

Market conditions leading to less favorable deals for entrepreneurs, investors

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Shifting market conditions are leading to startup acquisition deals that are less favorable for entrepreneurs and investors.

Speaking yesterday during the Wisconsin Technology Council's Early Stage Symposium in Madison, Health eFilings CEO Robert Hopton described the current startup landscape as "very much a buyer's market." He noted this trend has accelerated in the past six months or so.

"It's not a U.S. phenomenon, it's not a Midwest phenomenon ... regardless of what part, what region of the world and so forth, in terms of how quickly the market's changed," he said. "And not to the advantage of the seller/entrepreneur."

Ron Bote, a director and accountant with WipFli in Madison, agreed that a number of factors have led to a more challenging environment "from the seller's perspective, in regards to being able to maintain the value." He highlighted high inflation and rising interest rates, supply chain disruptions and other ripple effects from the COVID-19 pandemic.

"These are all leading to some really significant challenges to companies, especially young technology companies," he said yesterday. "We see a lot of impact to the [venture capital] funding community. We see a lot of operational market losses."

Panelists at the Wisconsin Tech Council event in Madison also discussed how startup companies should handle a "down round." This occurs when a private company that needs additional capital offers additional shares for sale at a price that's lower than what was offered in an earlier financing round, according to an overview from investment resource Investopedia.

Jenni Le, an associate with Venture Investors, recommended startup leaders "take a temperature check on morale" among employees.

“When you take a down round, the price per share is going to be lower than your last round,” she explained. “And so for your employees that have equity in the company, that’s going to hurt that sweat equity that they’ve been generating for all that time they’ve been working with you.”

And if existing investors are hesitant to take part in that round, Le warned that can send a negative message to potential new investors.

But despite the challenging environment, Hopton argued that blaming a “down round” on market conditions alone is an excuse. He urged entrepreneurs in attendance who find themselves in that position to consider how they got there, and figure out how to fix it.

“You’re there in that situation for a particular reason, and it’s not because of the market,” he said. “It might be a contributing factor, but that’s an excuse, not the reason.”

-By Alex Moe