



+44 (0)20 7667 6600

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Start-ups are getting richer

For all the talk about the current generation Y finding it tough to get jobs and buy houses, in many ways theirs is a gilded generation: large numbers of twentysomething year olds have already travelled far more extensively than their parents ever did (or will), and social networking in its widest sense means that being young now is probably cooler than it has ever been.

And it's not just travel and social networking. The world of business start-ups is changing beyond recognition, with access to capital easier than it has ever been, not just for good ideas but also for some that seem less good, or even downright fanciful, at least to anyone over the age of about thirty. Everyone knows that there is a nice tech bubble building in California, but what is perhaps less well known is that start-up businesses that have already raised capital are coming back for more – and getting it – even when there is no apparent need for it.

For example, Quora, a Q&A website, has barely dipped into the \$60m that it raised two years ago. And yet it has recently announced that it has raised a further \$80m; not bad for a business with 70 employees but no revenue. And they are not alone – Nextdoor, another start-up, raised a further \$60m last year, despite having plenty of cash in the bank. Its chief executive remarked: "There's an expression in Silicon Valley: eat when the food is passed." He went on to say he had no need for the capital, but the cash "gave his company added security and decreased the likelihood that it would simply go up in smoke". So that's alright then.

Why is this happening? A number of reasons: first of all, the cash is available. Investors are literally awash with liquidity, and many are looking for some of the astonishing returns that can be made in the right start-ups, even if the failure rate is high. On the other side of the deal, young businesses are tending to raise more money than they immediately need. Instead of raising what may be needed for a year or two, they are raising what they expect might be the entire capital requirement whilst remaining private. In the meantime, what are businesses like Nextdoor doing with the money? That's simple: they've put it into money market deposit funds. Possibly not the sort of return their venture capitalist supporters were expecting!



Berry Asset Management PLC
79 Pall Mall
London
SW1Y 5ES

t : +44 (0)20 7667 6600
f : +44 (0)20 3427 5400
w : www.berry.co.uk

Pall Mall, London, SW1Y 5ES, United Kingdom or email unsubscribe@berry.co.uk.

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