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# Out with the unicorns, in with the centaurs? A new tech milestone takes shape

*З єдинорогами, з кентаврами? Оформлюється нова технологічна віха*

*У 2022 р. ринок ізраїльської високотехнологічної промисловості почав змінюватися, а оцінки та акції зазнали шкоди. Інвестиційні фірми та фінансові установи попереджають про важкий шлях: зростання інфляції та відсоткових ставок черрез війну росії з Україною, яка впливає на ланцюги поставок і світову економіку.*

*https://www.timesofisrael.com/out-with-the-unicorns-in-with-the-centaurs-a-new-tech-milestone-takes-shape/*

Out with the unicorns, in with the centaurs? According to multinational investment firm Bessemer Venture Partners (BVP), the global tech and venture capital community should be tapping a different mythical creature by which to measure promising ventures.

Whereas tech unicorns are privately held companies valued by investors at $1 billion or more, BVP is proposing “centaurs” — companies that reach $100 million of annual recurring revenue (ARR) — as a new milestone, leveraging a business metric that signals how much revenue a given company can expect from customers in a year and that can presumably serve as a more grounded benchmark by which to evaluate startups.

Adam Fisher, a partner in BVP’s Tel Aviv offices, said centaur status, as opposed to unicorn status, was much more “real.” At a stage where a company has $100 million in ARR, “there’s product-market fit and usually thousands of customers.”

“According to our data, at centaur status, a company is not going to just go out of business; it doesn’t just go down to zero… in contrast to many unicorns that reached that point. [A centaur] is financeable and the level of revenue is high,” Fisher told The Times of Israel in a recent videoconference interview.

Fisher said a company needs an average of about $29 million in ARR to achieve unicorn status, whereas a company with $100 million in ARR could potentially be ready to go public.

“The conversations we have around success should change to something more substantial,” he insisted, pointing out that valuations are for the most part subjective. “You just need one investor” to give a $1 billion valuation and you have a unicorn, Fisher said.

“Unicorns are no longer rare. These high valuations are not good for companies. They give a false sense of success when some have not hit any milestones,” Fisher said.

Centaur status signals a “stage of maturity, it’s de-risked,” he explained. These companies can be “big employers with a minimum of 300 employees; unicorns can be 30 people.”

The centaur concept was the focus of a new BVP report published last month titled “State of the Cloud 2022

About 25 of them are Israeli, according to the report, including cybersecurity companies Cybereason and Snyk, fintech outfits Fundbox and Rapyd, and software-as-a-service (SaaS) firms Cloudinary, AppsFlyer, and Yotpo.

Fisher said the stable of Israeli centaurs was growing and becoming “the engine of the Israeli high-tech industry.”

“Israel has proven it can build companies like this. In areas like cybersecurity, SaaS, consumer” and so on, Fisher said, adding that BVP expects six or seven more Israeli centaurs to emerge over the course of 2022.

According to its report, BVP expects to identify about 70 new centaurs globally in 2022.

“We believe tracking centaur growth offers a more accurate pulse on the overall health of the cloud ecosystem, as this cohort measures the growth in businesses hitting recurring revenue milestones vs. valuation, which is somewhat of a subjective measure,” the authors wrote.

The unicorn club

Reaching unicorn status for a company was once a statistical rarity

According to US research company CB Insights, the global unicorn herd numbered 1,068 as of March 2022.

In 2013, when the term “unicorn” was coined, there were just about a dozen private companies valued at $1 billion including Uber and Airbnb. There was also Fab.com, an e-commerce company founded in 2010 that effectively went bust by 2015.

But 2021 was a bumper year for the tech industry, with about $643 billion in private funding. About half of the overall existing unicorns today were “born” in 2021.

It was also a record year for tech IPOs and M&As.

This was evident in Israel too, where tech firms saw exits jump

Israel’s stable of unicorns also grew after Israeli startups and companies raised $25.6 billion in private investments at higher valuations. According to Tech Aviv, an organization that tracks the industry, there are currently 94 Israeli-founded unicorns, as of May, with a combined value of over $250 billion.

But in 2022, the market started to turn, and valuations and shares traded publicly have been taking a battering.

Investment firms and financial institutions have warned of a tough road ahead, with rising inflation and interest rates, the ongoing Russian war on Ukraine impacting supply chains and the global economy, and investors hunkering down.

JP Morgan warned of an economic “hurricane” on the horizon. Insight Partners, one of the most active foreign investors in the Israeli tech ecosystem, has been urging its portfolio companies to prepare for a crisis that will yield a long recovery. Insight Partners has invested in Israeli companies like SentinelOne, Aqua Security, WalkMe, Wiz, and JFrog.

Shira Teger, a senior associate in the high-tech department of law firm Yigal Arnon-Tadmor Levy who works with Israeli startups on M&A deals and funding agreements, said the crunch is being felt across the industry.

With so much investment money in Israel coming from the US, “people are seeing that their money won’t be worth so much and they are hesitant to invest the way they were; this is affecting valuations,” she told The Times of Israel.

“We’re seeing investors investing less money, people backing out of deals, acquirers backing out. There’s less money to spread around, and there are no tech exits on the horizon,” she explained.

Instead, investments are going back into portfolio companies to maintain investor holdings, and “keep current companies alive.”

Startups that are raising funds are in a more vulnerable position because “they are not sure where the next investment is coming from so they are negotiating at lower valuations,” said Teger. “There’s a sense of low-level panic and people are feeling this downturn.”

If, for example, a startup had six investors lined up last year, now it maybe has one, she said. And startups are finding themselves pushing for “whatever money there is.” In addition, deals are taking longer to finalize as investors are more hesitant and more careful.

This environment is leading to companies holding off on aiming for unicorn status.

“Until now, so many were giving themselves a unicorn title because valuations are not based on revenue or viability. It’s a bit of a numbers game,” said Teger.

“A billion-dollar valuation is certainly a goal and a badge of pride. But certain companies have become over-valued for flashy titles. There’s less of that now,” she said.

However, true unicorns that show growth and revenue will retain their titles, she predicted.

Fisher said he believes the Israeli tech industry may see some unicorns downsize significantly or shut down altogether in 2022. “It’s going to be a challenging year.”

BVP said the tech industry in 2022 should see a “return to business basics with a focus on efficient growth as companies strive to hit the $100m ARR milestone.”

The term unicorn has “come to lack meaning,” Fisher said. “It’s much more compelling to say ‘we are a $100 million business.’ We’re confident that $100 million in ARR is a milestone that is recognized as a success. ”

On Wednesday, Israeli startup Coralogix, a company that develops advanced machine learning log analytics, announced a Series D round of $142 million led by Advent International and Brighton Park Capital, with participation from existing investors Greenfield Partners, Red Dot Capital Partners, Eyal Ofer’s O.G. Tech, and StageOne Ventures.

Last week, blockchain company Starkware raised $100 million at a valuation of $8 billion, in Series D funding that came six months after its previous round valued the company at $2 billion. The round was led by Greenoaks Capital and Coatue, and included Tiger Global.

Fintech company Unit raised $100 million at a valuation of $1.2 billion in mid-May, as did transit operations data company Optibus, now valued at $13. billion.