MOMENTUM 2019

2019 TRENDS FOR TECHNOLOGY CXOs

Top strategies for growth and managing risk

CohnReznick

ADVISORY • ASSURANCE • TAX

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noun: impetus and driving force gained by the development of a process or course of events

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PREFACE

In this report, CohnReznick's 2019 Trends for Technology CXOs, we focus on emerging issues that tech executives should consider as they navigate the challenges ahead and leverage the opportunities that disruption inevitably brings. The technology industry will remain fast-changing, and management teams need to remain agile to anticipate new trends and evolving consumer demands.

The 2018 equity markets will be remembered for their extreme volatility. Through most of last year, stock markets continued to set record highs, fueled by the strength of technology companies. Valuations soared and there seemed to be no end in the foreseeable future for these technology behemoths. However, by year-end, the government shutdown, rising interest rates, and general angst on exuberant business valuations, brought us all back to reality.

As we look ahead into 2019, we expect that technology companies will continue to take center stage and be on the forefront of driving innovation and growth in both the public and private markets. Technology has infiltrated most industries, so expect management teams, enabled by technology tools and data, to continue to find new and more efficient ways to produce and deliver their products and services.

Behind the growth and innovation, there will continue to be significant amounts of venture capital and private equity available for technology companies. Expect M&A markets to continue to thrive while IPOs launch technology unicorns into public markets. Tax reform will continue to have significant impact on technology companies, especially sales and use taxes.

Adoption of game-changing technologies such as blockchain will pick up steam this year, while privacy issues continue to be at the forefront of conversation regarding user data and accessibility to personal information. New legislation will emerge to address growing consumer concerns while companies fight their own cybersecurity battles.

We hope you find this report to be a thought-provoking consideration of technology's current position and future possibilities. In its pages, you'll discover actionable insights to help you thrive in the complex, ever evolving, and always exciting tech industry. You'll no doubt have thoughts of your own, as well, and we look forward to hearing them.

Asael Meir
Partner
Technology Industry
Practice Leader

Alex Castelli
Partner
Emerging Markets
Practice Leader

BLOCKCHAIN IN 2019: THE REVOLUTION IS (STILL) COMING

In the few short years since blockchain's arrival into public discourse, it has undergone a remarkable life cycle transformation. Blockchain was the undisputed buzzword of 2017, to the point that "put it on the blockchain" became a joke associated with exuberant valuations. Then came the 2018 burst of the Initial Coin Offering (ICO) bubble, which dampened much of the corporate curiosity about blockchain's potential. While the public still associates blockchain with cryptocurrency, the applications of the underlying technology are far broader.

In 2019, executives shouldn't lose sight of the fact that blockchain is leading us to a radically different world that challenges established norms of managing digital information. Disruptive proof-of-concept applications are abundant in fintech and digital security. However, according to Asael Meir, a partner at CohnReznick and leader of the firm's Technology Industry Practice, we should "expect innovative use cases for blockchain to emerge in places and sectors that are off the beaten track. For example, blockchain-enabled marketplaces that allow trading in digital assets, such as ownership tokens in fantasy leagues or e-sports franchises, have the power to disrupt established entertainment markets."

> "Expect the availability of Blockchain-as-a-Service (BaaS) enterprise solutions to enable more easily configurable applications."
>
> **Asael Meir, Partner**
> **CohnReznick Technology Industry Practice**

> "Pandora's box has been opened, and companies must quickly adapt to a changing business environment."
>
> **Kelcey Gosserand, IBM Blockchain Evangelist**

As Kelcey Gosserand, Blockchain Evangelist at IBM, puts it, "In the U.S., we have legacy systems in place that are already operating effectively combined with a short-term investment view regarding ROI expectations. Securing corporate buy-in will continue to pose a challenge even in industries rife with inefficiency." Meir adds, "Everyone is tired of the 'big carrot in the end' IT project, and we have seen a corporate bias toward projects which bring immediate savings. Companies exploring blockchain projects must be willing to take a significantly longer view than the next fiscal quarter."

Privacy regulations

The recent wave of data privacy legislation around the world, from the European Union's General Data Protection Regulation (GDPR) to California Consumer Privacy Act of 2018 (CCPA), is intended to curtail reckless data storage practices and restore information control to internet users. On the surface, the requirement to delete data after it is no longer in use may seem directly at odds with blockchain's core promise of creating an immutable ledger from which no data can ever be erased.

However, it is important to recognize that the goals of blockchain and these regulations are fundamentally the same: restore agency to individuals and improve digital

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>
> **Asael Meir, Partner**
> **CohnReznick Technology Industry Practice**

security. Meir says, "A well-designed blockchain solution means that personal identifiable information (PII), or data that could identify a particular individual, is not stored locally for user ID verification; thus, blockchain has the power to effectively automate regulatory compliance."

Some of the key questions for 2019 will be whether blockchain believers can successfully communicate with legislators and which governments will be most receptive. Gosserand continues, "There are myriad ways that regulations could either slow down the adoption [of blockchain] or push forward explorative boundaries." She adds, "The U.S. won the internet, and I think it's a race against a lot of other countries to move quickly and build a sandbox that allows blockchain to thrive domestically."

Education and democratization

Another serious obstacle to blockchain reaching its full potential is that it remains poorly understood outside the rarefied world of crypto experts, who have kept blockchain's inner workings esoteric. This helps feed into a widespread misperception among business people that blockchain is a panacea to all operational problems. If you don't understand how a technology works, there's no way to disprove overblown claims about its use case application.

Nevertheless, to accelerate adoption, blockchain technology will need to experience the kind of evolution that website design has undergone since the 1990s, when building a website meant hiring a specialized UX developer, to the present day, when "off-the-shelf" templates are easily available online. Meir adds, "Expect the availability of Blockchain-as-a-Service (BaaS) enterprise solutions to enable more easily configurable applications."

Looking further out

While blockchain demands patience and measured expectations, it's still vital not to lose sight of the inherently radical transformation that this emerging technology can unlock. Web 3.0 will be defined by the democratization of digital assets and a renewed emphasis on the agency rights of the individual user.

As we look ahead, understanding the potential use cases for blockchain technology in specific industry sectors will enable companies to evaluate not only the potential impact of blockchain in their own business processes but also how adoption of the technology could impact their overall competitive landscape. As Meir observes, "If blockchain represents the next iteration of the internet, companies need to assess whether the technology should be incorporated into their product and service offering. At a minimum, executives should monitor the progress of development and utilization of blockchain while continually evaluating the potential impact on their business."

Blockchain is not the solution to every problem, and there is much work to be done in building the necessary infrastructure and talent pool. However, 2019 will still be an important year for tech innovators to further explore emerging use cases of blockchain technology. As Gosserand notes, "The tech is not going away. Pandora's box has been opened, and companies must quickly adapt to a changing business environment." ●

HOW TECH COMPANIES SHOULD RETHINK DATA PRIVACY IN 2019

The year 2018 will be remembered as the end of the free-for-all era of internet privacy, brought down by a series of high-profile security breaches and scandals. 2019 will be defined by the reaction to this abrupt shift and by the growing public alarm over the types of data being collected about users, how it's used, and how securely it is stored. Going forward, companies will be expected to demonstrate a commitment to accountability, lawfulness, transparency, and an intensive focus on data protection.

This paradigm shift is occurring at precisely the same moment that artificial intelligence (AI) and internet of things (IoT) innovations are delivering even more valuable insights via data. However, companies seeking to take advantage of these technologies should exercise prudence, lest they run afoul of a changing regulatory environment and increasingly wary consumers.

New legislation and a new data mindset

The implementation of two pieces of legislation will radically transform how companies approach data privacy: Europe's General Data Protection Regulation (GDPR) and the California Consumer Privacy Act (CCPA). California's law is of particular interest since, by some metrics, it goes even further than the GDPR in protecting consumer data and because it applies to every company doing business in the state, regardless of where it is headquartered. This makes the CCPA a de facto national law, especially in the absence of superseding federal regulations.

Here are the most important things to know about the California law:

1. **Violations will be extremely costly.** Companies found to be in violation of the CCPA are liable for civil damages of $100 to $750 per user, which has the potential to add up to astronomical sums. What's more, this mechanism empowers consumers and lawyers to seek damages, rather than any regulatory agency. This represents an enormous shift in risk from the past when data breaches were met with fines and temporary PR crises. As Jim Halpert, a data protection specialist at DLA Piper, points out, "Class action lawyers are motivated quite differently than regulators. They have the opportunity to file lawsuits, throw a lot of spaghetti against the wall, and extract a settlement." CCPA's potential for massive financial penalties fundamentally alters the risk versus reward calculus of data assets.

2. **It radically expands the definition of "private data."** The California law stipulates that if a company's data is not encrypted or redacted and there is a breach, they are obligated to report it, thus inviting legal action. The protected data here includes not just credit card data but social security numbers, all government ID numbers, medical identifiers, and perhaps most crucially to marketers, smartphone IDs.

3. **It takes effect in January 2020.** Any entity with users in California has about a year to become compliant, which makes it extremely urgent for executives to fully grasp the significance of this legislation and restructure their policies accordingly.

4. **It's a sign of things to come.** California's legislators have signaled that they are open to amending the CCPA in places where it is unworkable for businesses, but while there may be a reprieve from some of the law's excesses, there is no escaping the privacy backlash it represents. There are similar laws in Brazil, China and, of course, the EU, and many observers believe it's only a matter of time before Congress passes federal data privacy regulations.

> “Most companies don’t have a good handle on how to identify PII among millions of spreadsheets.”
>
> **Shahryar Shaghaghi, Principal**
> **CohnReznick Cybersecurity and Privacy Advisory**

Getting a handle on your data

The rapidly changing legal environment means that companies are anxious to evaluate their data sharing models, but even getting a clear picture of the situation can be daunting. Shahryar Shaghaghi, a Principal with CohnReznick Advisory and national leader of its Cybersecurity and Privacy Practice, speaks to that challenge, saying, “Most companies today struggle with identifying and classifying data because the data has been extended outside of the enterprise, and there’s a lot of unstructured data as part of the business processes and transactions. Most companies don’t have a good handle on how to even identify personally identifiable information (PII) [data that could identify a particular individual] among millions of spreadsheets or thousands of PDF files that are being exchanged on payload, tied to emails and things like that.”

Mapping your data assets can be both difficult and expensive, and it only gives you a snapshot view unless you have a framework in place to keep track of how your data is moving and who is accountable for it. This complex and shifting landscape demands that businesses restructure their relationship with data on multiple fronts: not merely legally, but culturally and strategically. Taking on this task requires a top-down approach. In addition to ensuring regulatory compliance, the following strategies may also be the best way to ensure organizational readiness against traditional cyberattacks:

1. **Restructure data governance.** In the past, data management responsibilities were often divided between a legal office, an IT security team, and marketers, each of whom had different skill sets and frequently divergent priorities. Companies hired chief data officers in order to develop a unified data privacy strategy, which had mixed results. Now we are witnessing the evolution of the Chief Privacy Officer, who is focused on driving strategy and policies related to data privacy. Representatives from different departments can still bring their unique perspectives, but new data opportunities must be weighed from a risk/reward mindset that recognizes data as a valuable asset, but also an asset with serious risks if managed incorrectly.

2. **Conduct an impact gap assessment.** While it may be infeasible to completely update your data privacy policy overnight, it’s still possible to quickly identify some low-hanging fruit that can be addressed immediately. Rather than taking a scattershot approach to plugging leaks, start by assessing your current situation in terms of your company’s critical principles and requirements and by developing a long-term road map to address issues in order of priority.

3. **Update overall strategy.** Tech companies whose business models involves data monetization practices that are not transparent to users will have to start addressing difficult questions about how to adapt their business model to this period of greater risk. Shaghaghi says, “If your products and services are based on a set of principles that is opposed to this upcoming evolution of data management practices, then you’ve got a major problem on your hands in terms of how you need to change your strategy.”

Familiar threats with new defenses

Malicious intrusions will continue to be a major concern in 2019, and no one will be immune. Halpert describes the situation in stark terms, “Eventually there will be a successful penetration of a company’s systems, inevitably. The question is really whether the company is resilient, whether it’s flexible and able to respond quickly to attacks.”

The good news is that both regulators and the public at large will extend patience to companies that can show they are making a good faith effort to address privacy concerns. Companies that take immediate steps to secure, encrypt, and track sensitive data will have a better chance of emerging unscathed from crisis. In today’s privacy-conscious environment, the time to take action on data protection is now—before the inevitable breach takes place. ●

HOW TECH COMPANIES CAN TAKE ADVANTAGE OF THE AMAZON EFFECT

Amazon's recent **acquisition of PillPack Inc**, an online pharmacy, is only the tech giant's latest expansion into a surprising new industry.

Over the last decade, Amazon has **shaken up** everything from logistics and food delivery to finance by leveraging technology to create a seamless consumer ecosystem. Their market expansion has been so successful that in 2018, Amazon became the second company in the world to reach a market capitalization of $1 trillion.

No one seems safe from Amazon's expansion, and companies across many sectors are scared of the "**Amazon effect**." Alex Castelli, managing partner of the Emerging Markets Practice at CohnReznick, explained, "The fear that Amazon could enter a new market has created opportunities for companies to look at how well they know their customers and how they can use technology and data to enhance the consumer experience. It is all about focusing on the customer—how well do you know your customer, and how can you make their buying experience as frictionless as possible?"

Tama Huang, Chief Innovation Officer at CohnReznick, added, "When speaking about Amazon, it would be remiss not to focus on their predictive analytics capabilities as well as their leadership in natural language processing. Amazon has moved warehouses from transportation hubs such as ports and airports closer to urban centers and into delivery trucks. Same-day delivery happens, sometimes within hours, because Amazon is able to predict what you will be buying before you actually buy it by pushing your purchasing and browsing history through artificial intelligence (AI) and machine learning (ML) algorithms."

How can companies across industries apply the lessons of the "Amazon effect" to their benefit—and how can tech companies help them?

How to compete with, not against, Amazon

Stephen Wyss, Consumer Industry leader at CohnReznick, said that he has seen clients deal with Amazon by either "working with them or futilely working against them.

"One way they've done the former is by re-evaluating the need for human cashiers in stores. In 2018, Amazon opened its first several **Amazon Go** stores to the public. These small grocery stores are partly automated, allowing customers to buy products without the need of a cashier or self-checkout stations.

Although shopping without any human interaction might sound off-putting to some people, Wyss doesn't think that cashierless stores signify "a cold dystopian future where there's no one in the store to talk to customers." In fact, he believes that other companies can use similar technology to free up employees so that they can be more helpful on the sales floor. "This disruption isn't a fad," added Wyss.

Smart companies agree. For example, Sam's Club—the Walmart-owned retail store for members—is soon opening its first **Sam's Club Now** cashierless store in Texas. In a press release announcing the news, Sam's Club CEO Jamie Iannone explained that "at its core, Sam's Club Now will be a technology lab that doubles as a live, retail club. It's where we will incubate, test and refine technologies to help define the future of retail."

> "Amazon is pushing everyone and everything to embrace data, to embrace natural language processing, to embrace AI and ML, to embrace the future."
>
> **Tama Huang, Chief Innovation Officer, CohnReznick**

It's precisely this sort of innovation that will help companies compete with, not against, Amazon. Yet, unlike Sam's Club, most big retail companies aren't going to develop their own cashierless tech in-house. Instead, Wyss said, "I wouldn't be surprised to see a trend of supermarkets, retailers and other businesses acquiring tech companies to develop their technology." This opens opportunities not only to the companies making the acquisitions, but to the tech companies that are best able to help companies meet their goals.

A new paradigm of the customer experience

These days, thanks largely to Amazon, customers expect that things will be delivered to them on the same day they make the purchase. This on-demand mentality has resulted in a dramatic change in how retailers view their customers and utilize technology to enhance the customer experience. From inventory management to payment options, retailers are adopting new ways to do business and incorporate technology to attract and retain customers.

Some newer retailers, like **Bonobos**, don't keep any inventory on hand at all. Although the menswear brand was originally online-only, today it has 20 brick-and-mortar locations. A customer can simply visit a Bonobos store, try on a piece of clothing and then have it shipped to them. Since the store doesn't stock inventory, it needs less square footage, which translates into less money spent on rent.

As pressure from online natives like Bonobos increases, many traditional retailers have stepped up their game to stay relevant to shoppers. They've integrated a cleaner look in their stores and use technology such as iPads or other tablets to execute online transactions. Paul Ricci, a principal in CohnReznick's Enterprise Technology Solutions practice, believes that because some of these traditional businesses can't compete with Amazon's prices, they must offer a more hands-on customer experience that makes it easier to buy and return items.

Although some mall operators are really struggling with offering this tech-driven personalization at scale, big luxury malls are actually attracting "more traffic by providing smaller physical footprints for stores and some shared service models," Wyss said. For example, they may have their own mail service to coordinate UPS deliveries, allowing all stores to send packages out through their back doors to a central hub.

"It's completely changed how mall operators think about real estate," said Ricci. "Five years ago, the stores didn't even have Wi-Fi. Now the malls are making their tenants pay for Wi-Fi so that customers can have a better experience."

Many retailers don't realize how much data they have accumulated and how they can use data analytics tools to improve the shopping experience. Data about customer shopping preferences, sizes, and styles allows retailers to market directly to their customers. This is precisely the sort of data that tech companies working in data analytics can handle for retailers. Ricci said it best, "If retailers aren't using analytics today, they're dead."

Moving out of stores and into the home

As much as Amazon has changed the retail (and real estate) landscape, it's also created a much larger ecosystem that has completely disrupted most traditional services and businesses. "It's hard for traditional retailers to compete for customers when Amazon can provide discounted products to meet customers' needs while also providing easy payment and free same-day delivery at no additional charge," said Castelli. "And while this can be daunting for other companies to compete, it also creates an incredible opportunity for new technologies directed to making the customer experience frictionless while lowering costs for retailers," added Castelli.

Amazon's edge exists primarily because it has invested heavily in its analytics capabilities. By following Amazon's lead—embracing AI and ML to extract insights from customer data—traditional retailers can position themselves as competitors.

"Amazon is pushing everyone and everything to embrace data, to embrace natural language processing, to embrace AI and ML, to embrace the future," said Huang. ●

WHAT TECH COMPANIES NEED TO KNOW ABOUT NEW ECONOMIC NEXUS TAX RULES

On June 21, 2018, the U.S. Supreme Court ruling in *South Dakota v. Wayfair, Inc.* redefined sales and use tax rules for remote (online and offline) sellers across the country.

This was a landmark case. Deciding in favor of the state, the court shifted the definition of minimum taxable presence, also known as nexus. No longer will the legal system define nexus using physical presence alone—maintaining an office or warehouse, having staff, owning property, or participating in special events in a given state. Now, economic criteria will come into play as well. As a result, states can impose sales and use taxes on companies that generate sales revenue within their jurisdiction, even if firms only interact with customers via the web or other virtual means.

So far, discussions about Wayfair's impact have focused primarily on online retailers. However, the decision has major tax implications for all businesses, including those that offer data processing and information services. Intangible products and services sold over the internet such as cloud computing, software as a service (SaaS), digital goods and streaming apps now fall under the economic nexus umbrella and could be subject to sales tax.

As the technology industry develops increasingly disruptive products and services, from blockchain-enabled applications to self-driving cars, tech companies will find themselves in an evolving relationship with a tax system designed with brick and mortar businesses in mind. As such, technology companies need to keep a close eye on shifting tax rules and regulations nationwide.

A look at the future, state by state

Laws reflecting the new economic nexus standard have gone into effect in 27 states, and up to seven additional states have laws on the books that will come into effect in the first quarter of 2019.

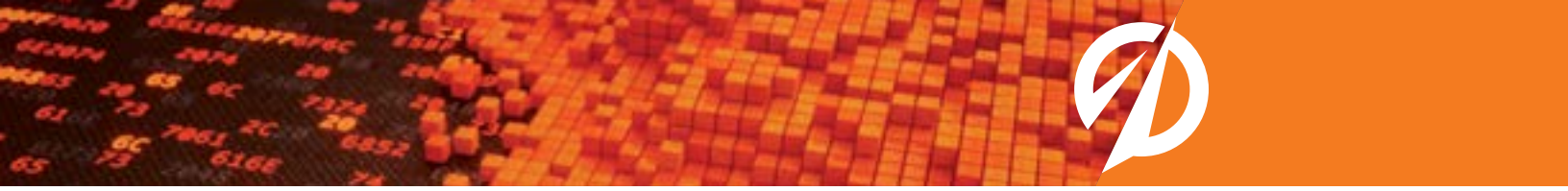
The triggers for sales and use taxes differ by state. In Connecticut, the threshold is $250,000 and 200 transactions; in New Jersey, by contrast, it is $100,000 or 200 transactions.

Technology companies need to stay abreast of state thresholds for nexus, as well as new state tax policies that build on the Wayfair ruling.

"We've been talking about the state level for sales and use tax, [but] this is definitely going to expand to other types of taxes, such as gross receipt and income taxes and to local jurisdictions," said Krista Schipp, Director of State and Local Tax at CohnReznick.

This trickle-down effect is already taking place. During the November 2018 election, San Francisco passed an initiative to establish an economic nexus on businesses that make more than $500,000 in annual sales within San Francisco. Going forward, companies will be subject to a gross receipt tax on those sales, even if they do not have a physical presence in the city.

Los Angeles also charges a gross receipt tax, which is currently subject to a physical nexus—but this will change in the near future, predicts Eddie Delgado, a principal with CohnReznick's State and Local Tax Practice.



> "It is better to be on the front end of this in terms of understanding your nexus footprint, because the sales tax, for the most part, can be passed along to your customers."
>
> **Eddie Delgado, Principal**
> **CohnReznick State and Local Tax Practice**

"They [Los Angeles] haven't come out with an economic presence yet, but that's soon to come. They are going to jump on the bandwagon as well," he said.

The same could happen elsewhere in the country. "Larger cities have always been aggressive with taxes. They will move faster, especially if there is an opportunity to increase tax revenue for the city," said Schipp.

For states and municipalities, following up on sales and use tax returns is an enormous task, especially when companies do not have a physical footprint within the state that legislators can easily identify. As a result, states are increasing their enforcement manpower to locate virtual taxpayers and companies.

Some states are contemplating another means of collecting new taxes. The idea is to make marketplace facilitators—third-party sites where consumers can download or use software in the cloud—responsible for remitting tax on behalf of client companies. So, if a video game maker sells a product via a third-party distribution site, the site would submit the tax. But if a user downloads the game directly from the game maker's website, then the game maker would be responsible for submitting the tax.

Managing the reporting process

Given recent changes in the tax system, technology companies need to pay close attention to their tax reporting requirements.

In particular, tech companies—especially those that sell software or provide software as a service—need to review their sales and business activities to determine if they need to collect or file sales tax in states where they are not physically doing business.

These triggers can be complex and confusing. For example, one company that provides remote access to automated survey analysis software has historically never collected sales tax; the software was non-taxable in its home state, and the company did not have a physical presence outside its home state. However, under the economic nexus standard, the company could be required to file sales tax returns and collect sales in multiple states.

Now is the time to prepare

Luckily, there are ways tech companies can prepare themselves to comply with these new rules.

1. **Know your company's footprint.** To understand where your company might owe taxes, you first need to understand where customers are using your services. Answering that question is often the first step in conducting a nexus study, a report that aims to establish whether a company has tax filing requirements in any of the states or municipalities where it does business.

2. **Know your product or services taxability.** Understanding your product or services taxability among different taxing jurisdictions will allow you to assess any potential risk and exposure.

3. **Plan ahead for compliance costs.** There's no way around it: complying with this new tax legislation will take time and money. That means reviewing your 2018 tax liabilities with the new rules in mind; it also means planning ahead to ensure that you have the right resources available in 2019 and beyond.

For companies, "It is better to be on the front end of this in terms of understanding your nexus footprint," said Delgado, "because the sales tax, for the most part, can be passed along to your customers."

It is essential, then, that tech companies develop an understanding of the economic nexus standard: "It is the future, and it is only going to get more prevalent," said Schipp. ●

IN 2019, CAPITAL WILL STILL BE AVAILABLE — BUT HARDER TO ATTRACT

After years of frothiness, 2019 will likely be the year that valuations come back down to earth. Many investors have been closely following the Federal Reserve's interest rate increases, the impact of tariffs and global economic developments, and punishing scandals at some of the world's most dominant businesses.

Experienced investors from an array of specialties agree that a more stringent view of valuations and expected returns is beneficial. Even so, opportunities are still abundant for shrewd investors and entrepreneurs. In 2019, successfully securing or deploying capital (and the correct amount of it) will necessitate paying attention to the market's trends and shifts, without letting one's decisions be defined by them.

The state of the IPO in 2019

While some of tech's most high-profile companies are expected to IPO in 2019, including Uber, Lyft, Slack and Pinterest, the market may not be as receptive to all tech companies as their executives hope. Many of these unicorns are generating significant revenue, have built large user bases, and have diversified their services as they have matured, resulting in high private company valuations and anticipated significant IPO interest. The fear of missing out among investors in the public markets will certainly help boost these IPOs, even in a potentially volatile market.

Market watchers have good reason for skepticism. While many of these services have cracked the code of consumer demand, they have not yet learned how to turn a profit. Brian Hirsch, Managing Partner at Tribeca Venture Partners, brought up the cautionary tale of Blue Apron. The food subscription service enjoyed a $1.9 billion valuation as a private company, but its stock has tanked since its 2017 IPO. He said, "I actually think a year from now, if some of those companies go public...people might be saying, 'Maybe they shouldn't have.'"

Companies' IPO strategies are also changing. Where deep-pocketed private investors abound, it no longer makes sense to exit at anything less than a $1 billion valuation. "The IPO market [has] been replaced, in many ways, by this late-stage private market," Hirsch said. This makes growth easier for companies, which can secure capital by persuading a single investor or board, rather than the public at large.

The big question for many tech companies considering an IPO in 2019 is whether successful IPOs by well-known brands such as Uber or Pinterest will provide momentum for smaller tech companies.

> "The IPO market (has) been replaced, in many ways, by this late-stage private market."
>
> **Brian Hirsch, Managing Partner**
> **Tribeca Venture Partners**

> Good companies are hard to find. These companies will continue to attract strong investor interest in both the private and public markets."
>
> **Alex Castelli, Managing Partner**
> **CohnReznick Emerging Markets Practice**

Alex Castelli, managing partner of the Emerging Markets Practice at CohnReznick, said, "There has been so much interest and hype surrounding these unicorns, it is hard to imagine that there will not continue to be a lot of investor interest when they IPO. However, a successful IPO by Uber may not create the type of momentum some lesser known companies will need to also have a successful public debut." Castelli adds, "Those companies will need to tell their story and be ready to stand on their own in the public market."

The pitfalls of private equity

There could be some advantages if there is an overall economic slowdown, according to Hirsch. "The biggest implication of lots of third- and fourth-tier companies getting capital is that it's much harder for the best companies to recruit talent," he said.

"In a slower economy where venture capital funding falls overall, weaker companies go under, and a lot of that talent flows back into the stronger companies with viable business models. And that's what I'm looking forward to, quite frankly, in this next cycle."

Even so, the continued emphasis on private equity investment and the sheer volume of available capital makes some observers wary. Chris Pedone, Executive Director at Freeman & Co., said, "Capital needs to be deployed, and private equity firms can't necessarily start and stop their fundraising cycles on a dime… so, it's going to be pretty interesting to see if that discipline actually invades the market when it should."

Peter Weinbach, Managing Director at Bentley Associates LP, agrees that a downturn may be normal and healthy, but we may see that less experienced investors who have flooded the market aren't prepared to jump in and take the reins. "When there are challenges and someone has to come in and fix issues, replace management temporarily, or run companies on an interim basis, a lot of these firms just aren't equipped to do it," he said.

No time to panic

2019 may see continued competition for funding into the technology sector. This environment will primarily cull poorly managed businesses and scare away the types of investors that one expert described as "dumb money and tourists."

Overall, most seasoned experts are confident that innovative tech companies are going to continue to deliver alpha and find funding, and they dismiss many of the worried headlines as mere hype. "If you're a long-term investor, you shut off all the noise," Weinbach said. "We're looking for great businesses that, independent of tariffs or interest rates or any other noise, can build and grow and create value. That's it."

Castelli added, "While valuations may come down in 2019 and the public market may continue to be volatile at times, in the end, good companies are hard to find. These companies will continue to attract strong investor interest in both the private and public markets."

ABOUT COHNREZNICK'S TECHNOLOGY INDUSTRY PRACTICE

CohnReznick's Technology Industry Practice assists private, public, and investor-backed companies at each stage of their lifecycles. Domestic and international technology clients are served by a team of partner-led professionals who have extensive knowledge of industry-specific accounting and tax issues. As such, we are instrumental in helping clients understand the financial and operational risks and rewards inherent in most business decisions. Learn more about **Cohnreznick's Technology Industry** Practice.

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1301 Avenue of the Americas
New York, NY 10019
212-297-0400
cohnreznick.com

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