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Vision Fund Woes Signal Changing Environment of Tech Start-Ups and Venture Capital

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Haphazardly investing billions into scores of tech startups may be falling out of fashion. The struggles of SoftBank's Vision Fund—a true titan of the venture capital world—provide a striking example. The market has not been kind to SoftBank CEO Masayoshi Son's brain child: WeWork. WeWork has failed to go public and the performance of other key SoftBank investments, such as Uber and Slack, has been lackluster. Furthermore, given that Vision Fund and related investments constitute over 10.5% of global venture capital volume, the fund's woes may signal a wider retraction in the venture capital environment.

Since its October 2016 announcement, Vision Fund's $100 billion entrance into the tech market has transformed the venture capital market. While start-ups raising $100 million in a single funding round were once a rarity in Silicon Valley, giant funds like the Vision Fund—which has a minimum investment of $100 million—have made money plentiful. Meanwhile, the Vision Fund has rapidly invested in scores of tech companies. Investments in Uber, the We Company, and Didi Chuxing currently account for nearly 30% of the Vision Fund portfolio by value. Other large investments, out of its 81 total, include Coupang, a South Korean e-commerce platform, Sprint, a wireless services provider, and Grab, a southeast Asian taxi-hailing company.

WeWork's IPO debacle has been the harshest condemnation of the Vision Fund thus far. SoftBank valued the workspace provider at $47 billion this January, but it is now expected that WeWork is worth less than a third of that valuation. Further, of the six public companies that comprise the Fund's portfolio, only two—Guardant Health and 10x Genomics—are trading above their IPO prices. Particularly damning are Uber and Slack's performances, trading at 25% and 36% lower than their IPO prices, respectively.

Mr. Son, for his part, is nevertheless moving forward undaunted and launching a second iteration of the Vision Fund. However, CNBC reported that SoftBank may change the new fund's investment strategy, perhaps in response to investors' concern. The pace of investment will be slower—at least slower than the $80 billion spent in less than three years by the original Vision Fund. Further, the Fund will target companies closer to being profitable.

If such a change does materialize, Vision Fund 2's more conservative strategy might herald a new era of venture capital. In the future, venture capital may find its way only to start-ups that are close to an IPO. Investors may no longer be willing to invest in a company that expects to burn through multiple rounds of funding with no clear goal of going public in sight. Thus, with the current bull market seemingly losing its vigor, Silicon Valley and other tech start-up hotbeds may have to come to terms with increased investor skepticism and a decreased appetite for risky bets.