

Series Seed Bulge: Back to the Basics

Janis Machala, Managing Partner, Paladin Partners, janism@paladinpartners.com

There's a lot of rumbling that we're heading into a market pullback:

- Silicon Valley VCs telling their companies to conserve cash (see Bill Gurley's article at <http://abovethecrowd.com>);
- Layoffs in Silicon Valley (<http://fortune.com/2016/04/15/silicon-valley-layoffs-failures-bubble/>);
- Bulge of Series Seed deals struggling to find a Series A financing (<http://techcrunch.com/2015/05/07/charting-a-path-from-seed-to-a-competitive-series-a-round/>);
- An almost non-existent tech industry IPO market (<http://www.wsj.com/articles/a-dearth-of-tech-ipos-may-mask-bubble-trouble-1436482198>);
- Valuations tumbling (<http://www.wsj.com/articles/as-angel-investors-pull-back-valuations-take-a-hit-1453337982>), etc.

So what does all this mean? It's Back to the Basics. Fundamentals matter. Metrics matter. Proof of market traction is critical. If you want to look at what's going on think about 2001-2003 or 2008-2010. These funding time periods are cyclical. And we seem to be heading into another roller coaster. This time feels different, though, because house prices in our area are high with supply low and returns in the stock market are not great. Investors have fewer options for where to put their money. Those investors and entrepreneurs who have the fortitude and long range view (not the "get rich quick" investors and entrepreneurs) realize there are investing and start-up opportunities now that will be ripe when the cycle shifts. I maintain this is an excellent time to both found a company and fund a company. But take off the rose colored glasses and be realistic about what it takes to come out the other end of a cycle like this.

What should an entrepreneur consider in these bumpier choppiest waters?

- It will take longer and you will likely raise less money than you planned.
- Ensure that you know your revenue drivers and monitor their evolution carefully.
- You may have to take a "haircut" on a Series Seed extension but this separates the wheat from the chaff in the Darwinian world of entrepreneurship.
- You will have to do less with more, be more creative, be scrappier. Capital efficient!
- Instead of hiring narrowly for a specific skillset generalist GSD types reign.
- Communicate ever more so with your investors so you keep them in the loop; they don't want to hear from you when you've run out of money with no lead VC

- Cultivate those experienced mentors/advisors/entrepreneurs/board members who were around in prior downturns. Evaluate your investors' ability to put more than one check into your company.
- Ensure that your lawyer, accountant, HR resource have "tough market" experience.