A photograph of two men in business attire standing on a high-rise balcony, looking out at a cityscape. The man on the left is wearing a light blue striped shirt and dark trousers, with his hands clasped behind his back. The man on the right is wearing a blue blazer over a white shirt and dark trousers. The background shows a panoramic view of a city with a large body of water and distant hills under a clear sky. A yellow banner is overlaid on the left side of the image, containing the title and subtitle.

# A tale of two markets: early-stage opportunity, with late-stage headwinds

EY US VC Trends 2023 – Q3 report

# Venture Capital (VC) investment in Q3 2023 remained flat, but with continued interest in generative AI.

## In brief:

- 01 VC-backed companies raised \$29.8 billion in Q3 2023, flat from the \$29.9 billion raised in Q2 2023.
- 02 Economic uncertainty and the overhang from existing money in the market continue to limit investor appetite.
- 03 Recent high-profile IPOs did not perform as hoped; however, there is a record number of VC-backed companies that must access the public market.

### Author

**Jeffrey Grabow**

EY US Venture Capital Leader  
Ernst & Young LLP

## YTD VC investment trends

The venture capital market remained quiet over the summer, which is typically a period of low investment activity due to seasonality. In Q3 2023, VC-backed companies raised nearly \$30 billion, flat compared to Q2 2023.

While activity picked up slightly in September after the summer slowdown, we expect early-stage companies to experience more success fundraising at this time. However, it will continue to be a slog for companies trying to raise funds in later-stage rounds. As a result, established companies are increasingly engaged in down rounds as they [seek capital to finance growth](#).

## US venture capital investment trends over time

Our interactive database provides a historical analysis of US VC trends. Analyze by sector, date range, region, deal stage, and more.

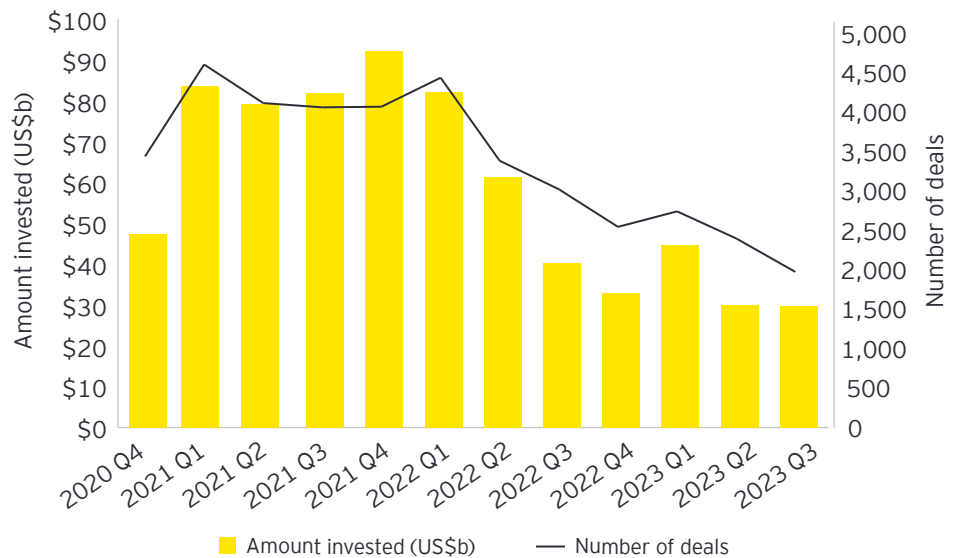


The overhang from previous rounds continues to impact investors' appetite for putting more funds into the market. Over \$1 trillion has been invested into VC-backed startups since 2018, and it will simply take time for the ecosystem to absorb this capital.

Fund formation has continued to decline since the highs of Q1 2022. In fact, Q3 2023 ranked as the lowest quarter for fund formation since Q3 2017. Given the amount of capital raised in recent years and slowing fund deployment, we do not expect a significant rebound in fund formation.<sup>1</sup>

### Deals and dollars invested

Equity financings in US VC-backed companies



Source: Crunchbase as of October 3, 2023, *Crunchbase*, [www.crunchbase.com](http://www.crunchbase.com), Ernst & Young LLP. We include equity financings into VC-backed companies headquartered in the US. Sources of cash investments include but are not limited to, VC firms, corporate investors, other private equity firms and individuals.

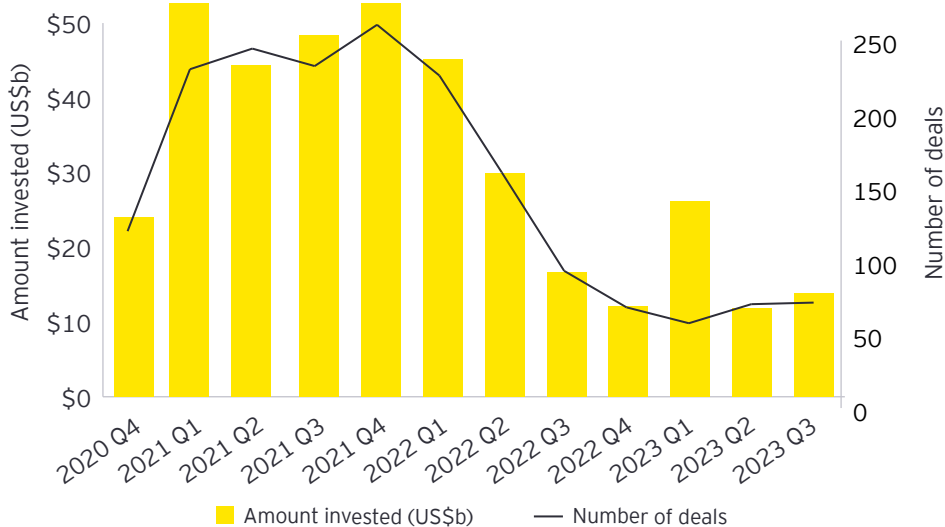


## Mega-round financing

Mega-round investment in Q3 remained flat in deal volume, while dollars invested increased by 17%. By number of deals, mega-rounds were the highest since Q3 2022. Since late August, three transactions surpassed the billion-dollar mark: artificial intelligence (AI), battery recycling and autonomous trucking. Of the top 10 deals, four – Denver, Pittsburgh, Houston and Reno – were outside of the typical hotbed venture investment markets.

### Mega-round financing

Investments totaling \$100m+, Q3 2023 VC update



Source: Crunchbase as of October 3, 2023, *Crunchbase*, [www.crunchbase.com](http://www.crunchbase.com), Ernst & Young LLP. We include equity financings into VC-backed companies headquartered in the US. Sources of cash investments include but are not limited to, VC firms, corporate investors, other private equity firms and individuals.

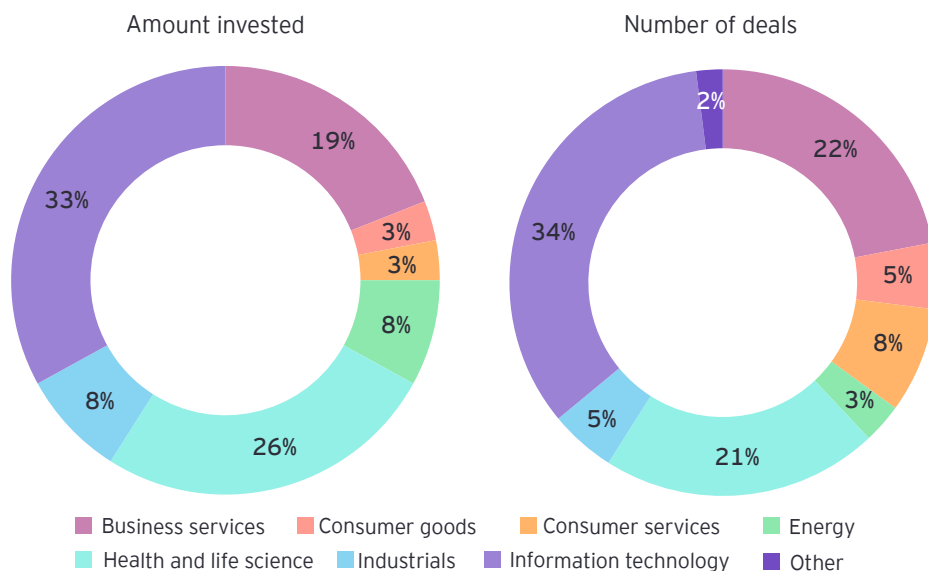


## Industrials and energy sectors show improvement

Two sectors showed improvement this quarter - industrials and energy. Both had two deals in the top 10. Overall, information technology, health care, and business and financial services ranked as the top three sectors in terms of dollar amount and volume. Continued support of energy is expected, particularly if there is more investment in materials and climate tech and greater demand for renewable energy sources. Generative AI (GenAI) requires significant energy resources, which could fuel greater investment in this area.

### Investment by sector

US VC investment across industries, Q3 2023



Source: Crunchbase as of October 3, 2023, *Crunchbase*, [www.crunchbase.com](http://www.crunchbase.com), Ernst & Young LLP. We include equity financings into VC-backed companies headquartered in the US. Sources of cash investments include but are not limited to, VC firms, corporate investors, other private equity firms and individuals.

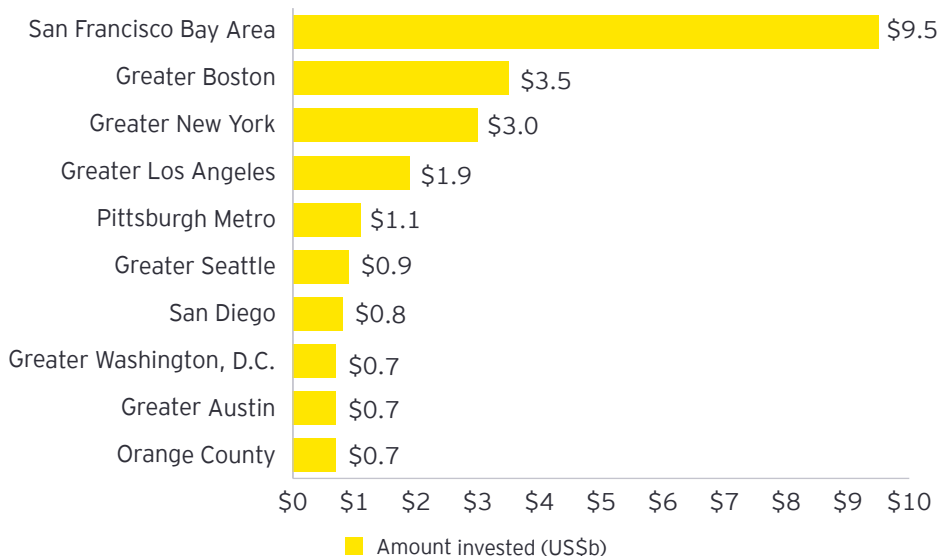


## Regions San Francisco, Boston and New York continue to rank

San Francisco, Boston and New York continued to rank as the top three regions for VC activity, with Boston moving past New York into second place for the first time since Q4 2018. AI investment has bolstered San Francisco’s continued high ranking. New York underperformed its typical investment levels, while Boston saw a high number of large deals. Pittsburgh broke into the top five in Q3 2023 on the strength of a \$1 billion-plus transaction for an autonomous trucking company.

### Investment by region

US VC investment in top 10 markets, Q3 2023



Source: Crunchbase as of October 3, 2023, *Crunchbase*, [www.crunchbase.com](http://www.crunchbase.com), Ernst & Young LLP. We include equity financings into VC-backed companies headquartered in the US. Sources of cash investments include but are not limited to, VC firms, corporate investors, other private equity firms and individuals.





## Overall outlook and advice for entrepreneurs

Investors are carefully considering risk as they make investments. The market for existing portfolio companies should continue to be challenging overall and be driven by their business model and traction. Founders must counter those concerns with a compelling value proposition and well-conceived plan for market capture and profitability.

New companies tend to have an advantage in this environment. They don't have the cap table baggage from recent market excesses. However, they must watch spend carefully and learn how to do more with less.

Depending on their cash position, many entrepreneurs may soon have to make tough decisions, especially if they are approaching the end of their runway. This may force many founders to consider selling or winding down their companies.

Right now, the market is contending with a record pipeline of companies needing liquidity, yet the forecast for the [reopening of the public markets continues to get pushed out](#). Companies should use this time to get prepared to enter the public markets. This will be time and money well spent that will ultimately pay dividends for stakeholders.



In this environment, entrepreneurs, those with new and older companies alike, will need to take a few basic steps as they plan to raise funds:

- 01 Continue to be diligent on burn rate: It may not buy you much runway, but it is still a good signal to existing stakeholders and potential investors to show that you're **managing cash** carefully and maintaining focus in a challenging market.
- 02 Seriously consider financing alternatives: Tap existing investors for bridge loans. Evaluate debt in all its flavors and draw down lines of available credit. Consider alternatives to venture debt, which will become increasingly competitive and expensive to secure. Pursue strategic alliances or sales
- 03 Prioritization of time is critical: If actively fundraising and getting minimal traction, refocus your energy on operations to show results, but keep an ear to the ground on financing opportunities by networking and staying connected within the ecosystem. Always consider whom you should be talking to. Start to lay the groundwork for the next fundraising cycle, so you can hit the ground running in January, one of the best months to start.

At this point, the jury is still out on whether the market has yet to hit bottom or whether early stage will continue to improve, while later-stage deals stagnate. For the immediate future, we expect fundraising will continue to challenge founders, so they will need to weigh their options carefully. Those that succeed, however, should be well positioned for long-term growth.

<sup>1</sup> Source: PitchBook, as of October 4, 2023

## Summary

With VC investment flat quarter over quarter, founders will need to continue fine-tuning their value proposition. Timing is critical, and entrepreneurs in need of cash should begin to prepare the groundwork for January, which is a peak period for fundraising.



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