

Funding Deals Grow More Lucrative

FINANCE: Analysts and founders are bullish on tech

By GRACE HARMON

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Los Angeles has become an increasingly popular home to tech companies in recent decades, and several businesses in that sector raked in substantial funding in the fourth quarter of last year.

While fewer investments came in overall compared to previous years – the quarter saw the lowest number of deals since the fourth quarter of 2016 – investments and funding rounds going to L.A.-based companies are substantially more valuable than they have been in the past.

According to PitchBook Data, there were 203 deals overall in the fourth quarter, compared to 225 in the third quarter of last year and 178 in the fourth quarter of 2016. However, the capital invested per quarter has nearly tripled over those seven years, up to \$2.8 billion last quarter from just under \$1 billion in the fourth quarter of 2016.



Stylish: Lukas Czingier, Divergent's chief operating officer, with \$2 million hybrid sports car.

November and October of last year were a particularly lucrative time for tech companies, and hefty funding went to generative design and additive manufacturing company Divergent Technologies Inc., audio-

licensing platform Songtradr Inc. and artificial intelligence company Metropolis Technologies Inc. Divergent is based in Torrance, while the other two companies are in Santa Monica.



SVP of operations Lukas Czinger, left, and CEO Kevin Czinger with one of their company's vehicles.

Biggest raises

Divergent had the largest funding round of any tech company in the fourth quarter, according to PitchBook, with a \$230 million mid-November series D round. Chief operating officer Lukas Czinger said the capital is being used to expand Divergent's footprint, headcount and production capabilities.

Czinger highlighted the benefits of being headquartered in Los Angeles, such as its unique access to "top talent," and said he believes there's no better place to build a technology business. He highlighted the region's physical attributes, such as its high desert spaces,

as an asset for the testing of vehicles and aerospace technology.

"L.A. is absolutely in the middle of the current excitement around defense and dual-use technologies," Czinger said. "There is a reason almost all of the established aerospace and defense primes and automotive (equipment manufacturers) have facilities in L.A. and the surrounding region. This established industrial base further creates a very attractive environment for software and hardware startups that operate in the same industry or sell into these businesses."

Songtradr, meanwhile, \$70 million of series E funding in

mid-November. A Songtradr spokesperson said that while the company has a strong shareholder base, it thinks the tech industry in Los Angeles has slowed down and the high costs of running a business in California may lead to an increasing number of companies leaving to operate in more "business-friendly" parts of the country.

"We are in a very different and sobering economic climate compared to two years ago," the spokesperson said. "Founders need to be realistic about valuations and the value of growth versus profitability."



Lloyd Greif

Growth ahead?

The sentiment that the tech industry and its financial climate have cooled is not shared by all, and others believe the field is continuing to grow and diversify.

Lloyd Greif, president and chief executive of downtown-based investment bank Greif & Co., said that tech entrepreneurs have plentiful opportunities to have their innovation rewarded with investment, adding that California's higher income taxes and regu-

latory red tape barriers are balanced by the region's strong capital market.

"L.A. has blossomed as a venture capital center and as a tech center in recent years," Greif said. "The economy itself has broadened and, because of the joinder between technology and entertainment, it attracts a lot of capital."

Olav Sorenson, a professor of strategy and sociology at the UCLA Anderson School of Management, added that while raising funds has become more

difficult, California has not been disproportionately affected by rising interest rates. In addition, he said, startups rarely migrate to other locations once established.

"Even if other places might offer lower taxes and lower-priced office space, for startups, what matters more is where they can access talent and connect with valuable partners," Sorenson said. "Few places can match the diversity and depth of L.A.'s talent pool."

Greif added that companies leaving the area are usually more mature, have already gained access to sufficient capital and are now worrying about the taxes they're paying and the cost of living for employees. He said that while the city is an expensive place to do business by nature, it's the "entrepreneurship capital of the world" with a strong diversity of focuses within the tech industry.

Another big deal of the fourth quarter went to EVPassport Inc. The Santa Monica-based electric vehicle charging platform company received \$200 million in October when investment firm Northleaf Capital Partners Ltd. purchased a majority stake. EVPassport Chief Executive Hooman Shahidi, who is also a partner at Boston-based Mendoza Ventures, said that the phenomenon of increasing investment



SpaceX Chief Executive Elon Musk

sizes with decreasing deal counts is not specific to Los Angeles. He said that investors are looking to “invest more capital in a better deal,” resulting in deals taking longer and becoming more complicated as investors increase their diligence processes.

“This is now a ‘look before you leap’ investing environment, and certainly a couple of years ago you didn’t even bother, you just leapt... investors are more selective, more cautious and are doing more intense due diligence,” Greif said. “And that’s a good thing, because it’s a healthier market. Venture capitalists are moving more cautiously in this environment, they’re sharpening their pencils more and you’re seeing more independent vs. herd decision making.”

Some tech companies, such as Metropolis Technologies, used their investment to purchase other entities. Metropolis

closed \$1.7 billion of funding in early October, consisting of \$1.05 billion in series C stock funding and \$650 million of debt financing, and is using that to acquire Chicago-based SP Plus Corp., a technology and operations management provider. The deal, valued at approximately \$1.5 billion, is set to close this quarter. Alex Israel, Metropolis chief executive and co-founder, remains “bullish” on the local tech ecosystem and believes venture capitalists will continue to take an interest in the market.

“I’m confident we’ll continue to see significant growth in the number and size of venture capital firms with a presence in L.A.,” Israel said. “The increasing number of L.A.-based unicorns and companies (with initial public offerings), like CrowdStrike and SpaceX, over the last several years has made our region impossible to ignore.”

Between the fourth quarter of 2022 and the first quarter of last year, data from eShares Inc. showed that \$1.82 billion in investment went to Los Angeles companies, and an overwhelming 40% of that went to SaaS companies alone. Considering the overall \$2.8 billion of capital invested here last quarter, the city’s financiers clearly have not forgotten about tech.

Although overall deals dipped in the fourth quarter, Greif said that looking only on a quarterly basis can distort things. On a longer-term basis, he said, signs indicate that the area remains a vibrant ecosystem for companies across industries such as consumer products, entertainment, media, software and aerospace/defense, particularly because of the quick growth of venture funds.

“All those new venture funds, typically one of the first things they do is invest locally, because it’s all about the network and it’s all about where you’re seeing opportunities,” Greif said. “These homegrown venture capitalists are a huge strength of L.A., and a majority of those dollars do go into tech. It’s a very vibrant tech ecosystem still, and a very supportive one.”