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Cash Crunch: Global Pandemic Squeezes Startups
By Chris Gronseth, J.D. Candidate 2022 | March 23, 2020

Businesses closed. Customers gone. Employees home. While COVID-19's economic impact is still in its earliest stages, many have already felt its repercussions. Over the past month, effects from the outbreak have hit small businesses hard, and many companies do not have the resources to afford temporary – not to mention prolonged – closure. In a letter to its portfolio companies, Sequoia Capital labeled COVID-19 as the "Black Swan of 2020" and warned of drops in business activity, supply chain disruptions, and curtailment of travel.

Among the businesses affected are high-flying technology startups. California, home to tech hubs like San Francisco and Silicon Valley, was the first state to enact measures restricting travel, business hours, and in-person socialization. These restrictions create extreme difficulty for founders raising capital or running operations. While some venture capitalists publicly express their continued interest in funding companies, many predict that the deal pace will slow due to practical difficulties associated with a remote work environment. Investing in young, unestablished entrepreneurs without a face-to-face meeting or a hands-on product demonstration might be a deal-breaker.

Startups in the travel and leisure industries are being hit especially hard. Airbnb, a tech darling commanding one of the largest private valuations, may pause their plans to go public later this year. According to sources, Airbnb shares were privately valued at more than $140 prior to the outbreak, but are now valued at close to $105 – a $15 billion devaluation. The company is reportedly considering raising more cash to fund operations but may have difficulty attracting a high price given the economic uncertainty in the global markets. In the meantime, week-over-week booking demand for their online rental marketplace cratered 95% in Asia, 75% in Asia, and 50% in the U.S.

Amid the uncertainty, some companies are trying to look to the future. Many founders and funders took advantage of the rosy financial outlook prior to the outbreak, and many startup companies are sitting on large piles of cash. The decade-long bull market fueled aggressive investments from private investors, pushing startup valuations to all-time highs. However, many startups that have not sought private equity, relying instead on cash flow from sales or donations, might be at real risk of insolvency. Perhaps Sequoia, quoting Darwin, has it right: "Those who survive are not the strongest or the most intelligent, but the most adaptable to change."