Startup Runway Check

First the good news. About 45% of tech startups have at least 6 months of capitalization and are confident of weathering the current economic crisis. However, that means more than half of them have less than 6 months of capitalization, and it is noteworthy that **23% of startups in the region have less than 2 months of capitalization**. A breakdown by size of company shows a high correlation between size of company and capitalization. It's not all doom and gloom. The bright side is that:

- 35% of the smallest companies (with 10 or less employees) have at least 6 months of runway.
- 61% of the mid-sized startups (11-100) have at least 6 months of runway.
- 83% of large startups (with over 100 employees) have *more than 12 months* of runway.

Federal aid was thought to be unavailable to tech startups when the CARES Act first passed, however this does not seem to be the case. **39% of startups have received PPP and 5% have received EIDL**. Some have returned the PPP due to the remaining uncertainty around terms for repayment. Several startups have relied only on unemployment insurance to partially pay for contractors and conduct workshare among their staff. Of those that were able to complete the applications in time, very few were rejected for PPP or EIDL.

Despite this fiscal support, **26% of startups have still furloughed or laid off at least 10% of their employees**.

- 83% of large startups (100+ employees) are so far able to retain most of their staff
- 70% of small startups (2-10 employees) are so far able to retain most of their staff

Most startups are not receiving financial support from investors. Overall, only 23% of startups have current commitments from investors to provide additional capital if needed.

- **None of the large startups have investor commitments**. Color commentary from startups includes — investor fear/uncertainty/doubt, investors urging cost-cutting, sufficient funding on hand, a sustainable business model that doesn't require additional funding at this time.
- **79% of the small startups have no investor support**. Color commentary includes — investor fear/uncertainty/doubt, seed funders unwilling to add capital, friends and family are the investors and unable to add capital, self-funded startup so the source of capital is owner's assets, low expense means longer runway.
- **69% of mid-sized startups (11-100) have no investor support**. Color commentary includes — investor fear/uncertainty/doubt, angel investors suffering their own capital shock, founders unwilling to approach investors at this time for fear of low valuations, debt is cheap and therefore a better alternative, some have a sustainable cash flow model.

And yet 63% of startups are meeting with investors now. Half of them are meeting to maintain or build relationships. Half of them are actively raising capital even in this environment. Some insights shared...

- Most VCs are focused on their portfolio companies, sorting which will get additional capital if needed. They are not generally receptive to new rounds from new companies.

- Some VCs dramatically raised the cashflow and/or revenue growth requirement for investment consideration.
- Some VCs and angel investors are proactively seeking opportunities and are offering to finance companies showing growth in the current situation.
- Some VCs retracted or reneged on term sheets.
- Of the 37% of startups who are not meeting investors, most consider the effort a waste of time until the markets settle.

Some suggestions about how to support the struggling startups...

- Rent relief. Landlords will retain good tenants if they allow deferred payment for some or all of rent, especially while startups are not occupying during stay-at-home.
- B&O tax relief. The city and state can save jobs and companies by deferring payment of B&O through 2020.
- Continued Unemployment Insurance for workshare and contractors. While some of this is funded by the CARES Act, the state policy should continue for startups through 2021. Saves jobs and companies.
- Banks provide low cost loans for operations. Money is cheap. Banks can and should aggressively loan money to extend the runway for companies with at least flat revenues.
- Angel investor incentive, e.g. as property tax credit for investments into startups. The city and the state can actively encourage investment by skittish angels that finance the vast majority of startups in the region.

METHODOLOGY

We conducted a survey (summary results here) from 5/1 to 5/7 among more than 140 startups, covering the Greater Seattle Metropolitan area. The purpose of the survey was to determine the capitalization and liquidity of the startup ecosystem in order to assess where public and private institutions can support the startup job and economic growth engine.

The top 5 startup locations (adding up to 45% of the respondents) are in order:

- 98104 = Pioneer Square
- 98101 = Midtown Seattle
- 98004 = Downtown Bellevue
- 98121 = Belltown
- 98033 = NW Bellevue (W of Redmond)

As expected, **2/3 of the respondents employ between 2 and 10 employees**. Less than 5% have more than 100 employees.

- Note that the Greater Seattle Metropolitan area has nearly 8000 tech firms with at least two employees. It is worth noting that this group of companies represents more than 180,000 jobs.
- Of those 8000 tech firms, about 12% have more than 100 employees and about 65% have between 2 and 10 employees. We targeted startups, so naturally we had fewer companies with 100+ employees participating. This high correlation with our survey respondents gives us confidence that the survey results are statistically significant and representative of the regional startup ecosystem.