

AI continues to drive venture capital activity


EY US VC Trends 2024 – Q3 report



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Deal volumes were lower, but large AI deals sustained the market.

In brief:

- 01 VC-backed companies raised \$38.0 billion in Q3 2024, a 12% decrease from Q2 2024.
- 02 AI deals represented 37% of all fundraising.
- 03 Deal volume continues to drop as existing VC-backed companies face increased expectations from investors.

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Four large investments that amounted to nearly \$7 billion in artificial intelligence (AI) companies helped prevent venture capital (VC) activity from significantly dropping quarter over quarter. Overall, AI-related companies raised 37% of total VC activity last quarter, similar to the level seen in Q2 2024.

For the quarter, VC investment totaled \$38.0 billion, down 12% from the \$43.5 billion raised in Q2 2024. The Federal Reserve's decision to lower interest rates by 50 basis points in September was a good sign. This lowers the cost of capital, rallies public markets and sets the stage for more exit activity going forward.



US venture capital investment trends over time

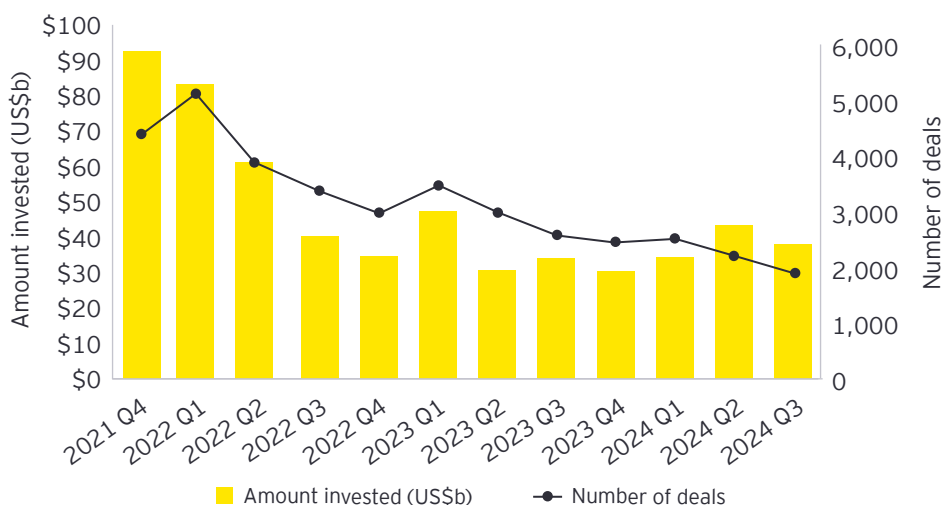
Our interactive database provides a historical analysis of US VC trends. Analyze by sector, date range, region, deal stage, and more.

While the VC market is still a long way from returning to the heady days of 2021, the market passed the \$100 billion mark for the seventh straight year. Even though deal count continues to decline, this is the reality of a market that must rationalize the frenetic activity we've seen in the past several years.

Fund formation is down 36% quarter over quarter, to \$23 billion. However, year to date, it's up 25% over the same period in 2023.¹ Significant dry capital remains on the sidelines. While the fund formation landscape was challenging in 2023, we've seen the market thaw. As with the trend we're seeing in startups, fewer funds are raising larger amounts of capital.

Deals and dollars invested

Equity financings in US VC-backed companies



Sources: "Crunchbase," Crunchbase website, www.crunchbase.com, as of October 2, 2024; EY analysis. 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 and exits for Q3 2024

Mega-rounds were down quarter over quarter. However, they are faring better this year, with 218 so far compared with just 180 during the same period in 2023.

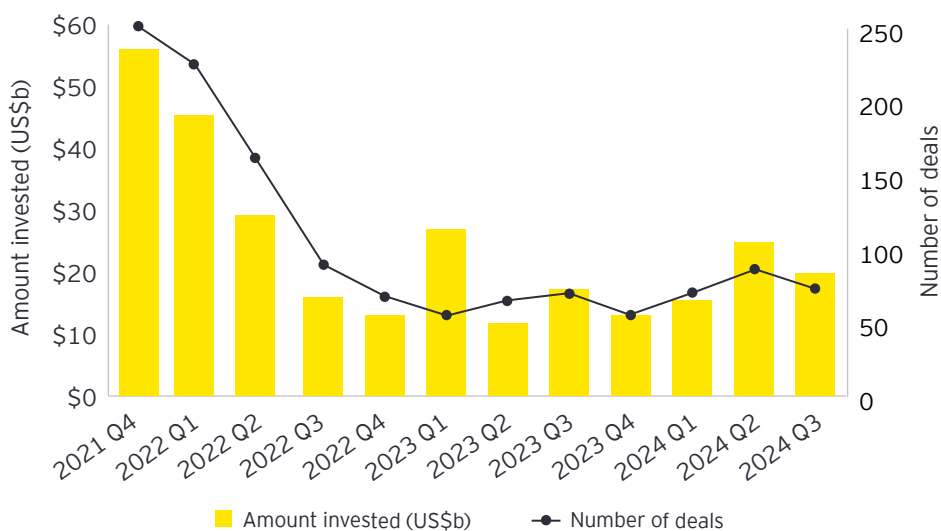
Three deals of more than \$1 billion were comprised of two AI-related companies and an aerospace and defense company. Health care continues to hold steady, surpassing IT by number of mega-round deals.

We expect to be up from a deal count and dollar perspective in 2024 vs. 2023, which will reverse a two-year trend of declining mega-round activity.

Exit activity remains low as the [IPO markets remained constrained](#) in Q3 2024. With uncertainty around the presidential election and geopolitical landscape, challenges remain for exit activity in Q4 2024. However, there is optimism for more activity in 2025 and beyond, which may have a positive trickle-down effect on large, established companies.

Mega-round financing

Investments totaling \$100m+



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AI-related companies dominate IT sector investment trends

Four of the top 10 largest deals last quarter were for AI-related companies, continuing a trend that has carried the market and IT sector now for the last few years. IT was followed by health care and business and financial services. The market continues to see reduced activity in FinTech companies.

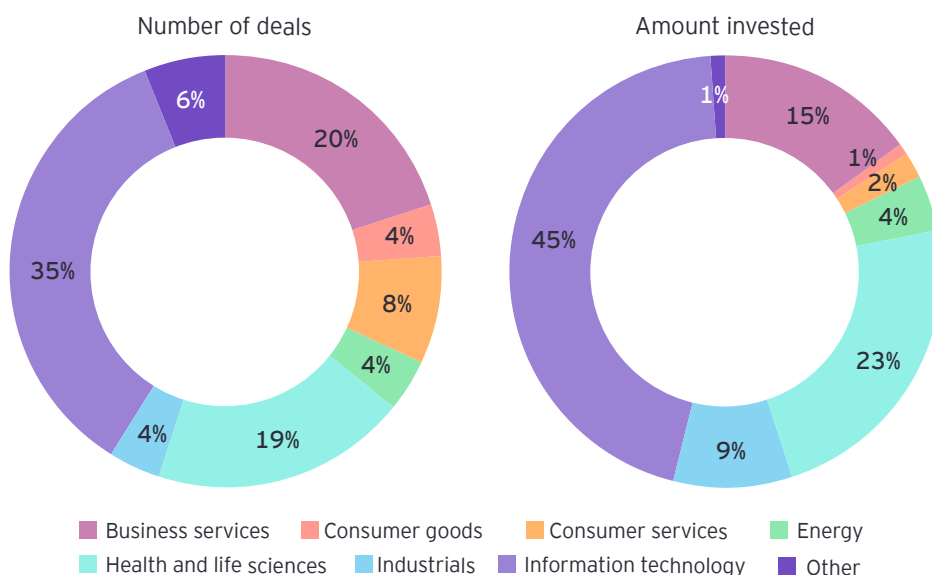
IT will benefit from AI advancements for an extended period of time. Within the IT sector, eight of the top 10 deals were AI-related companies in Q3 2024. The AI technology stack is being built with venture investment. This will evolve over time, and we will see several iterations and advancements that will provide numerous opportunities to back emerging companies.

Health care results attracted 23% of total Q3 2024 investment, with two of the top 10 deals last quarter. Within the health care sector, all the top 10 deals exceeded \$150 million, for a total of \$2.5 billion. Despite this, health care saw a quarter-over-quarter dip in deal count and dollar volume, which were down 9% and 18%, respectively.

The consumer goods and services sector saw a significant dip last quarter due to a lack of large deals, as well as low deal count. The top consumer-related deal was \$140 million for a hotel-booking solution, the only deal more than \$100 million.

Investment by sector

US VC investment across industries, Q3 2024



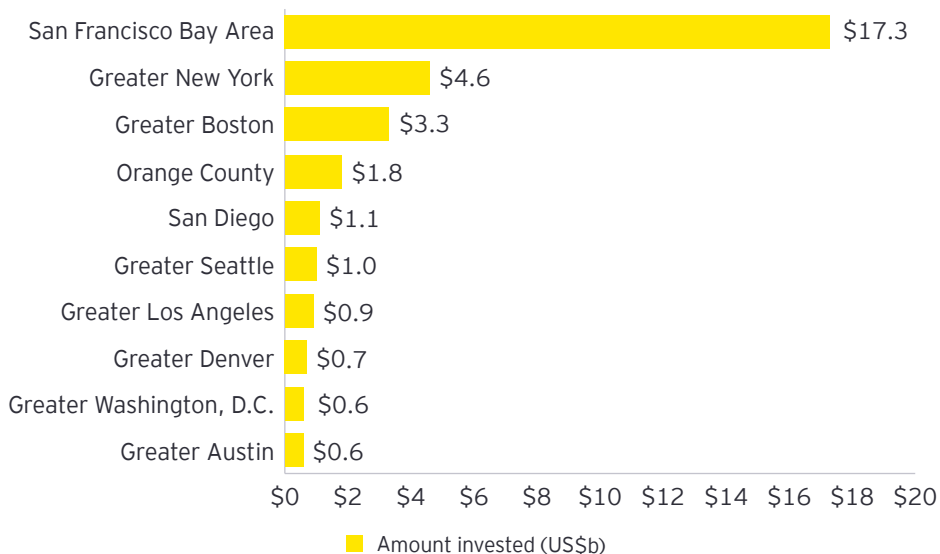
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San Francisco Bay area tops regions with significant technology investment

The San Francisco Bay area led the way with 45% of total investment, driven in large part by a \$5 billion deal for a self-driving technology company. New York and Boston came in second and third, respectively. Orange County emerged from the pack to finish fourth on the strength of the mega-round aerospace and defense deal. Los Angeles dropped to seventh, its first quarter below \$1 billion since Q4 2016. This was largely due to reduced consumer-related activity.

Investment by region

US VC investment in top 10 markets, Q3 2024



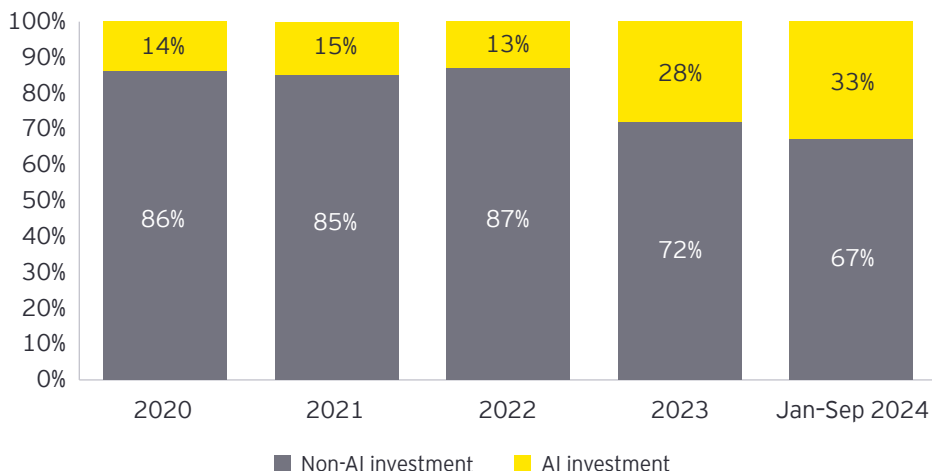
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Overall outlook

AI will dominate the landscape for the foreseeable future but unlike previous technology revolutions, such as the dot-com era, which was a consumer adoption story, AI is driven by enterprise adoption. These two segments leverage technology at different rates. Enterprises move more cautiously and need to keep return on investment in mind as they are beholden to quarterly reporting cycles. Given this, while the potential for AI is high, at any given point in the next 10 years, we might experience interruptions to the adoption cycle while the overall trend continues up and to the right.

Investment in AI

US VC-backed companies



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Moreover, most of the funds being funneled to AI-related companies are focused on building the foundation for this technology, such as developing and training models. While the effort to build out this infrastructure will attract the largest share of investor attention, for the near future, entrepreneurs will need to find ways to incorporate AI in their business plans. Companies that don't have a clear vision for AI in their businesses will have a difficult time raising funds in the current environment.

Connected to AI is a heightened interest and focus on energy. The energy infrastructure is both an opportunity and a limiting factor that play into the ongoing adoption of AI. We are continuing to keep an eye on how these sectors will unfold.

A "have" and "have-not" atmosphere will dominate the VC market. There are 54,000 VC-backed companies in the US startup ecosystem.² Just over half of those companies have raised money since 2022, with only 12% of those raising \$20 million or more. The companies that haven't raised funds in that time frame are nearing the end of their two-year runway and will need to raise capital soon.

Founders should remember that venture capitalists invest in people first, ideas second. Many things will not go as planned during an entrepreneurial journey. Investors seek leaders and management teams that can demonstrate they will survive in tough times and inspire their teams to achieve. Management teams that exhibit these traits with a solid plan will be the ones best positioned to gain investor confidence.

¹ Pitchbook, October 3, 2024.

² Ibid.



Summary

Investments in AI companies continue to boost VC activity, accounting for 37% of all VC investment in Q3 2024. The health care and IT sectors showed ongoing strength, and the Federal Reserve's decision to lower interest rates is a good sign for the future, lowering the cost of capital and setting the stage for more activity going forward.



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