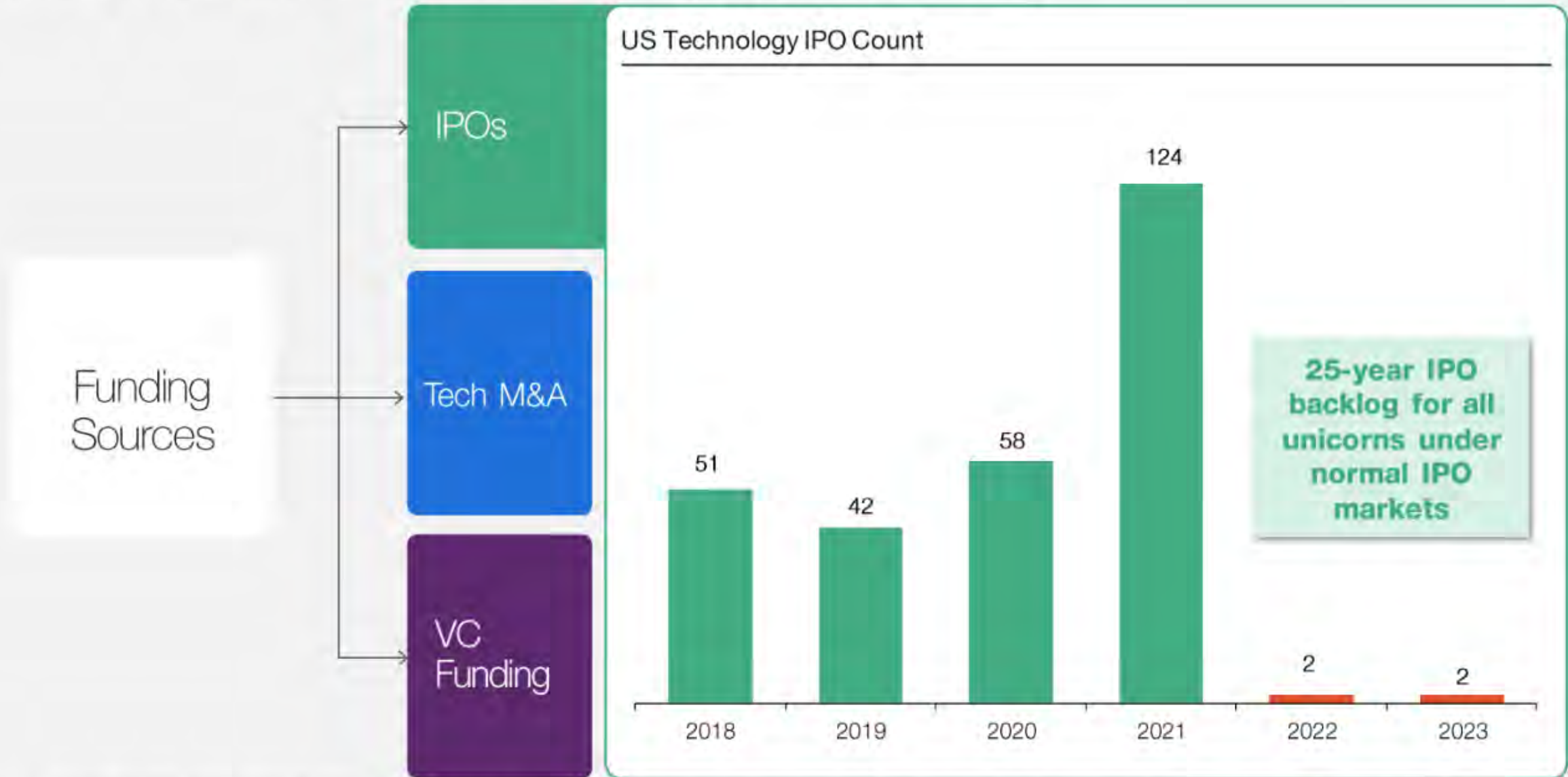
GARP: Buy Meta or Google at  
**~20x P/E**

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

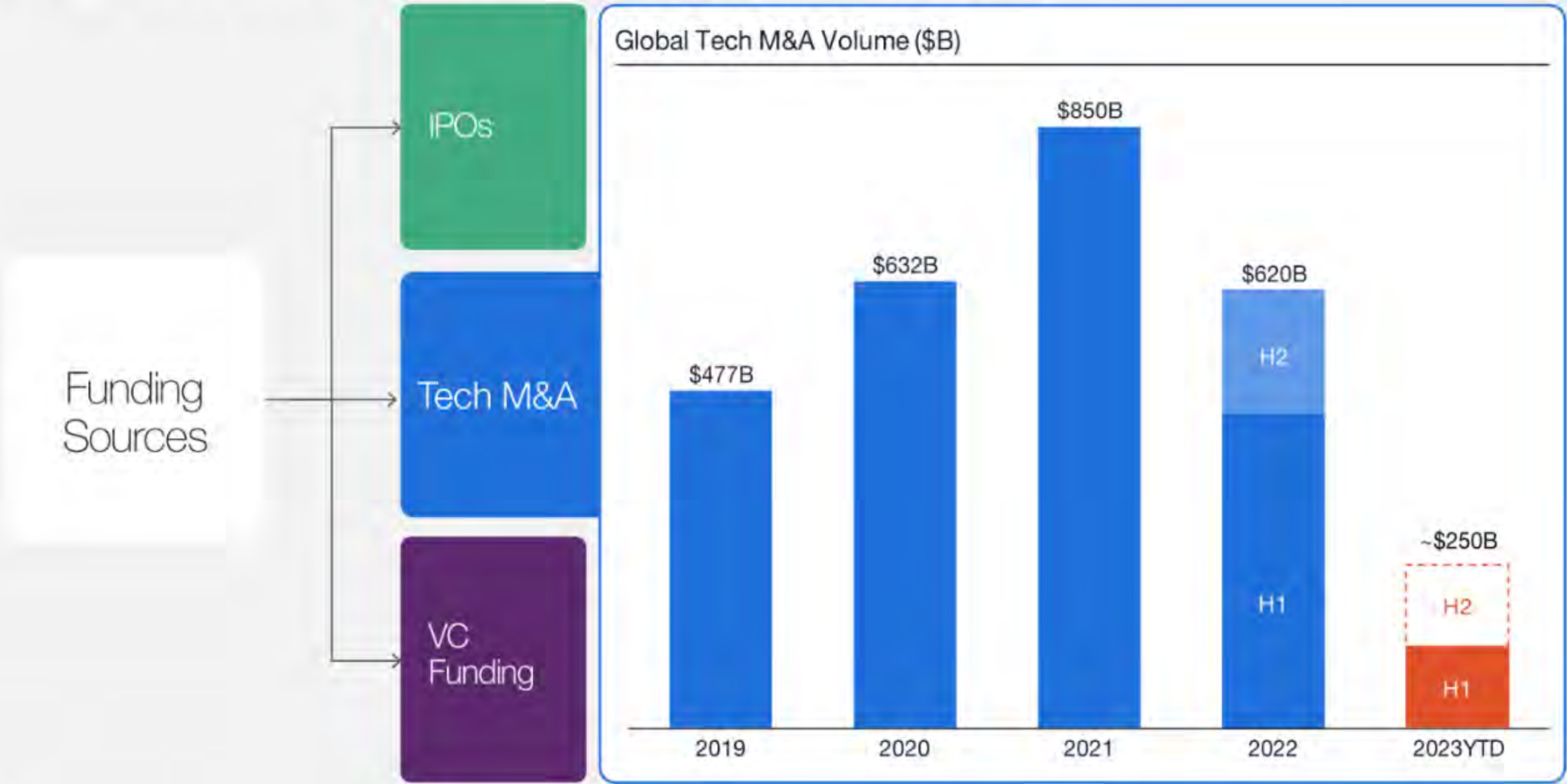


Unicorns Need  
to Earn Investor  
Capital Against  
These Alternatives

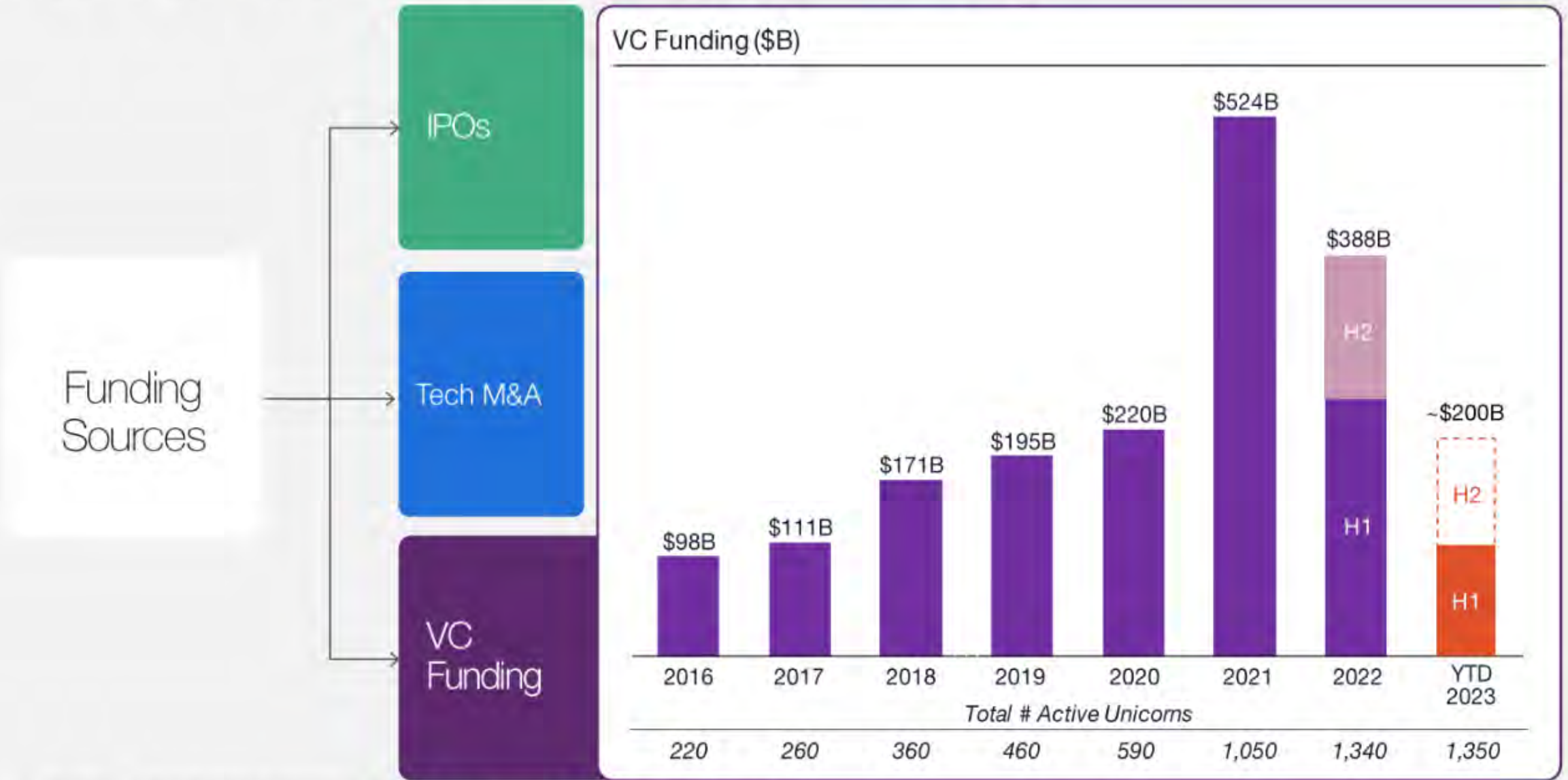
# There are fewer exit & financing options today



# There are fewer exit & financing options today



# There are fewer exit & financing options today








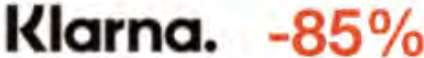

Note: Unicorn defined as a private company with a post-money valuation greater than \$1B in each period. Figures are approximate and illustrative. Excludes OpenAI round in March 2023.

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-Closures for important disclosures, including regarding forward-looking statements.



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

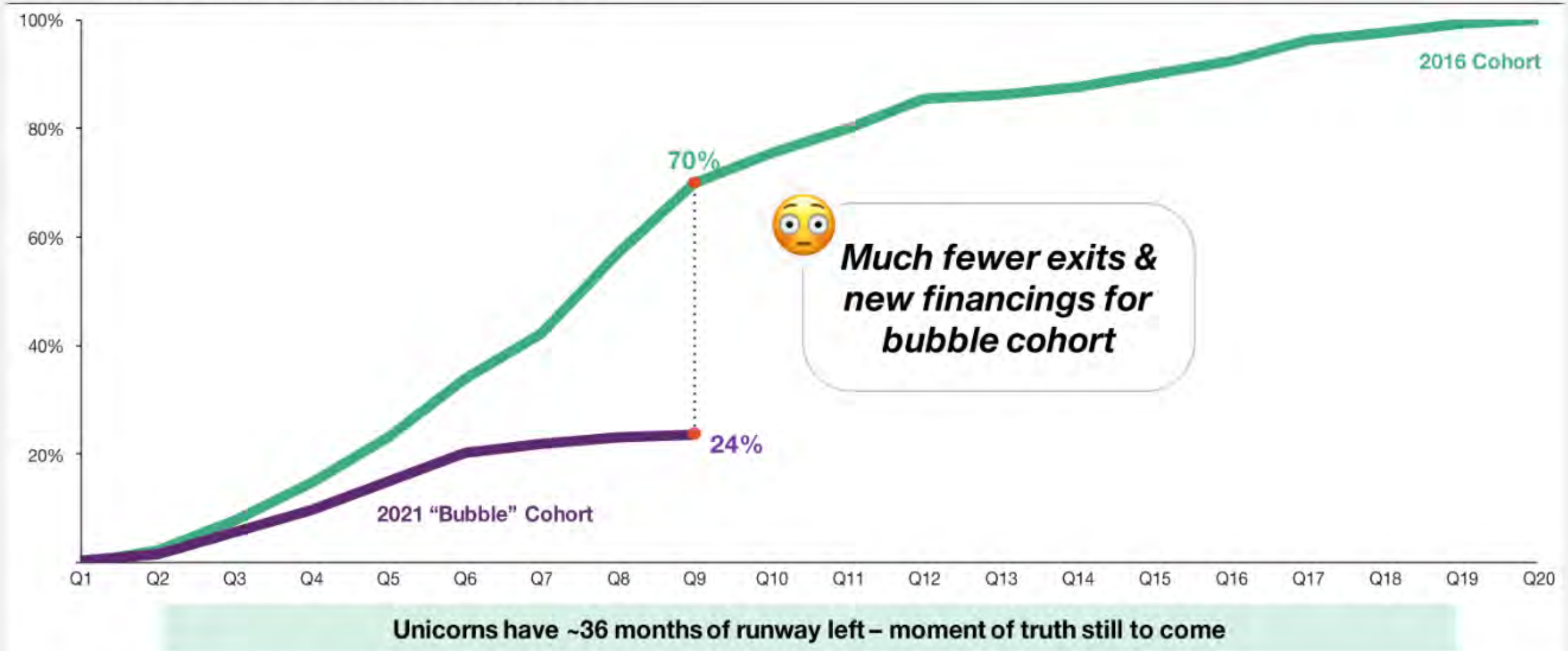
→ % Decline from Peak Valuations

	Food delivery	Payment Processing	China
Public	 <b>-66%</b>	 <b>-76%</b>	 <b>-54%</b>
Private	 <b>-69%</b>	 <b>-47%</b>  <b>-85%</b>	 <b>-34%</b>

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



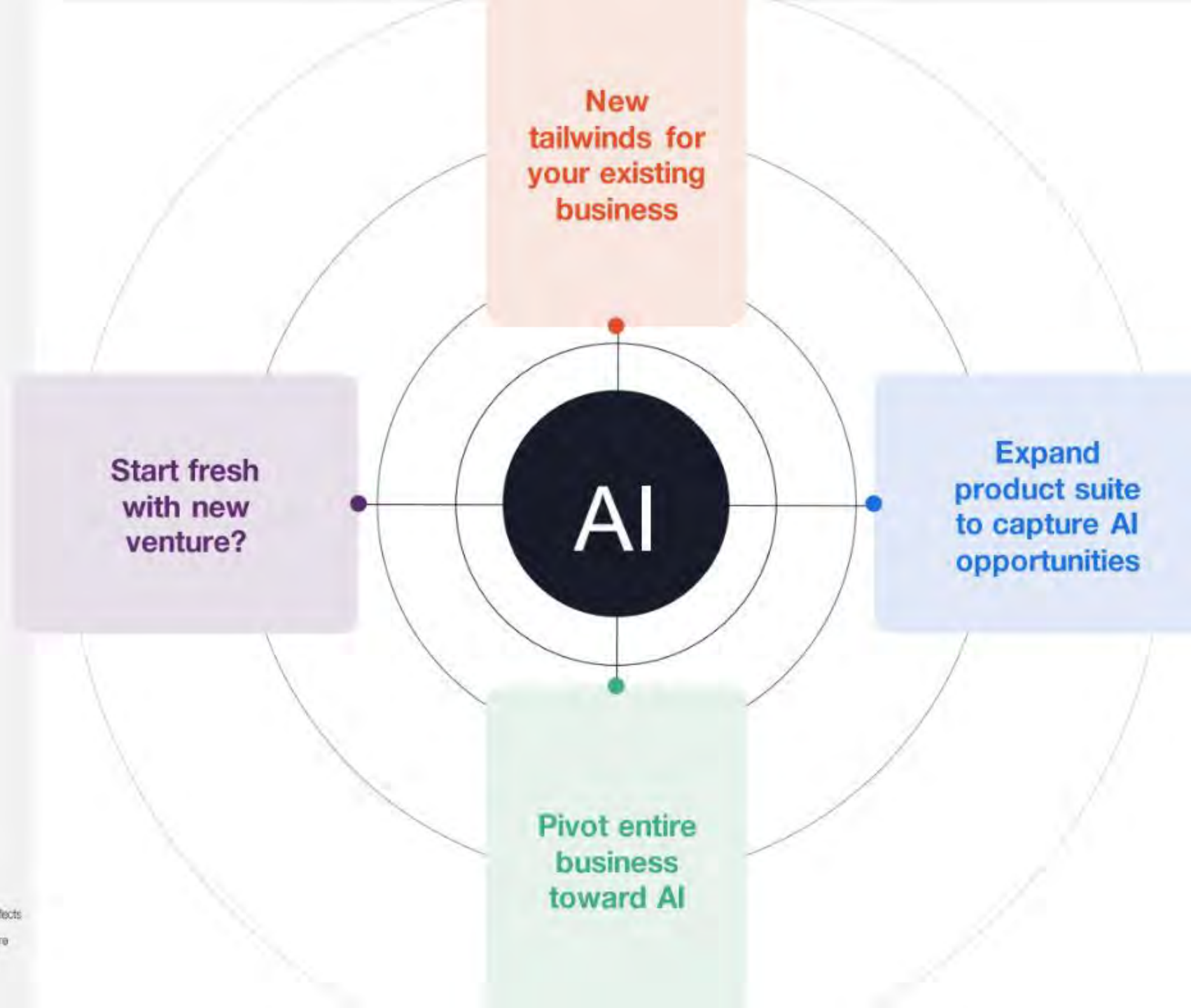
# So, what does this mean for founders?

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

# How to win & earn path to liquidity?



# Could AI change the game for you?



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