THOMPSON HINE

QuickLaunch

New Ventures Update

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New Ventures 2023: A Year in Review

The past year has been interesting across the startup landscape. Thompson Hine's New Ventures client base was no exception, with fewer new priced rounds, many more bridge rounds, a keener focus on commercialization and improved business metrics, and regulatory shifts shaping the landscape. From reduced access to funding to changing employment laws, startups navigated increasingly complex legal terrain in 2023, and overall, Thompson Hine's client experiences echoed those of the market at large.

Fewer New Financings, But Bridge Rounds Abound

The Thompson Hine New Ventures team saw almost 4x more extensions of current rounds in 2023 compared to 2022. While 2021 and the early part of 2022 saw a tremendous increase overall in valuations and several new financings for companies, with the capital markets' belt-tightening in 2023, fewer new financings, particularly in the Series B and C stages, occurred, with extensions of previous rounds being highly prevalent.

Thompson Hine's New Ventures group represents companies and venture capital investors in almost every state across the U.S., so it is not surprising that the practice's metrics aligned with what was unfolding nationwide. According to Carta, not only was the total amount of cash raised in priced equity rounds down in 2023, but the median valuation of priced rounds was also down. Priced Seed and Series A rounds saw 9% and 11% decreases in amounts raised, respectively, while later stage rounds saw an even steeper drop in the cash raised, with Series C and D rounds experiencing 33% and 41% decreases, respectively. Additionally, Carta data show a depression of the median valuation of priced rounds across all stages, with Seed and Series A each being down 6%, respectively, but later rounds being down even more significantly with valuations in the C stage being down an average of 26% and D rounds being down a shocking 50% from the prior year.

With those metrics as a baseline, it is not surprising, then, that our clients, like those across the nation, saw dramatic increases in the number of extensions of existing rounds. According to Carta, 81% of all seed financing dollars raised in 2023 were via an extension to an existing round. Similarly, 49% of all capital raised in Series A, and 34% for Series B, was via an extension. Series C and D just saw fewer rounds and substantially more changes in burn rate reduction. Thompson Hine's clients register similar metrics, with more than three out of every four deals closed being a bridge round or an extension of an existing round.

Additionally, many of the investors Thompson Hine represents noted similar information: A pathway to breakeven and a sustainable reduction of expenses were imperative for investors moving into 2024. Valuations between 2020 and 2022 we largely driven by pressure on startups to grow top-line revenue without substantial attention being paid to whether or not expenses were benefitting from economies of scale. However, with the pressure from investors to limit expenses, startup revenue and sales growth have seen corresponding reductions, which has driven valuations on priced rounds down in 2023.

Employment Pressure for Startup Teams and Equity Issuances

While Thompson Hine may have seen fewer new financing rounds in 2023, the impact of an evolving legal landscape on early and growth-stage businesses continued to be evident. In particular, our New Ventures team's clients confronted significant issues resulting from increased involuntary employee terminations, whereas historically, our clients were more focused on managing the impact of voluntary departures.

Traditionally, there were far more voluntary employee departures from startups, with Carta reporting heights of up to 80% turnover each year. However, in 2023, involuntary terminations accounted for almost the same percentage of employee turnover as voluntary resignations. Therefore, the number of reductions in force was higher, comprising 46% of the employee terminations nationwide in startups in 2023 and 54% of employee terminations coming from voluntary resignations across the country. However, not all is doom and gloom. Statistics also show that employees are staying longer, which impacts option pool participation and vesting for many company employees who have decided to stay with their startups longer.

The continued fluctuation of the economy and desired retention of remote and hybrid availability options have also led to updates in employment laws that disproportionately affect startups heavily reliant on flexible workforces. These updates have ultimately driven changes to employment practices, employee handbook modifications, and multi-state taxation issues. Likewise, friction over the classification of workers as independent contractors versus employees continued, and whether or not the Federal Trade Commission's suggestion of the termination of substantially all non-competition agreements will be upheld remains to be seen. What is clear, though, is that the outcomes of these issues have forced many startups to reevaluate their labor models. This reconsideration often led to increased costs and operational complexities, which then apply further pressure to do more with less, especially in light of investor-required reductions in cost and expenses. Thompson Hine's New Ventures team works closely with its Labor & Employment colleagues to stay at the forefront of these issues and to best assist our clients in their decision-making processes.

So, What is Coming in 2024?

The past year has underscored the importance of legal preparedness for startups and having a full-service national law firm partner. The dynamic legal environment has presented both challenges and opportunities. Startups that have successfully navigated these waters emerged with robust compliance frameworks and a deeper understanding of the legal aspects of their operations and how to manage their growing organizations moving forward. As the legal landscape continues evolving, staying informed and adaptable will be crucial for startups aiming to thrive in the coming years.

Interested in working with Thompson Hine? Contact any one of our team members by checking out our team page.

QuickLaunch: Experienced Guidance for Startups and Investors

Our QuickLaunch program is tailored to entrepreneurs, startups and investors, provides guidance on growth and funding cycles and offers cost-effective counsel on day-to-day legal matters from formation to funding to exit. Our team can help navigate otherwise turbulent legal waters that arise and often at fixed rates employing our firmwide proprietary SmartPaTH™ tools. To learn more about our tailored, value-enhancing solutions, please visit our QuickLaunch site.

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For more information, please contact a member of our QuickLaunch team.