

WTC President Still: “Does economy spell gloom and doom for startups ... or rethink and reset?”

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MADISON, Wis. – Predictions abound that public markets have yet to hit bottom and the fallout may well extend to young companies seeking angel or venture capital, which is often financed by wealth created when initial public offerings pan out and market values rise.

Warning signs are there. A recent report from Pitchbook noted more than 140 VC-backed companies that went public in the United States since 2020 now have market capitalizations that are lower than the amount of venture funding they raised. Tech companies with dimmed growth prospects are worth less than founders and investors calculated prior to the IPOs, which means investors are licking their wounds and recalibrating how to value young companies in the future.

Such a trend could extend to the earliest investment rounds, which is where most young tech-related companies in Wisconsin compete for angel or venture capital. Then again, the same predictions of investment Armageddon were made when COVID-19 shut down the economy in March 2020.

Instead, Wisconsin recorded its strongest year ever in the angel and venture asset class – and 2021 was more robust. Investments in 2020 topped \$483 million and grew to \$869 million in 2021, which included some deals in the tens or even hundreds of millions of dollars and many more in the true startup range.

Of the 140 Wisconsin companies to receive investment dollars in 2021, the median “check size” was \$785,000. The average deal size was \$6.2 million, reflecting the larger transactions.

So far in 2022, a partial count by the Wisconsin Technology Council shows 34 deals at \$356 million with an average deal size of nearly \$10.5 million and a median of \$1.1 million. Totals will not be available until well after the year is over, but 2022 dollars invested in Wisconsin companies so far already exceeds 2018 for the full year.

None of this is to say founders should break out in a chorus of “Happy Days Are Here Again,” because the combination of inflation, interest rate hikes, supply chain troubles and global conflict could well drag the economy into recession. It is to suggest, however, that young companies should rethink and reset investment strategies now if they haven’t already.

- A historic strength for many Wisconsin startups has been realistic valuations. Some coastal startups have brought frothy valuations to the table because they have more investors vying for attention. That’s not always the case in Wisconsin, which has a growing number of investors but relatively few who can write big checks. Now is a time to make sure valuations don’t scare away investors who may have already been stung.
- When your kingdom is small, cash is truly king. Investors often favor companies that demonstrate they can manage cash flow in a way that efficiently moves the company to product launch, sales and eventual profitability. It doesn’t mean don’t spend what you need to spend to be successful. It might mean looking harder at payrolls.
- Stay networked. It’s tempting to hunker down during hard times, but you may miss connecting with people and groups able to offer advice.
- Double down on finding customers and being realistic about how much it costs to find, attract and retain them. As one veteran Wisconsin investor told me recently: “Sometimes I feel as if I’ve talked in vain for 30 years about customer acquisition costs, but I bet you I see five entrepreneurs in a week who say, ‘I will fix that by hiring a marketing director.’ I just wish more people would think about it more strategically.”

Even in hard times, promising young companies can get funded if the investment opportunity is compelling. Google, PayPal, Airbnb, Pinterest, Uber, Dropbox, Slack and WhatsApp are all examples of companies born during past financial downturns. Maybe your company is next.