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Big investors have been slashing valuations on stakes in private companies like Palantir and Sweetgreen. But bankers say there could be a quick fix.

Bradley Saacks and Meghan Morris Aug 6, 2020, 4:12 PM

Palantir cofounder Peter Thiel has seen his startup devalued by BlackRock recently. SAUL LOEB/AFP/Getty Images

Some of the world's most well-known private companies have lost value since the pandemic's start, according to their mutual-fund backers, securities filings show.

Even before the pandemic hit, a survey of venture capitalists found that a majority believed unicorns were "significantly" overvalued.

Bankers and valuation experts see a potential quick fix to falling valuations: SPACs, which have taken Wall Street by storm over the last month.

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Palantir, Airbnb, WeWork, and Sweetgreen have all had their valuations cut in recent months by the biggest asset managers in the world.

While some of the cuts may have been tied to pandemic-specific developments like a plunge in global travel, some market-watchers say it was time for private valuations to come back down to earth anyway.

BlackRock cut its valuation of its stake in billionaire Peter Thiel's Palantir's by nearly 10% from the end of last September to the end of March, according to securities filings. Airbnb, meanwhile, was devalued by Principal Global Investors by 20% from the end of March to the end of June — after Principal had already cut the startup's worth by 30% in March alone.

WeWork and Sweetgreen have also been devalued, by Fidelity and Franklin Templeton, respectively as the global coronavirus pandemic has emptied offices and shuttered restaurants.

WeWork's valuation took the largest hit, with Fidelity valuing the coworking giant at 55% less at the end of July than what it did at the end of March. Sweetgreen meanwhile was valued at roughly 8% less by Franklin Templeton at the end of April than what it was last fall.

WeWork, Palantir, Airbnb, and the asset managers declined to comment. Sweetgreen did not respond to a request for comment.

See more: Investors' usual way of valuing companies is under scrutiny— and it could mean the end of the unprofitable unicorns that dominated in the last decade

Venture capitalists were already second-guessing themselves before the pandemic exploded. A survey of VCs published in January's Journal of Financial Economics found that 90% of investors believed unicorns are overvalued, with a majority saying these private companies are "significantly" overvalued.

"Uneven performance of unicorns as they go public suggest valuations are full," wrote Morgan Stanley analysts, speaking generally about the market in recent years in a Tuesday note that cited the study.

Despite the pandemic, broadly speaking, valuations, particularly for companies going public, "haven't fallen off a cliff," said Wayne Kawarabayashi, the head of M&A at tech-focused investment bank Union Square Advisors.

He said the coming months present multiple variables that could shift valuations, including US elections, the US-China tariff war, and a potential second wave of the pandemic.

But add in a private market that is maturing slowly and early investors growing desperate for liquidity in a possible recession, and the expanding unicorn market of last year begins to the look like the peak.

"The private market due to COVID and WeWork dislocations has been forced to mature," said Omeed Malik, founder and CEO of Farvahar Partners, which advises several unicorns on what to do next.

"You're not on top of a frothy market like you were 7-8 months ago."

Malik was previously an executive at Bank of America before being fired for what was characterized by the bank as harassment; Malik sued over defamation and discrimination, and received an undisclosed, multi-million-dollar settlement from the bank.

'Opportune time' to bet against unicorns

Natalie Hwang has been in the venture game for years, making bets on private companies like scooter startup Bird while she ran the investing arm of Simon Property Group. Now she's looking to bet against them.

Hwang's Apeira Capital, for which she hopes to raise $200 million, will take traditional venture bets on companies she finds promising in the distribution space, but she will also bet against startups she believes are overvalued.

"We can counter irrational, exuberant pricing in the market," she said.

"I think there's a potential for a big comedown. It's an opportune time to be launching this strategy."

Hwang, who previously worked at Blackstone, will target companies with valuations at $2 billion or above that she believes will lose 50% of its value over two to four years. Details around how she will execute short positions on private companies are somewhat hazy, though she told Business Insider that she has created a "customized construct" that took years to develop so she could create what she calls "valuation arbitrage."

"The goal is to expand the payoff structure of venture," she said.

SPACs save the day?

While valuations have decreased, bankers are still hesitant to call it a buyer's market — and a new financial engineering craze might offer an olive branch to some flailing unicorns.

SPACs, which stands for special purpose acquisition company, have exploded in popularity this year, with names like hedge-fund billionaire Bill Ackman and baseball executive Billy Beane headlining some new offerings. With billions ready to be deployed in a set period of time, SPACs may target unicorns — and potentially start a bidding war amongst themselves.

In Ackman's filing, he said his SPAC would target "mature unicorns" that are squeezed for more funding options and liquidity with a bevvy of late-stage investors looking to cash out.

See more: *What's a SPAC? Inside the unstoppable rise of 'blank-check companies,' the IPO alternative that startups and VCs are piling into.*

SPACs offer companies a quicker exit strategy than the traditional IPO. SPACs have raised more than $21 billion, up 145% from this time last year, per Goldman Sachs research. Drawbacks include higher fees than direct listings, the chance for, like an IPO, a first-day price pop, and uncertainty for SPAC investors about the eventual target company.

"It creates another avenue for liquidity," said Mark Zyla, managing director of Zyla Valuation Advisors.

"The more avenues there are for liquidity ... the more the valuation increases."

Disclosure: Palantir Technologies CEO Alexander Karp is a member of Axel Springer's shareholder committee. Axel Springer owns Insider Inc, Business Insider's parent company.