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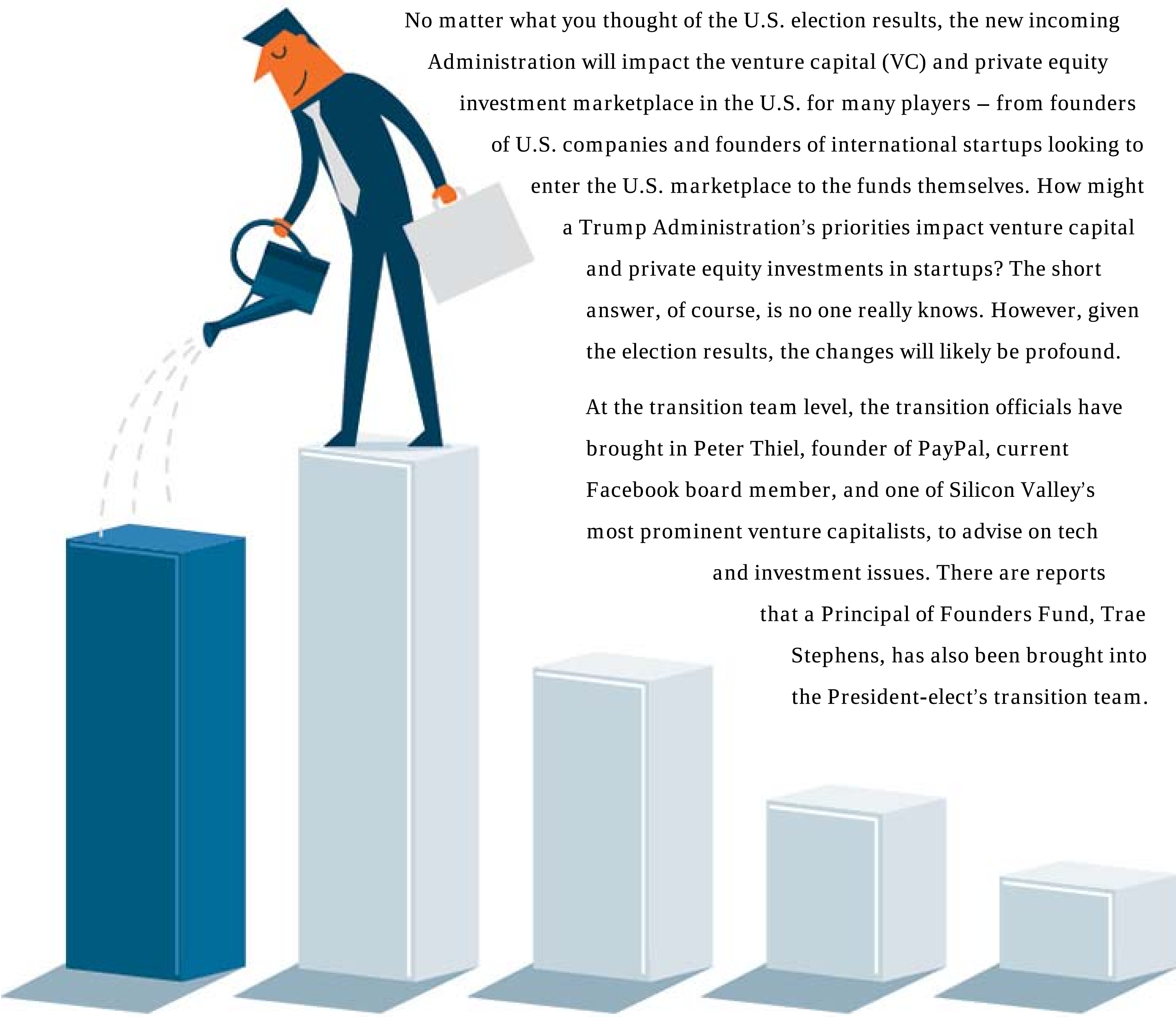
Trump Administration Impact on Venture Capital Investments in Startups



No matter what you thought of the U.S. election results, the new incoming Administration will impact the venture capital (VC) and private equity investment marketplace in the U.S. for many players – from founders of U.S. companies and founders of international startups looking to enter the U.S. marketplace to the funds themselves. How might a Trump Administration's priorities impact venture capital and private equity investments in startups? The short answer, of course, is no one really knows. However, given the election results, the changes will likely be profound.

At the transition team level, the transition officials have brought in Peter Thiel, founder of PayPal, current Facebook board member, and one of Silicon Valley's most prominent venture capitalists, to advise on tech and investment issues. There are reports that a Principal of Founders Fund, Trae Stephens, has also been brought into the President-elect's transition team.

In addition, David Sacks, CEO of Zenefits, a cloud-based software as a service (SaaS) company that offers human resources managements platform, is stepping down as CEO, after having discussions with the Trump transition team.

Given the apparent cultural disconnect between activist tech community and Trump policies, it will be important for the new Administration to surround itself with experts both in technology and investments so that it could tap into the tech ecosystems around the U.S. and the world for practical advice. To that end, the Trump transition team has invited major tech industry leaders from Oracle, Cisco, Google, Microsoft, Facebook and Apple to attend a roundtable to be held in mid-December.

With respect to the actual business climate for investment (aside from IPO's and the public markets), the venture capital and private equity markets already appear ready for a change of course. At a simple level, there are already signs that the business climate is moving into a more conservative agenda phase with a focus on basic types of developments. All the discussion about infrastructure improvements, for example, clearly highlights the areas that are going to receive attention from the new Administration. Unconventional approaches to policies are to be expected and the tech community's thesis of disrupting markets is not unlike the new Administration's urge to shake things up. With all the new emphasis on emerging technologies, there is no reason to believe that venture capitalists will not continue to invest capital in interesting, compelling and disruptive startups, whether those are founded by U.S.-based founders or even founders outside of the U.S. who are entering the American marketplace. What may change is the emphasis. For example, with new attention to cybersecurity in the U.S. election, there could be interesting opportunities in the cybersecurity space, which may see more activity. At the same time, the emphasis on manufacturing, may usher in a new era of investment in "smart manufacturing" technologies. Moreover, government infrastructure spending may result in new technologies being built for smart city applications and infrastructure and logistics management.

There are, of course, other areas that could see dramatic shifts. With the expected appointment of Tom Price and a Republican-controlled Congress dedicated to scaling back, rewriting and repealing large portions of the Affordable Care Act, investments in digital health companies will likely be geared to the future, next phase of healthcare reform. For VCs dedicated to business model innovation, digital health startups that look to extract value through innovation will likely receive the most interest.

Tax policy and regulatory changes will also clearly impact the investment climate in the U.S. Changes to the laws and regulations relating to the repatriation of overseas cash held by U.S. companies could bring in billions, if not trillions, in newly added capital investment into the U.S. In addition, reducing the corporate tax rate on profitable U.S.-based C Corporations from 35 percent to 15 percent could make the U.S. more attractive as an investment destination and could encourage American companies to locate more operations and more employees in the U.S. However, there could be other policy changes, which could alter the makeup of the investment funds themselves. For example, any changes to the carried interest could impact the venture capital fund and private equity partnership structures. It is too early to tell if any of those proposals will be passed, but the President-elect's pick for Treasury Secretary, Steven Mnuchin, a Goldman Sachs alumnus, has already indicated that a major priority will be dropping the corporate tax rate from 35 percent to 15 percent (on the tax side) and rolling back parts of the Dodd-Frank laws and other financial regulations (on the regulatory side). It is possible that the Consumer Financial Protection Bureau (CFPB) may lose its regulatory muscle under a Trump Administration, potentially giving some fin-tech companies (particularly those developing and expanding lending platforms) more leeway to experiment in the marketplace.

Of course, irrespective of the new incoming Administration, the marketplace will likely largely dictate the types of investments that will be made over the next four to eight years. With driverless cars and trucks on the horizon and smart cities sprawling, the venture capital and private equity investments of tomorrow will focus on what some, such as Duncan Davidson of Bullpen Capital, predict will be the massive disruption ahead as the U.S. and the world enter into the Fourth Industrial Revolution. As we move away from the mobile social iPhone apps and SaaS company phase of investments, the investments of tomorrow will focus on robotics, 3D printing, artificial intelligence, machine learning and related analytics, virtual reality, augmented reality, connected smart devices, and the Internet of Things. No matter what the upcoming Trump Administration brings, the next wave in the venture and private equity cycle is coming in 2017 and beyond. On the tech side, founders of Platform and SaaS companies (as well as other types of companies) should in such scenario plan for the future of frontier tech startups with all its implications.

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