

Artificial intelligence boosts Q2 2024 venture capital activity

EY US VC Trends 2024 – Q2 report





Deal count fell to its lowest level in more than a decade, while several large AI deals lifted total investment quarter over quarter.

In brief:

- 01 VC-backed companies raised \$42.9 billion in Q2 2024, an increase of 29% from the \$33.3 billion raised in Q1 2024.
- 02 AI-related companies raised 37% of total VC this quarter, more than double Q1 2024. AI continues to overstate the health of the venture industry.
- 03 Overall deal count decreased as investors continue to be selective about which companies to back in this era of lower activity.

Author

Jeffrey Grabow

EY US Venture Capital Leader
Ernst & Young LLP

Bolstered by a \$6 billion artificial intelligence (AI) deal, venture capital (VC) investment in Q2 2024 rose 29%, increasing to \$42.9 billion from the \$33.3 billion raised in Q1 2024. Without this deal and other AI-related activity, VC investment would have been down or flat quarter over quarter.

This uptick hardly means that the VC market has bounced back from the downturn of the past two years. Overall deal count still lagged significantly behind prior quarters, and we saw a 10% drop in seed volume year over year.

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.

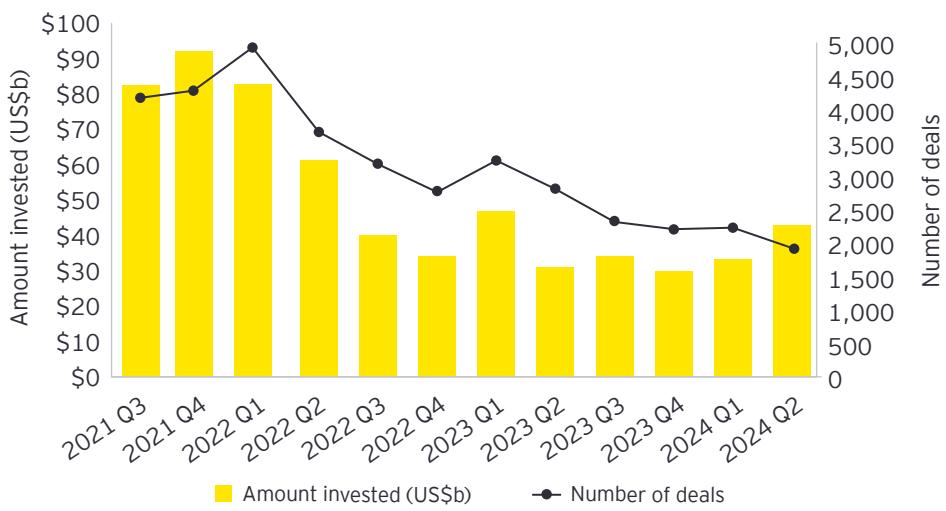


Looking ahead, AI will continue to be the engine that brings investors into the VC ecosystem. While there is a possibility that government or regulatory action could dampen investor interest in AI, we expect more companies to come to market in this space.

Fund formation amounted to \$32.1 billion in Q2 2024, which is almost triple Q1 2024. Nine funds raised more than half of the total invested, roughly \$17 billion.¹ This is an encouraging development in fund formation.

Deals and dollars invested

Equity financings in US VC-backed companies



Sources: "Crunchbase," Crunchbase website, www.crunchbase.com, accessed July 3, 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

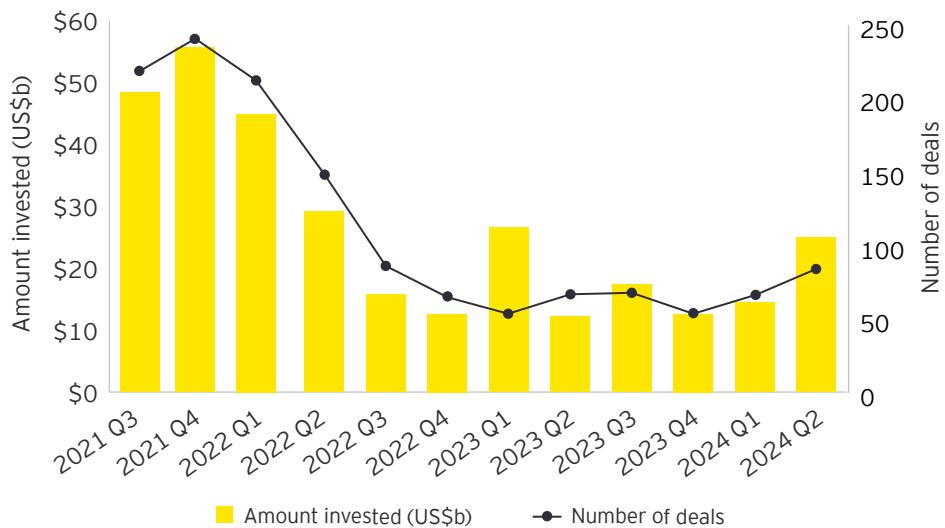
Mega-round investment increased last quarter by 71%, largely on the strength of the \$6 billion AI deal. AI companies accounted for four of the top ten deals, representing almost \$9 billion invested. Mega-round deal count also increased by 26%.

The strong bull run in venture investment since 2018 – with more than \$1.2 trillion invested into VC-backed startups – has resulted in a significant and continuing backlog of VC-backed companies that need to provide liquidity to investors. In this environment, we expect IPOs to return more capital than M&A activity. Heading into late 2024 and 2025, we hope to see this pipeline of companies hit the public markets.

Health care and technology have dominated [IPO activity so far in 2024](#) in terms of number of IPOs. Overall, 24 VC-backed IPOs² have come to market in the first half of 2024 compared with just 16 in the same period last year. Regardless of sector, investors continue to prefer companies with an established track record, meaningful scale and proven profitability.

Mega-round financing

Investments totaling \$100m+



Sources: "Crunchbase," Crunchbase website, www.crunchbase.com, accessed July 3, 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.

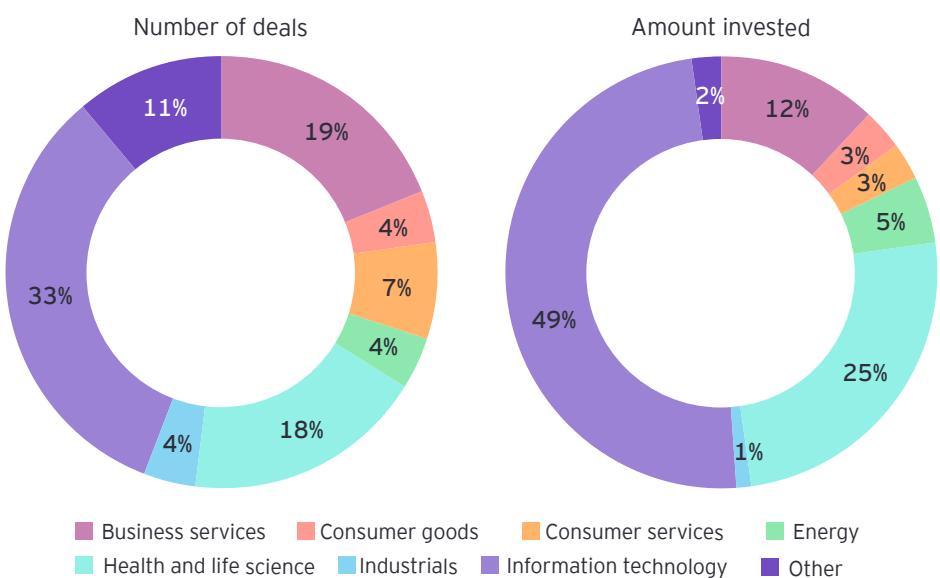
Sectors

Fueled by the strong performance of AI-related companies, IT accounted for nearly 50% of all funding in Q2 2024. The sector accounted for the top four largest deals last quarter and seven of the top 10 transactions in Q2 2024.

Consumer services is on track to beat its annual amount raised in 2023, albeit an off year for the sector. Similarly, health care is on track to beat its 2023 numbers. Moreover, one of the top health care deals this quarter was AI driven, the fifth largest deal that raised \$1 billion in Q2 2024. Energy is down 44%, a surprising dip for a sector that has performed strongly in recent years, though it saw an increase in deal count.

Investment by sector

US VC investment across industries, Q2 2024



Sources: "Crunchbase," Crunchbase website, www.crunchbase.com, accessed July 3, 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.



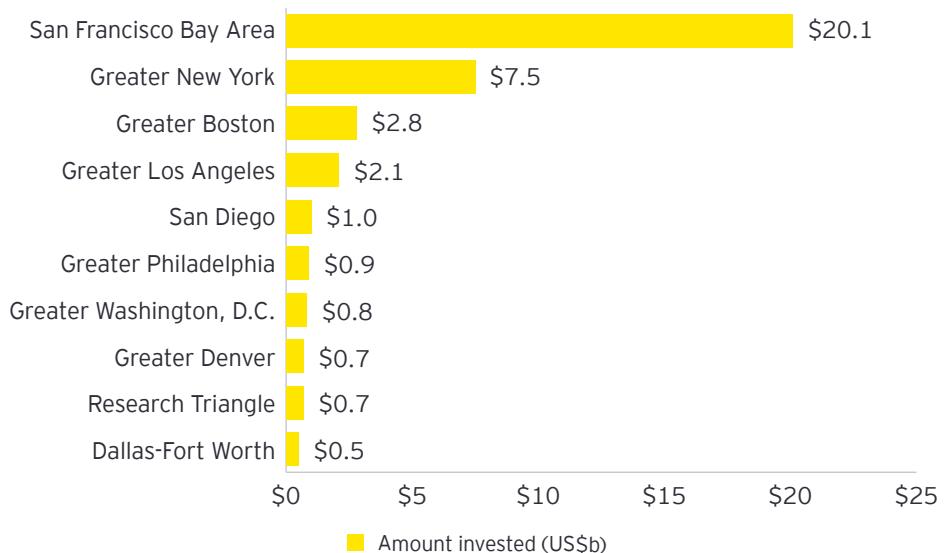
Regions

The San Francisco Bay Area – on the strength of those large AI transactions – once again ranked as the top region, followed by New York and Boston. New York raised more than two times Boston, a notable spread between second and third.

Los Angeles came in fourth, but activity dropped 10% over Q1 2024. The top five regions all raised more than \$1 billion in Q2 2024. Philadelphia had a \$300 million Series A investment in a biopharmaceuticals company, which lifted the region into sixth place.

Investment by region

US VC investment in top 10 markets, Q2 2024



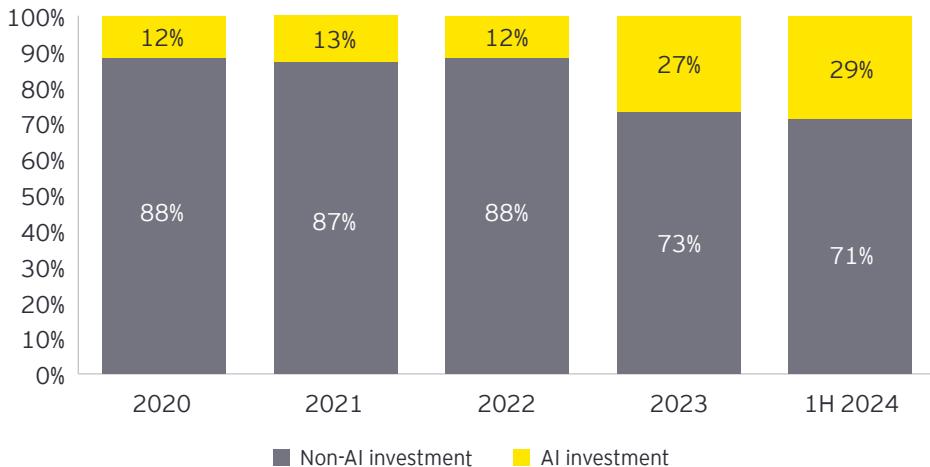
Sources: "Crunchbase," Crunchbase website, www.crunchbase.com, accessed July 3, 2024; EY analysis. We include equity financings into VC-backed companies headquartered in the US. Sources of cash investments include, but are not limited to, VC firms, corporate investors, other private equity firms and individuals.

Overall outlook

The overhang from previous VC rounds continues to challenge investor appetite for existing startups, especially for those not involved in AI. Some consolidation is inevitable as the divide widens between newer companies that leverage AI in their value proposition and those that don't. We anticipate seeing the impact of this in the back half of this year.

Investment in AI

US VC-backed companies



Sources: "Crunchbase," Crunchbase website, www.crunchbase.com, accessed July 3, 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.

Meanwhile, companies at the forefront of AI need to be nimble. The European Union has already issued a regulatory framework for AI, and while we don't have federal legislation in the US, more than a dozen states have enacted laws regarding AI, according to CIO magazine.³ AI companies should consider incorporating the [principles of responsible AI](#), if they haven't already. This could help them adapt more readily to stronger regulations if and when they are put into place.

Fund managers and startups able to return cash to investors will stand out in the current environment. For the immediate future, we will be in a have and have-not environment. Companies with an AI presence will find favor from investors, while others will need to be prepared to hunker down and find ways to survive in an extremely difficult fundraising environment.

¹ PitchBook data, July 2024.

² PitchBook data, July 2024

³ "The complex patchwork of US AI regulation has already arrived," CIO magazine website, <https://www.cio.com/article/2081885/the-complex-patchwork-of-us-ai-regulation-has-already-arrived.html>, April 5, 2024. Unless otherwise noted, statistics are of Crunchbase as of July 3, 2024, Ernst & Young LLP

Summary

Interest in AI-related companies helped to drive a 29% increase in venture capital activity in Q2 2024 over the first quarter of 2024. Overall deal count dropped, however, as investors continue to be selective about which companies to back in the current environment. We did see encouraging developments in fund formation, however, as nine funds raised nearly \$17 billion last quarter.

EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. EY member firms do not practice law where prohibited by local laws. For more information about our organization, please visit ey.com.

Ernst & Young LLP is a client-serving member firm of Ernst & Young Global Limited operating in the US.

© 2024 Ernst & Young LLP.
All Rights Reserved.

2404-4520994
ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, legal or other professional advice. Please refer to your advisors for specific advice.

ey.com