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Tech Valuation Utopia Projected to Take a Hit in 2016

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In recent years, Venture Capital firms around the country have enjoyed the surplus of "unicorn" companies, companies that have not gone public but are privately funded and valued over one billion dollars. However, despite attempts to accelerate valuation growth in tech companies, the stock market seems to indicate that exorbitantly high valuations may take a hit in 2016.

A valuation, determined by different sets of criteria, is the estimated figure of what a company is potentially worth and how much the shareholder's interest in a company is worth at any given time. It has become standard practice in the tech world for a company to have a valuation in order to attract more venture capital and private equity funding, which creates momentum for high stock prices when and if the company goes public. After a company goes public, a company's valuation relies heavily on how well its stocks are doing in the market and on its current tangible assets.

The first quarter in 2016 marks the beginning of a potentially grim period for the tech industry as it shows that there may be fewer unicorns in corporate utopia in 2016. Mid-January marked the start of widespread layoffs throughout the whole industry, and the major public tech giants (Facebook, Salesforce, Google and Amazon) have all suffered from their stocks taking a sizable blow. These two occurrences in the first quarter have caused private tech companies' valuations to take a hit and have led to a decrease in fundraising for startups in some tech sector's due to the markets current volatility. Specifically the number of over $100 million funding rounds from venture capital firms for private tech companies has nearly halved in the last two quarters.

While 2015 was the second best year in two decades for venture capital investments in tech companies, with $58.8 billion in total revenue, the fourth-quarter of 2015 marked the weakest and slowest quarter for venture capital investments in the last three years. That slower fourth quarter coupled with plummeting stock prices for tech giants has caused many venture capital firms to be more cautious with their capital. There has not been a single new private unicorn in 2016 and the fourth quarter in 2015 produced just nine unicorns (compared to twenty-three in the second quarter and twenty-seven in the d third quarter of 2015). As a result, tech valuations have suffered and have caused venture capital firms to decease their funding from the generous amounts they may have given in prior years.

While it is unclear if stocks will continue to plummet for tech giants, which ultimately affects the valuation of private tech companies, it is clear that 2016 may no longer be unicorn utopia in the tech world.