Tech faces hour of reckoning as fundraising drops, layoffs rise

 **Jon Swartz, USA TODAY** *3:56 p.m. EST January 18, 2016*

The wild ride may be over for tech startups. Venture capitalists, the ones who invest billions into promising ideas for companies, have cut back on spending. A new report from Price Waterhouse Coopers and the National Venture Capital Association say USA TODAY

(Photo: Bryan William Jones for USA TODAY)

SAN FRANCISCO — Is tech in for a rude awakening this year after a magic carpet ride the past few years?

The numbers, and recent actions by once-highflying start-ups, would seem to suggest so.

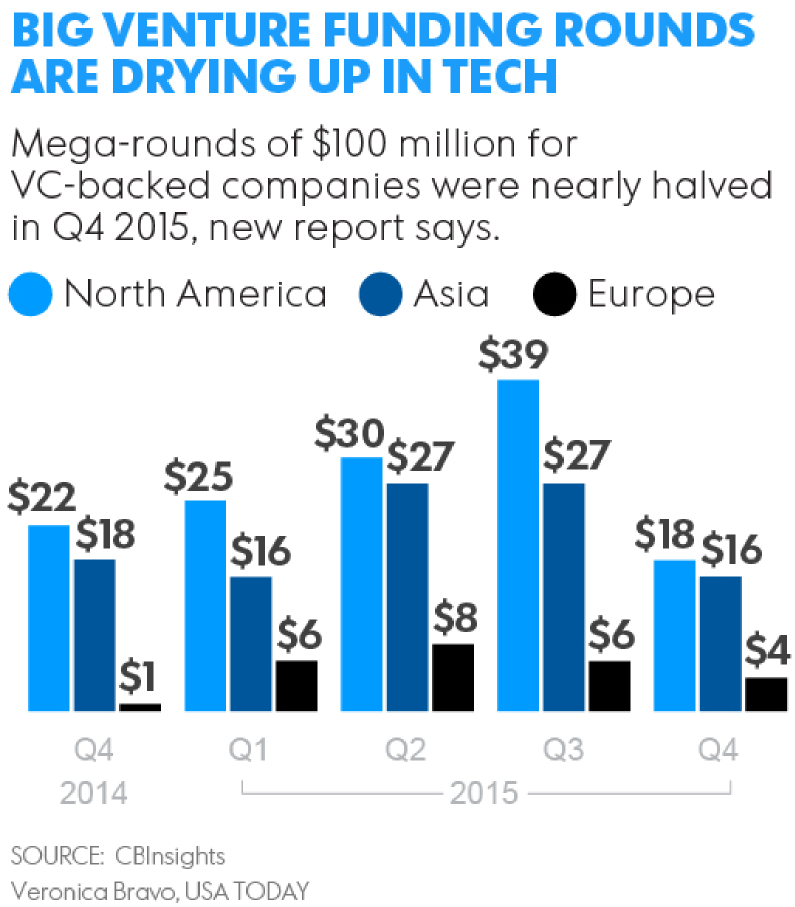
Consider: Mega-rounds, defined as funding of more than $100 million for venture capitalist-backed companies, are in free fall. The rate of private start-ups attaining unicorn status — a valuation of at least $1 billion — are grinding to a crawl. Friday layoffs at tech start-ups, deemed Black Fridays, are increasing. Bellwether tech stocks such as Apple, Google, Facebook and Amazon have been taking it on the chin.

"It's a time to re-calibrate — so many companies can't burn extraordinary amounts of money forever," says Sunil Paul, co-founder of Sidecar, a pioneer in the crowded ride-sharing space that shuttered operations on Dec. 31.

Last year, Silicon Valley projected unbridled swagger. Today, "there is definitely an era of reckoning," says Chris Sacca, a venture investor with stakes in Uber and Twitter. "Reality is setting in."

A report from PricewaterhouseCoopers and National Venture Capital Association underscores the chasm: While last year was the second-best in two decades for venture capital investments, at $58.8 billion, the fourth-quarter figures marked the smallest amount

Tom Ciccolella, PwC's U.S. venture capital lead, says the decline in mega-deals is the first clear sign of a tamped-down market for funding. The slowdown began late last year, according to several market researchers.



The number of mega-deals of at least $100 million — 38 in the fourth quarter of 2015 — was roughly half the 72 in the previous quarter, according to the KPMG International & CB Insights 2015 Venture Pulse Report. Mega-rounds in the just-completed quarter raised $11.4 billion — down 44% from Q3 2015 —the lowest level recorded since the first three months of 2013.

More than anything, 2016 marks a "shift to entrepreneurs valuing quality investors over optimized evaluations," says Joe Horowitz, managing general partner at Icon Ventures.

The rise of "unicorns," the industry term for privately funded start-ups with valuations of more than $1 billion, slumped to just nine in the fourth quarter of 2015, compared with 23 in the previous quarter, according to the report. There are more than 140 private start-ups valued at $1 billion or more, attaining unicorn status.

Unicorns "is not a term we focus on," says Josh Reeves, CEO of Gusto, a 300-person company (https://soundcloud.com/usatodaytech/gusto-ceo-heres-why-so-many-ceos-invested-in-us) that provides Web-based payroll and human resources services for small businesses. Gusto, formerly ZenPayroll, was one of the nine new unicorns in Q4. "We started a company to solve a problem. That's our focus."

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A NEW, MORE SOBER, CLIMATE

The shift in mood is illustrated in a spate of layoffs, closures, CEO changes and reduced market value for several start-ups.

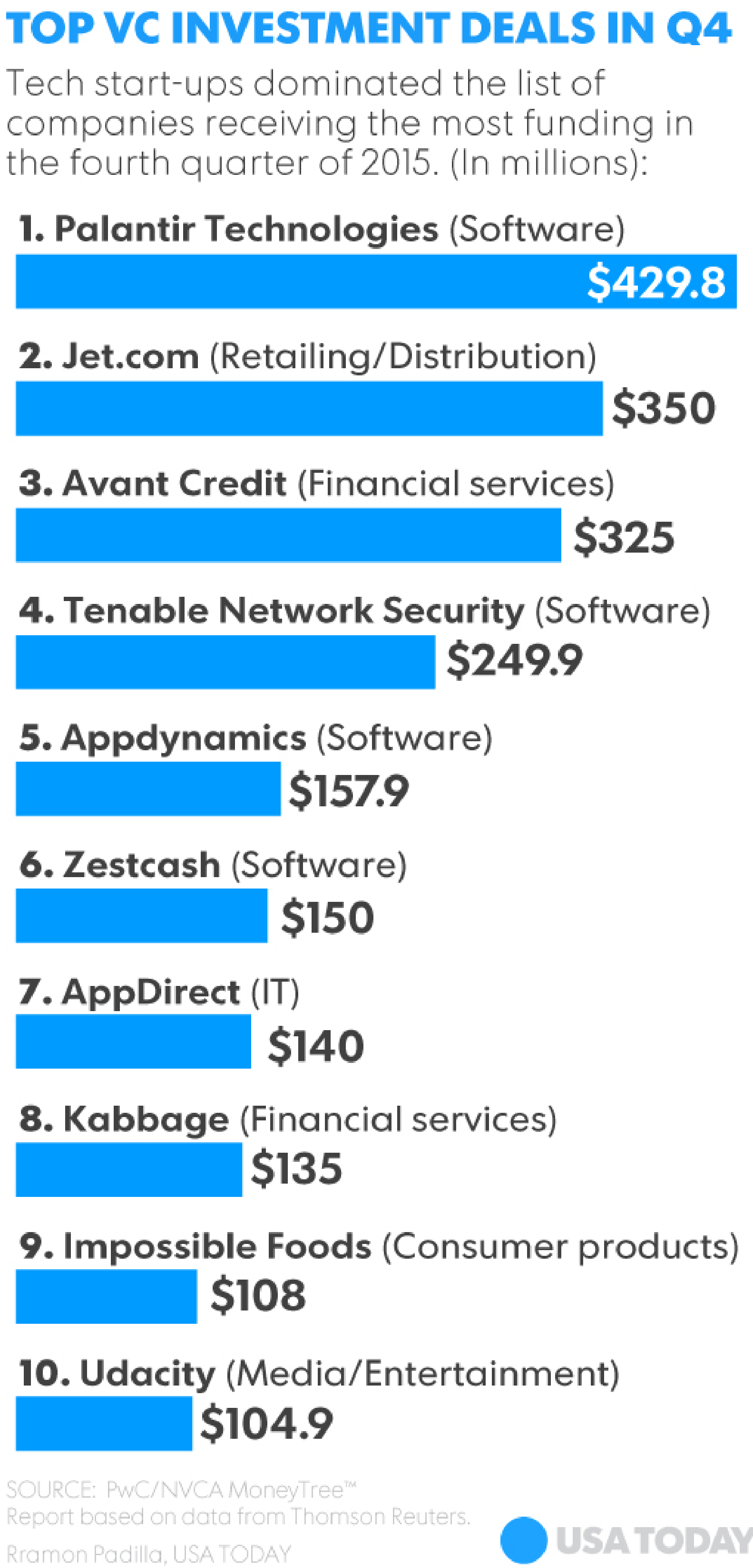
Last year, outsized confidence, and valuations, in start-ups such as Uber and Airbnb was the overriding storyline in high-tech.

But the pressure to cash in on sky-high valuations for mostly unprofitable companies — with intensifying murmurs of another dot-com meltdown on the horizon — has upended things.

"It's a reversion to the norm," says Charles Moldow, general partner at Foundation Capital. "Things are cooling off."

How cold? Fewer venture capital investments are echoed in lower pools raised by the VC firms themselves. The $3.3 billion venture capital firms raised in the third quarter of 2015 was 33% less than what they raised in the same quarter a year earlier, according to Thomson Reuters and the National Venture Capital Association's Fundraising Report.

"Companies will still raise funding, but at lower valuations," says Arianna Simpson, a Silicon Valley-based investor.



Tech start-ups are increasingly aware of:

• **Layoffs.** If 2015 was about expansion, some companies are ushering in 2016 with cost-cutting and operational efficiency.

GoPro trimmed 7% of its workforce last week (/story/money/markets/2016/01/13/gopro-wipes-out-after-hours-stunner/78754134/) because of a weak sales outlook.

Data-analytics firm Mixpanel, valued at $865 million, sliced nearly 20 jobs in early January. That same week, do-it-yourself service Maker Media cut 17. Wearables start-up Jawbone, a unicorn, late last year slashed 15% of its staff, or 60 people, and closed its New York office in a move to streamline operations. Living Social cut 20% of its staff, 200 people, in October. Note-taking app Evernote, once pegged at $2 billion, eliminated 47 jobs and closed three offices in September.

Those who aren't firing are doing less hiring. Instacart, which tripled its workforce to 308 in 2015, laid off five of its nine recruiters and plans to scale back its hiring push. "We're still growing, but not at the same pace," says Mat Caldwell, vice president of people at Instacart.

"Unless you're (an elite) unicorn, you will be forced to focus on fundamentals for spending, profitability and burn rate," says Jeff Fagnan, a partner at Accomplice. "There is more introspection, and that's a healthy thing for the (tech) ecosystem."

• **Reduced valuations.** Roiling markets and tightened investments on big-funding rounds has caused early-stage investors to reassess the value of several start-ups.

Former $1 billion unicorn Gilt Groupe was acquired this month by Hudson's Bay for $250 million — less than the $280 million it raised in funding during its eight-year existence. In a valuation prior to the sale, Gilt's worth was pegged at $600 million.

Foursquare, one of New York's most heralded tech success stories a few years ago, last week secured $45 million in funding that *Re/code* says values Foursquare at $250 million, less than half the $650 million value it was assigned in a 2013 funding round. (Foursquare has disputed the report.) Foursquare CEO Dennis Crowley (/story/tech/news/2016/01/14/crowley-out-foursquare-after-new-funding-round/78805872/) relinquished his title the day of the funding announcement.

Fidelity Investments, the Boston-based mutual fund firm, in November marked down the estimated value of its stake in several start-ups (/story/tech/2015/11/10/fidelitys-snapchat-stake-disappears-25/75526490/): Dropbox and Snapchat . Fidelity values Dropbox at 17% less (/story/tech/columnist/2015/11/05/dropbox-competition-storage-valuation-houston/75151412/) than what it was at the end of June.

• **Scuffling IPO prices.** Box and Hortonworks laid the shaky foundation for tech IPOs last year, and two start-ups that initially impressed — Fitbit (FIT (/money/lookup/stocks/FIT/)) and Shopify (SHOP) (/money/lookup/stocks/SHOP/) — now have stock prices at or below their opening-day public debuts. Twitter, which went public in late 2013, is trading near an all-time low.

The stock market hasn't been any easier to established public companies. Last week, shares in Apple (/story/tech/2016/01/15/key-tech-stocks-tumble-raising-concerns-2016/78852016/) (AAPL (/money/lookup/stocks/AAPL/)), Google-parent Alphabet (GOOGL (/money/lookup/stocks/GOOGL/)), Facebook (FB (/money/lookup/stocks/FB/)), Amazon (AMZN) (/money/lookup/stocks/AMZN/), Microsoft (MSFT (/money/lookup/stocks/MSFT/)), Yahoo (YHOO (/money/lookup/stocks/YHOO/)) and Twitter all took a thumping.

A DIFFERENT ERA THAN 2000

All isn't gloomy, however. Tech remains a hotbed for innovation and funding.

Reflecting their undivided faith in Silicon Valley-based startups, investors poured $33.9 billion into the region's start-ups in 1,963 deals last year, says Pitchbook, a private capital market researcher (http://pitchbook.com/news/articles/visual-insight-into-2015-vc-activity-in-major-us-markets). But activity was down sharply from 2,534 deals in 2014.

The Bay Area accounted for 27% of venture money invested worldwide and 16% of all deals, Pitchbook said.

"We're in a bit of a different bubble this time," says Kon Leong, CEO of ZL Technologies, an email- and file-archiving company. "The exuberance now has a foundation" as measured by market size and sales potential, he says.

There is a silver lining for companies fearful of a repeat of the dot-com crash 16 years ago.

Although Instacart exists in the same general market as Webvan, which went bust in 2001, its prospects are much brighter, Simpson says. The Internet audience is significantly larger — 3 billion now, compared with 500 million in 2000 — and more consumers are likely to use delivery services than they did back then, investor Simpson says.

The valley, like most industries, is built on cycles, says VC Horowitz. What goes up, he says, eventually must come down.

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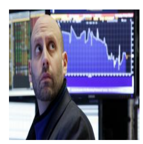

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