

Transcript

What surprised you the most about 2022?

Kevin: I was surprised that, despite market volatility, 2022 was still a very strong year for private fundraising. Of course, private markets tend to lag behind the public markets, so we're now beginning to experience headwinds in the form of valuation corrections. However, at least for now, it appears that many companies that still have options for raising capital to weather the incoming economic uncertainty.

Jeremy: I was surprised that we haven't yet seen a groundswell of [stock option repricing](#) among private companies. However, that could change in the next three to six months as more companies conduct [their annual 409A](#) and receive potentially lower valuations. With continued economic uncertainty on the horizon, I was not surprised to see companies reducing headcount and reducing employee perks.

What are some of the challenges facing private companies in 2023?

Kevin:

The big challenge private companies are facing is not knowing what will happen with the economy. We might experience a global economic recession that lasts multiple quarters, or we might not. Either way, companies have to operate and make big decisions about headcount and business growth with a lot of uncertainty.

Similar to previous downturns, many private companies are beginning to see their equity lose its upside value, which can be very stressful for

employees, especially those used to seeing their equity value rise. We know that equity can be a critical employee motivator, so leaders will likely have to reset expectations around equity value growth in the short term.

Jeremy:

Companies likely have a large segment of their employee base that has never experienced a financial crisis or economic downturn. Their financial stress will be elevated, especially as they read about mass layoffs and market volatility. The big challenge for companies will be figuring out how to communicate effectively with their employees. Yes, it's important to be forward-thinking and keep employees aligned on the long-term business strategy. Still, leaders will also have to balance that long-term vision with the current financial realities that their employees are facing.

What are some of the most significant opportunities for private companies in 2023?

Jeremy:

Historically, some of the best companies have been built during economic downturns. For the last few years, many companies have been focused on growth at all costs. However, I think the biggest opportunity for companies is getting their financial operations and back-office functions in order. Strong financial foundations allow companies to operate smoothly, so when growth at all costs returns (and it will), they'll be ready to hit the gas.

Kevin:

I think companies may also be in a better position to source the talent they need to grow their business. The talent market has been incredibly

tight and competitive in the last few years. As we're seeing massive layoffs happen across the tech industry, earlier-stage companies may now be able to compete for a wider pool of available talent.

How is Morgan Stanley at Work supporting private companies in the current climate?

Kevin:

As companies navigate uncertainty, our goal is to help them stay agile and manage their ongoing equity and liquidity needs. Our Equity solutions are designed to help companies at every stage get the most out of their equity compensation programs and ensure they are configured to help meet the needs of their shareholders. For later-stage companies, we continue to help them stay transaction-ready in the event of a future IPO or exit event. In the meantime, they can continue facilitating organized liquidity events that relieve the downward pressure of shareholder liquidity through a controlled process.

Jeremy:

In addition to refining our private market solutions, we're being very thoughtful about expanding our team and organization alongside the needs of our clients. Our goal is always to ensure that we have the products and internal expertise to serve the needs of our clients throughout their journey from startup through to public company.

What makes Morgan Stanley at Work unique is that we're here to support not only businesses but also the employees within them. We do that by providing financial wellness resources, 1:1 support with Financial Advisors, and equity education, all of which we believe will be critical as employees navigate the current climate.

What has inspired you and given you hope for 2023?

Jeremy:

2022 was a challenging year, and 2023 might only get harder. But the hard years are often when you get to learn the most. It's easy to get dragged down with pessimism but spending a lot of time this year with my kids and my local Scouts of America troop has given me a lot of hope for the future. Seeing their positivity and optimism, even as they've gone through some pretty significant life changes, is a reminder that there are opportunities in adversity for all of us to grow and become better humans and professionals.

Kevin:

I'm kind of excited for a reset. Between several years of zero interest rates and the pandemic, the last few years haven't really felt like reality. Going into 2023, I think there may be some hardship in the short term, but it will also position us to build more sustainable companies and economies in the long run.

In the meantime, my focus and energy remain with our clients, who are building extraordinary products and businesses, and our incredible team at Morgan Stanley at Work, who work daily to support those clients.

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