



2020 Annual Assessment

Today, First Avenue Ventures released the 2020 Funded Start-Up List. Thankfully, Birmingham added quite a few companies. This is wonderful; while striking an optimistic tone, our mid-year report, written in July of 2020, was unsure about the direction in which we were headed. Fortunately, at least from an entrepreneurial perspective, we ended up doing well.

Of course, the reason **why** we are doing well remains elusive. As 2021 so far looks to be an extension of rather than an end to last year's events, truly assessing 2020 may be a fool's errand. History is always the judge, and a little more distance from these events is needed before any truly clairvoyant assessment. From an entrepreneurial perspective, I still ponder the net effects of the pandemic as well as the political turbulence on start-ups in a general sense:

- Will the increased reliance on teleconferencing allow for entrepreneurial companies in multiple locations (not just the current geographical hotspots) to flourish?
- Will that same trend increase the ability of coastal institutions to invest in the tertiary markets, like Birmingham?
- Will a Congress controlled by the Democrats and a Democratic President find creative ways to engage and support entrepreneurial activity, such as the New Business Preservation Act and the Endless Frontier Act?
- Will a Congress controlled by the Democrats and a Democratic President work on regulations, such as re-classification of independent contractors, which could potentially decrease entrepreneurial growth?

I could argue either way for an answer to each of those questions. I would be both wrong and right, as the answers will be somewhat in-between. But what I do believe is that 2020 set in motion significant trends, some obvious and some less so, that will impact us for decades to come. When we go back to normal, things will be different. We will have to wait and see how.

One thing we did not do in 2020, at least from an entrepreneurial perspective, was stay still. Yes, some days may have been lost to scrolling through social media or hiding under the bed from a virus, but as we took stock in preparing the Funded Start-Up List, we found the amount of activity in 2020 encouraging.

As a reminder, the Funded Start-Up list was born out of the work done in 2018 by Innovate Birmingham, which was the first effort (to our knowledge) to try and canvass our entrepreneurial ecosystem. Realizing that some start-ups would fail while others succeed, a current list of companies in recent receipt of outside funding (which provides critical validation) would help give a good perspective of the overall health of the community. The sense at that time was that while much had been accomplished, much was still necessary.

Generally, we include companies that are not location-based that have received \$100,000 from outside parties in the last five years. We exclude restaurants and similar retail businesses, as these are location-based businesses. While crucial to the overall Birmingham economy, these businesses do not fit within the growth of the entrepreneurial start-up system, which is what we are trying to measure and what we believe to be most crucial to the overall health of the economy. While the standards of \$100,000 and five years are somewhat arbitrary, we believe they are good objective guardrails in judging the vitality of the start-up ecosystem. The \$100,000 standard represents a level of seriousness with validation from someone other than a founder. The five years standard represents a level of freshness important in evaluating the current status of the ecosystem: companies will automatically roll off, and if you follow this, coupled with companies that exit, annually, you will have a snapshot of whether the ecosystem is growing or not.

Thus, we are happy to report that the ecosystem is indeed growing: we have 85 companies on the list this year as compared to 56 companies last year. This growth is significant, particularly given where we were in the spring of 2020. At that point, I was exceedingly worried about the health of start-ups. I made the assumption -- and I was not alone in this -- that the capital markets would decrease due to the economic effects of the pandemic. While I am (obviously) not a stock market prognosticator, the prediction that a stock market decrease would lead to a decrease in overall capital for start-up funding did not occur (or, at least, it has not yet). That is probably the single most important factor in the robust nature of this entrepreneurial report.

But is this a case of a rising stock market lifts all boats, or is this something unique to Birmingham? Obviously, I have a bias towards Birmingham, and I also do not have the familiarity with what is going on in the start-up market more generally. However, I do think certain trends are particularly in Birmingham's favor, namely:

1. **UAB had some wins.** In8Bio (formerly Incycus) filed to go public, and while they have not done so yet, that indicates financial success around the science. UAB also has a strong pipeline of companies – Yuva Biosciences; Sunfire Biotechnologies, LLC; TriAltus Bioscience; Reliant Glycosciences, LLC; Humbolt Innovations; HemEdits; and CNine BioSolutions, LLC. Generally, UAB is beginning to turn out more companies, and they're doing so more efficiently and more effectively.
2. **Support services are in place.** Five years ago, the only hub for start-ups in Birmingham was Innovation Depot and their accelerator, Velocity Accelerator. Today, multiple accelerators, incubators, funds, and other support services for entrepreneurs are active in Birmingham (see BhamBizHub for a complete list of services). In fact, a big contributor to the Funded Start-Up List was TechStars Alabama EnergyTech Accelerator, which provided not only expertise but capital to several companies new to this year's list.

3. **We have had exits.** While we had a big year for exits in 2017 (e.g. the year of Shipt, Hospicelink, and Therapy Brands), the concern I had was that 2017 was going to be an anomaly. 2020 saw several positive exits: Fetch Talent, MainStreet Family Care, Select Providers Network (SPNet), and StrategyWise.

Are there issues specific to Birmingham? Of course, and two issues in particular should be of community focus in 2021:

1. **Lack of minority founders.** While we do not have good demographic information on all of the founders, empirically, one can see that not enough people of color are on this list. Yes, there are some, but if Birmingham is going to build an inclusive economy, we need to be mindful that this list is full of white people. Organizations such as Bronze Valley, as well as programs like the Community Foundation of Birmingham's inclusive economy initiative, are critical, but more resources are needed.
2. **Lack of funds.** Yes, the Alabama Futures Fund is active, but we need more funds. I believe that in 2021 we risk the number of investable deals in Birmingham exceeding the investment capital in the community to do those deals. If that happens, we will lose exciting new companies to other cities or other opportunities. Transitioning the economy is a game of attrition. Pooled capital helps diversify risk and professionalize the management of the portfolio. We need more.

That said, just six to nine months ago, I was questioning the very existence of the Birmingham entrepreneurial world at all. We should celebrate where we are. Turbulent times may continue, but the start-up community has survived. I believe we are now more aware of the economic transformation; it is happening rapidly -- perhaps, in some cases, dangerously so. As a community, our success depends on evolving with it. We are doing that, but an economic evolution is not a means unto itself but a subtle yet profound change, with a paradoxical push-and-pull of progress versus the status quo. The change will be over with before we notice we were even changing. How we feel about that change is irrelevant. The only thing that matters is how we operate in these new times.

A Note on the Funded Start-Up List: No representation is made as to the accuracy and completeness of the information provided. We make every effort to be accurate, but this information is notoriously difficult to find and verify. If you find any errors, please let us know.