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Tech startups stay private to safeguard innovation despite strong valuations

Article

The news: The bloom may be off the rose for high-flying tech startup IPOs as big names turn instead to private funding rounds.

- Industry titan **OpenAI** secured a mammoth $6.6 billion in the fall, while **Perplexity** closed about $500 million of funding for its generative AI (genAI) search engine.

- **Databricks** raised $8.6 billion in December—its 13th funding round so far—and **Stripe** raised about $642 million.

Zooming out: The tech IPO market began to rebound last year, including prominent listings from **Reddit** and **ServiceTitan**.

However, some big names are holding out due to gaps between public and private valuations, per Renaissance. Despite **SpaceX's** $350 billion valuation, for example, its recent $1.25 billion funding round signals the company is nowhere near considering a public listing.

"If SpaceX, Stripe, and Databricks are any sign, hot AI tech unicorns like OpenAI and **Anthropic** can stay private indefinitely," Renaissance senior strategist **Matthew Kennedy** said.

Close to the vest: While going public can bring substantial new capital, it adds a slew of public reporting and disclosure requirements from the **Securities and Exchange Commission** (SEC).

- Contentious issues with publishers and the competitive AI market could be dissuading some tech companies from putting all their cards on the table: Revealing details of training data could be an anxiety-inducing move for those facing allegations of content theft and data scraping.
- Keeping a company private could also help companies maintain their competitive edge by safeguarding models' algorithms and prompts.

Ups and downs: AI is also unpredictable—and extremely expensive.

- Even OpenAI is losing money on its products, a fact that the company appears fine with but one that could create animosity with shareholders if OpenAI went public.
- The timeline and potential for returns on AI investments remain unclear, and as investor spending surges, tangible financial results are in demand.

Our take: Going the private fundraising route is a financial decision but may also be a marketing-driven decision to protect companies' competitive edge and brand integrity.

While this loosens the leash on showing quick financial returns on tech innovations, relying on big-name private investors could limit flexibility in partnerships and business decisions down the line.

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