January 21, 2020

The More Things Change

The late unpleasantness at WeWork (that's how some of the folks I knew in North Carolina talked about the Civil War) signaled a sea change in the venture capital business. Gone, or at least dying, is the growth-at-any-cost investment model. In its place comes the profits-matter-more model (curiously, a model that has never really gone out of fashion in flyover country – but I digress). Already, dozens of public and private Unicorns have announced big layoffs, and Unicorn valuations have "corrected," to use the applicable industry euphemism.

The biggest player in the growth-at-any-cost model, and certainly the face of that particular herd of investors, is SoftBank, Masayoshi Son's $100 billion fund. While hardly alone in the growth-is-good Unicorn investing game, SoftBank is the industry's poster child. As such, a lot of the score-keeping, as the market shifts and Unicorns start backpedaling, has focused on SoftBank's portfolio.

And there is a lot of backpedaling to report, as SoftBank's list of layoff-plagued portfolio companies grows to include such stalwarts as Getaround, Rappi, Oyo and Zume (not to mention the aforementioned WeWork), all of which have announced significant layoffs. Further, Axios reports that SoftBank has backed out of multiple hundred-million-dollar-plus term sheets in recent weeks. It's no wonder that some folks are speculating that Son's plans for a new Son-of-SoftBank fund have been delayed.

In light of recent events, it is tempting to speculate that SoftBank and its brethren are headed for some sort of comeuppance. The bigger they are, the harder the fall, and all that. I've even done some of that speculation myself, and a part of me (probably the part that missed the trend in the first place) continues to think that the whole growth-is-better-than-profits venture investing paradigm is not going to end well.

But then another part of me cautions that much as SoftBank's size (in terms of powder-at-hand and powder allocations) departs from previous venture norms, it's basic investment model – hit a homerun now and again, while striking out considerably more often – is classic venture capital. And while the jury is out on how well SoftBank is playing that game, the results so far – even with the above-mentioned

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setbacks and many others – are not without some notable successes. Consider this: according to PitchBook, Softbank's initial stake in Alibaba cost it $20 million. The current value of that stake? $123 billion (the "b" is not a typo). Homerun? Try grand slam.

Whatever befalls SoftBank, it does appear that the WeWork unpleasantness signaled an at least temporary retreat from the growth-at-any-cost venture capital paradigm. The real question is whether the pause is strategic or tactical; an industry-wide retreat, or merely a consolidation.

As for me, I am not sure. I am not even altogether sure that in the longer term it even matters.

Consider the last time the venture business was comparably humiliated (perhaps a strong word, but I was there, and, well, it was humiliating). It was early 2000 when the dot-com bubble burst (though it's worth remembering that it took more than a year for all of the air to escape). One of the bigger poster-children of that disaster was Pets.com. The Pets.com unpleasantness proved conclusively that delivering 20 pound bags of pet food via the Post Office was a really dumb business model. At least until Amazon started running with it a decade later. And a bit later, Unicorn Chewy.

Back to the future, as they say. A future that will (this prediction I'll stand by) include the odd home run. And a lot more strikeouts. Don't forget that if you think you want to play the risk capital investment game.

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