

The Risk of Overfunded Startups

According to a recent article in *Bloomberg*, there is a lot of money trapped in the Silicon Valley startup world (the term they use is “overstuffed.”) Emerging companies are still receiving unprecedented sums of money from investors (though perhaps slightly less than in 2015). The only problem is that the money is stuck in the startup. Silicon Valley generally thrives on investment capital, but that capital needs to be returned to investors for the whole system to work. The goal is to build the startup into the next big tech company and then move on to the exit strategy, whether that is the sale of the company or an IPO.

When all of this works perfectly, the company receives financing for a few years, grows and then is sold or goes public, and that money goes back to investors so the cycle can continue. Right now, both IPOs and the sales of these emerging companies are not keeping up with the amount of cash being invested.

While in recent years, new tech companies have received historically high denominations of investment money, new company sales and IPOs have not experienced the same predicted surge. Tech IPOs were predicted to make a resurgence in 2016 and again in 2017, but that has not come to fruition. According to *Bloomberg*, another important factor is, “The value of U.S. technology company acquisitions fell by 66 percent in the first six months of 2017 compared with the same stretch a year ago.” Larger tech companies are simply not buying smaller emerging companies at the same rate.

This stall in the startup system is worrying not only to new and upcoming tech companies, but also the venture capital firms and individual investors who are faced with the potential to lose a great deal of money. The lack of growth in the startup system overall and the downward trend in exits are both troubling.

As new tech companies continue to receive historically high amounts of investment money, without more exits, more capital is trapped within the system and not available for new companies. Only time will tell whether or not this will correct itself, but concern appears to be on the rise. Silicon Valley is a bright spot in the US economy. Let’s hope it stays that way.