



Sanjeev Yamsani <yamsanisanjeev@gmail.com>

Dealmaker: AI Anxiety and Political Spats Hang Over Silicon Valley

1 message

Kate Clark <hello@theinformation.com>
Reply-To: Kate Clark <info@theinformation.com>
To: Sanjeev Yamsani <yamsanisanjeev@gmail.com>

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Dealmaker



By Kate Clark

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There was a palpable sense of trepidation in the air in San Francisco and on Sand Hill Road during my latest visit last week.

Venture capitalists are increasingly stressed by the frenetic pace of artificial intelligence deals, which they say resembles the frenzied check-writing of 2021. They are also growing more concerned about the lack of "moats"—unique competitive advantages—that AI startups possess, as well as the poor quality of their revenue, which investors say is often not sticky or predictable, if it exists at all.

All of these concerns are on top of the dearth of initial public offerings and successful mergers in tech. As Cory [wrote](#) today, bankers and lawyers have “already written off 2024 as another lost year” for tech IPOs.

Add to that: increasingly unhinged political discourse spilling out of Silicon Valley.

Historically, most venture capitalists have shied away from public political endorsements. But that changed this month when Marc Andreessen and Ben Horowitz [publicly declared](#) their support for former President Donald Trump.

After that, the presidential race sparked a new Twitter feud between David Sacks, another Trump supporter in the tech community who accused President Biden of [staging a coup](#), and

Paul Graham, while Vinod Khosla argued with Elon Musk. Behind closed doors, many investors expressed embarrassment over some of these public disputes.

Beyond politics, VCs are anxious about the competitive moats of their startups, or what sets a business apart from its competitors. Investors are noticing a number of very similar companies growing rapidly, especially in sectors like AI legal tools, where startups like Harvey are competing with EvenUp.

Initially, investors were thrilled with the "hockey stick growth" of AI startups only to realize that many others in the same space are also flourishing, and there's little to prevent customers from switching from one company to another.

Despite these realizations, the momentum for AI deals hasn't slowed. Investors who previously held back on entering the generative AI market are now jumping in, much to the frustration of others who are desperate for more time to diligence these companies.

As one investor summarized it: "The thinner the moat, the higher the valuation." Irrational exuberance, indeed!

A message from SAP