The party’s ending: Silicon Valley braces for a new era of financial and political upheaval

It was fun while it lasted, but after years of sky-high valuations, Silicon Valley is engulfed in its worst sell-off since the 2008 stock market crash.

After a pandemic-fueled boom sent tech names soaring, many of those businesses have seen the worst six months of their lives as publicly traded companies. Peloton, the exercise startup, is emblematic of this ominous reality: Its shares have cratered from a high of $163 at the end of 2020 to about $17. On Thursday, The Wall Street Journal reported company executives were looking to sell a minority stake to an outside investor.

“Investor sentiment in Silicon Valley is the most negative since the dot-com crash,” David Sacks, a venture capitalist in San Francisco and a former PayPal executive, said this week in a tweet, referring to the turbulent days of the early 2000s.

Tech companies are often especially vulnerable during an economic downturn, because most of these early-stage enterprises aren't profitable, relying instead on venture capital investments to cover expenses while they focus on rapid growth — something that’s much more difficult when consumer demand slows down.

Firms that had scored headlines in the past 18 months for raising millions of dollars to achieve billion-dollar “unicorn” valuations have announced layoffs. They include the celebrity video-clip company Cameo; the stock market trading app Robinhood; Thrasio, which buys and sells third-party brands on Amazon; and the employment group Workrise.

Some people have begun to use the phrase “zombie unicorns” to refer to highly valued but shaky startups that might need new investors to rescue them.

“A lot of this is about companies that never thought the VC gravy train would slow,” Dan Primack, a widely read tech and finance columnist for Axios, wrote this week.

The massive markdown is causing some observers to pause and reflect on the current state of tech. The mood has shifted: Our economic environment is less certain, and the ground on which the tech landscape stood is beginning to look, as tech executive and venture capitalist Dan Rose called it in a tweet, like an “abyss.”

Another tech investor, Zach Coelius, noted that recent years had seen an explosion in tech funding — a phenomenon that appears to be reaching an end.

In an interview, Coelius said low interest rates and an abundance of investors had made it easy for tech entrepreneurs to found and grow businesses in the past decade. That has changed.

“Everyone was aggressively writing checks really, really rapidly, and that trains founders into a ‘FOMO’ mentality — you had to move quickly or you were going to lose,” Coelius said, referring to a “fear of missing out.”

He said pressure started to build at the start of the year, when interest rates began to rise and broader public stock markets began to fall. The situation worsened amid earnings season for the first quarter of 2022, as publicly traded companies delivered disappointing results or forecasts, he said.

“This earnings season was really a comeuppance for a lot of folks,” he said. “Almost all the major public tech companies missed their numbers, and when that happens, the tide can turn really aggressively.”

The sell-off began in winter 2021 and extended through the first half of 2022 amid fears of the omicron variant of Covid and a more hawkish tone from the Federal Reserve. War in Ukraine, rising oil prices and higher inflation have since all conspired to tank markets. One of the hardest hits to the tech world came at the end of April, when Amazon announced weaker than expected results and a gloomier forecast for the rest of the year.

Now, tech startups won’t be able to raise money as easily, Coelius said, forcing them to conserve cash and scale back growth plans.

“Patience is your friend in these situations. You don’t have to be as stressed about being the fastest-growing company in the world. It’s a different mindset.”

Instead, he said, startups can focus on improving their products and growing at a more sustainable rate.

Bill Gurley, general partner at the venture capital firm Benchmark, said some tech startups that previously didn't feel pressure to generate a profit will now be asked to do so, while also being more conservative with expenses.

“People want real earnings. They want real, free cash flow now,” Gurley told CNBC this week.

“All these companies that have lived in this high-froth environment for the past decade, they kind of have to readjust, and the sooner they do it, the better,” he said. “But it’s not easy when everyone in your organization is operating in a singular fashion for 10 years.”

Source: NBC News (05/07/22)
https://nbcnews.to/3wONpGq
Labor Force Unemployment Rate

Note: NOVAworks Region consists of seven cities in Northern Santa Clara County and the entirety of San Mateo County.

Source: California Employment Development Department, LMID

Labor Force by NOVA Jurisdiction — Santa Clara County (partial) + San Mateo County (complete)

<table>
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<th>Region</th>
<th>April 2021</th>
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<th>April 2022</th>
<th>Percentage Point Change</th>
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<td>1 month</td>
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<tr>
<td>Takeda Development Center</td>
<td>29</td>
</tr>
</tbody>
</table>

Total 190

WARN SUMMARY

Events YTD 1: 39
Individuals Affected YTD: 2,505
Individuals Previous YTD: 24,393

* WARN: Worker Adjustment and Retraining Notification (notice of mass layoff or closure)
† YTD: Year to Date (Program year: July 1–Present)
‡ Previous YTD: (Same date range as YTD, one year prior)

Note: Layoff data are preliminary and should be considered an estimate of monthly regional activity.