Startups Opt to Cash Out

By Rolfe Winkler

Jet.com Inc.'s decision to scrap its ambitious plan to challenge **Amazon.com** Inc. in favor of a $3.3 billion sale to **Wal-Mart Stores** Inc. marks the third time in recent weeks a cash-guzzling startup has chosen to sell.

With venture capitalists growing pickier, the IPO market largely shut, and investors newly insistent that startups operate in the black, flush corporations are providing lucrative paydays for some startups that once had grander ambitions.

Jet, which only launched its online discount marketplace a year ago, was burning $40 million a month as of last fall, according to its October financial information reviewed by The Wall Street Journal.

Last week, **Uber Technologies** Inc. sold its China car-hailing operation to **Didi Chuxing Technology** Co. after losing north of $1 billion a year. And in July, unprofitable razor retailer **Dollar Shave Club** Inc. sold itself to **Unilever** PLC, rather than fight bigger brands like Gillette in a marketing war.

All three companies spent heavily to acquire customers and none had proved it could profit. Yet each built operations that a buyer viewed as strategic. Other startups haven't been so lucky. Dozens of venture-backed companies have laid off staff, raised capital at lower valuations or shut down.

The common denominator, say venture capitalists, is tighter capital markets.

By this point last year, at least 53 startups raised capital at a valuation of $1 billion or more for the first time, according to VentureSource. This year, nine have reached that milestone. Also so far this year, just nine U.S.-based tech companies have staged an IPO, according to Dealogic. That is down from an average of 24 through the first week of August the prior four years.

"When gas is free, people buy large cars and don't think about it," Bob Ackerman, managing director of venture firm Allegis Capital, said about startups raising vast sums of capital in the past.

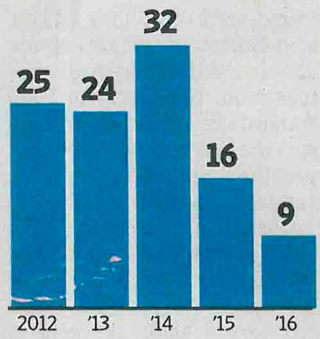
For two years, mutual funds and hedge funds flooded tech startups with cash, but last fall they dialed back. Volatility in stock markets, starting in China, and a lack of lucrative IPOs discouraged investors.

A February drop in public tech stocks splashed "cold water on the face of the venture guys," says Michael Brown, general partner with Battery Ventures. "Growth at all costs may not be rewarded in public markets, and profitability will matter."

Jet's sale, while lucrative for investors, falls short of co-founder and Chief Executive Marc Lore's vision that Jet would take on Amazon.com alone. Mr. Lore said in a statement Monday that being owned by Wal-Mart would "allow us to deliver more value to customers."

IPO Drought

Number of IPOs for U.S.-based tech companies*



*Through first week of August
Source: Dealogic
THE WALL STREET JOURNAL.

Scarcer capital could have been a roadblock for Jet.

A Jet investor presentation last summer reviewed by the Journal said it would need to raise about $3 billion by 2020, when it expected to reach profitability. The presentation anticipated that Jet would raise capital at a $4.8 billion valuation by January, compared with nearly $600 million months earlier.

Instead, in November investors valued it at $1.35 billion.

Fortunately for Jet investors, Wal-Mart needs help in its own fight against Amazon. Wal-Mart says $3.3 billion is worth it to bring on Jet's e-commerce team led by Mr. Lore, who previously sold Diapers.com parent Quidsi Inc. to Amazon for over $500 million.

"It might not be what [Mr. Lore] wanted to do, which was kill Amazon," said Battery's Mr. Brown. "But it's $3 billion in your pocket."

Uber, meanwhile, said it hoped to conquer China, spending hundreds of millions of dollars there to attract drivers and riders. But rival Didi matched its fundraising, leading to a price war many investors believed had no end.

Pressured to stanch losses, Uber merged its China operations with Didi in exchange for an 18% stake. Uber CEO Travis Kalanick said in a statement that sustaining its China operations was "only possible with profitability."

Propelled by a viral 2012 marketing video, Dollar Shave gained share in the razor market from Procter & Gamble Co.'s Gillette. But Dollar Shave also burned through cash, in part because it later turned to pricier, traditional advertising to power growth.

Peter Pham, an investor in Dollar Shave with tech incubator Science, said the company projected being profitable later this year.

Dollar Shave's investors ultimately calculated Unilever's $1 billion cash offer—about four times the startup's expected revenue for 2016—was the best chance for success.

DANIEL ACKER/BLOOMBERG NEWS

Above, a Jet.com distribution center in Kansas City, Kan., last year. The company is selling itself to Wal-Mart Stores for $3.3 billion.