HSBC Innovation Banking

Global Tech Landscape

H1 2024

HSBC Innovation Banking

Data provided by PitchBook

Foreword from HSBC

The innovation economy is driven by disruptors and visionaries who bring ideas, creativity, and technology together to reimagine the future. It is propelled forward by strategic partnerships that help lay the groundwork for sustainable growth. As innovation companies are scaling faster, the strength and scope of these collaborative relationships are more critical than ever. That is exactly why HSBC Innovation Banking was created.

Led by Silicon Valley veterans, this specialized group serves as a trusted partner to companies at all stages of their journey, from founding to exit and beyond. Our dedicated teams offer sector-specific expertise and an in-depth understanding of the innovation ecosystem—backed by HSBC's global reach and stability.

The result gives innovation leaders access to an extensive network and knowledge base for unparalleled connections to investors and growth opportunities led by our highly experienced tech bankers and partners. The HSBC Innovation Banking Global Tech Landscape reflects the knowledge and insights of our global technology team. It provides an overview of the world's macroeconomic environment and dealmaking trends regarding VC activity across the tech sector. This includes where VC funding is concentrated, recent IPO activity, and what factors may impact dealmaking trends by the close of 2024 and through 2025.

Our industry experts take a closer look at specific segments of the tech sector—offering a snapshot of activity in climate tech, frontier tech, consumer internet, enterprise software, and fintech. There are also focused sections on cross-border investor participation in AI investments and a comparison of VC dealmaking and fundraising activity.

Founded as a local bank in 1865 by an entrepreneur, HSBC is built on a history of helping innovators of all types and stages realize their vision. Today, as the world's eighth-largest bank with a strong capital, funding, and liquidity position, HSBC offers a range of commercial banking solutions designed to meet each company's unique needs as they scale domestically and across borders. This is supported by advanced digital tools that add efficiency and security to everyday operations, helping our clients focus on what they do best—building their businesses.

In addition to technology, HSBC Innovation Banking, a division of HSBC Commercial Banking, has a dedicated life sciences and healthcare team. With interconnected hubs in the US, UK, India, Israel, and Hong Kong, our teams work closely with more than 800 global innovation experts across tech, life sciences, and healthcare worldwide. Their experience and knowledge, combined with the scale and breadth of HSBC, means we offer founders and investors a singular level of service that is unmatched in the innovation economy.

Executive Summary

Advancements, ripple effects, and the road ahead

VC dealmaking for innovative sectors may have reached the bottom of the current cycle as sentiment improves, though some risks remain. The pace of global VC investment moderately decelerated throughout 2023, and challenges remain in the foreseeable future. While startups are navigating their growth strategies with less accessible capital, venture investors are contending with a slow return to a favorable IPO market. US dealmaking led the way in a sluggish environment, buoyed by massive investments made in leading AI companies like CoreWeave, xAI, and Anthropic.

There are several signals to indicate improving sentiment more broadly, including sustained elevation in valuation trends and a steady pace of larger deals closing. Monetary policy is perhaps the closest-watched variable, with multiple rate cuts expected by the end of the year in the US as well as Canada, the UK, and India, per the latest analysis from HSBC Global Research.[1, 2] Rate cuts provide more certainty about improved economic conditions, increase capital accessibility for innovative companies, and reduce leverage costs for acquisitions. All of these factors are likely catalysts for increased VC investment as well as the return of LPs to asset classes including venture capital to secure upside potential.

Transformative tech advancements have taken place over the past two years, and the ripple effects are playing out in real time. Climate tech and frontier tech exhibited resilience against recent declines in deal value, with net-zero initiatives and battery-tech investments sustaining stronger flows of capital. Enterprise software plays have seen an uptick in deal value for the past three quarters as VCs re-engage with a favored segment.

A full recovery has yet to materialize, and macro uncertainties remain. Heightened regulatory scrutiny could contribute to extended deal timelines for some of the largest transactions until finalized rulings establish greater clarity. Elections in major markets including the US and the UK this year will also set the tone for the regulatory approach to the technology space and private dealmaking more broadly.

Cautious optimism is growing as tech giants lead strong public market rallies, and the positive performance of recent listings could increase the momentum in IPO markets. Stronger returns from public listings would naturally translate into accelerated VC dealmaking for companies in earlier stages of development as well. As investors discern the general AI boom further, identifying longer-lasting prospects, that will also inform venture investing. Overseas investment in the innovation economy would also likely benefit from a rebound in dealmaking, though geopolitical risks will apply continued pressure in certain regions like China.

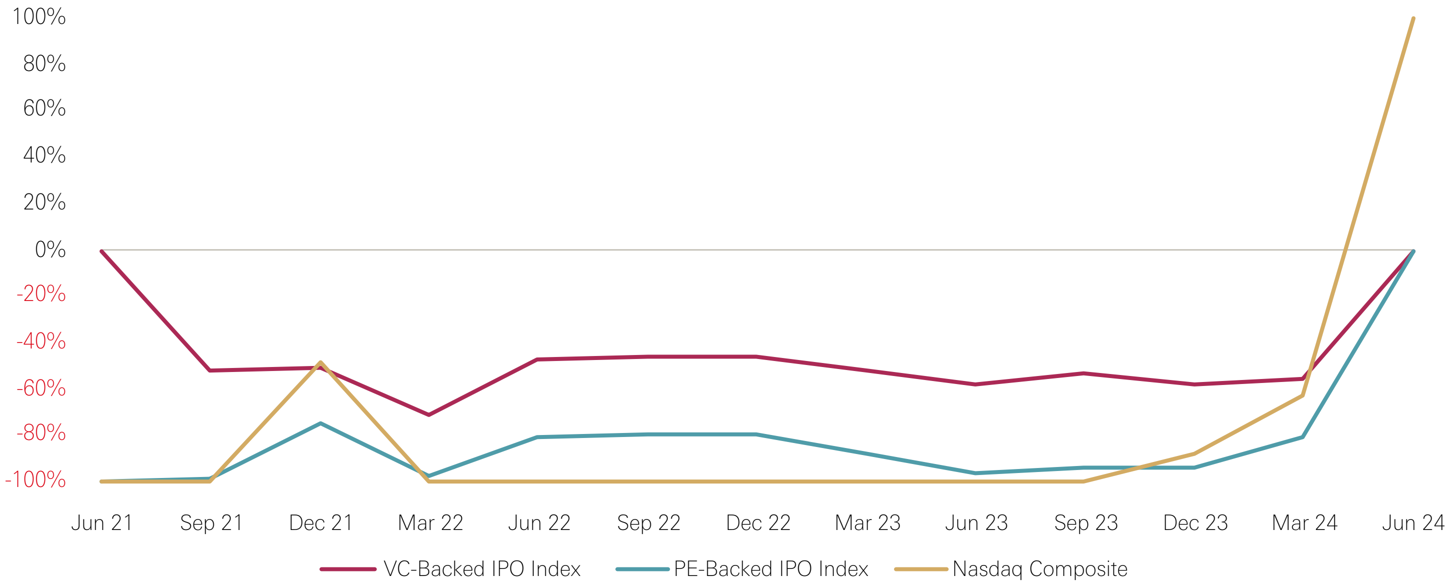
On the fundraising front, experienced managers are better at navigating tougher waters, bringing in most of the new funds since the tides began to shift in 2022. Slower fundraising highlights greater selectivity among investors, but firms still sit on significant amounts of dry powder to deploy. The second half of 2024 will likely see tepid fundraising trends continue, but shifting dealmaking trends may contribute to a resumption of activity in the following quarters. Read on for a detailed breakdown of current dealmaking dynamics for innovators and their investors.

1: "Global Policy Rates," HSBC Global Research, Maitreyi Das, July 29, 2024.
2: "FOMC Multi-Asset Reaction," HSBC Global Research, Ryan Wang, et al., July 31, 2024.

Contents

Macro Trends

Figure 1: Global PitchBook IPO Indexes versus Nasdaq three-year return*



Sources: PitchBook and Morningstar • *As of June 30, 2024

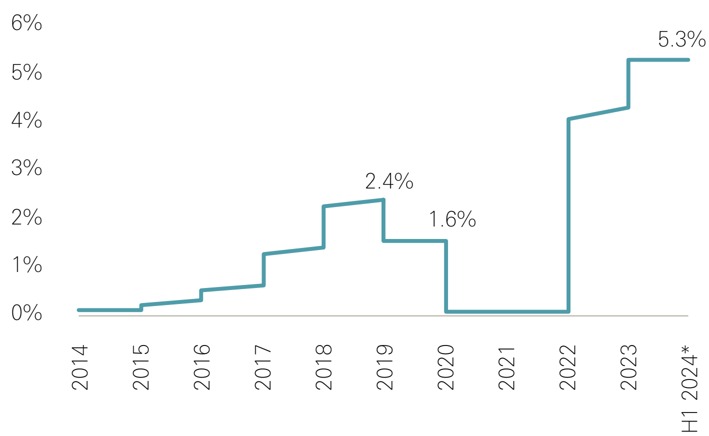
The global macroeconomic environment slowed more than two years ago, but the near-term outlook is now improving. Dealmakers are closely watching the following trends:

- **Economic growth:** The International Monetary Fund expects the global economy to grow at a modest pace during 2024 and 2025, due in part to slowing inflation and the continued strength of advanced economies.[3]

- **Monetary policy:** Interest rates remain high, with central banks pausing further action after making a prolonged series of hikes intended to fight inflation. US rate cuts began in Q3 2024.

- **Public market momentum:** Major tech firms and the AI revolution have fueled a recent public market rally, instilling some hope of a return to action for the IPO market. The Nasdaq Composite and S&P 500 indexes posted strong performance through the first half of the year. Per HSBC Global Research's latest 2H24 Technology Outlook, "AI will continue to fuel software and cloud infrastructure expansion."[5] Worldwide cybersecurity spending alone will hit an estimated $250 billion in 2024, which will be further transformed by the growing adoption of AI in security applications.

Figure 2: US effective federal funds rate



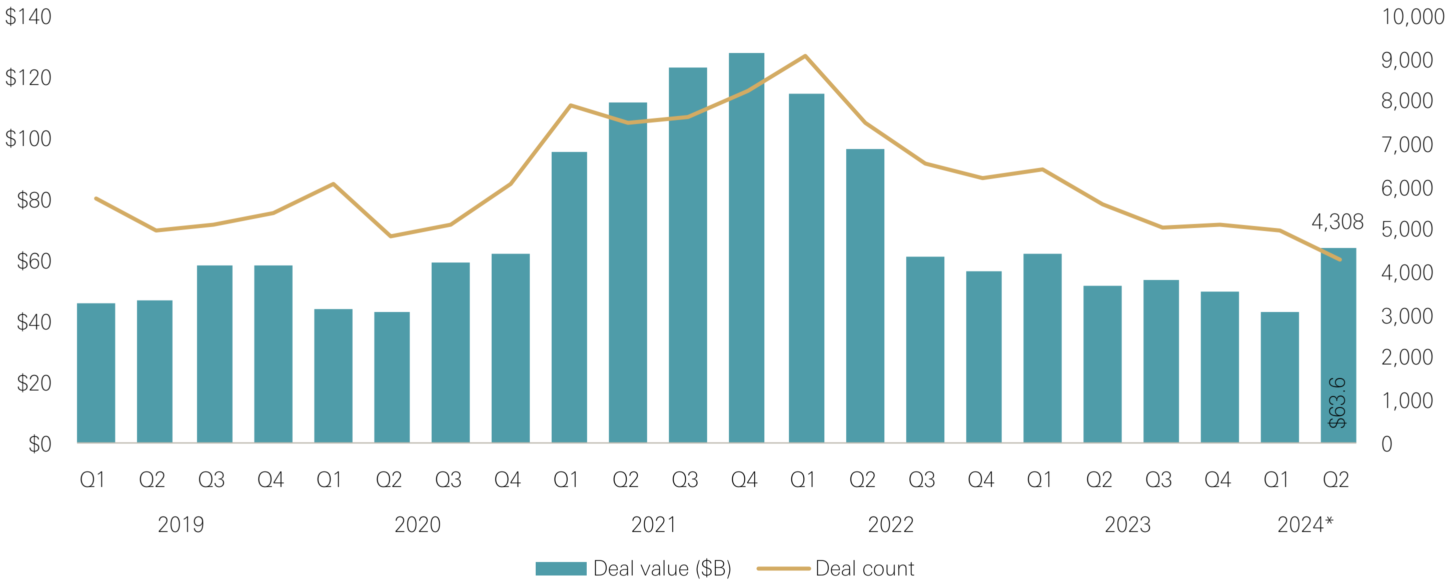
Source: Federal Reserve Bank of St. Louis • *As of June 30, 2024

- **Geopolitical risks:** Heightened tensions between the US and China have fueled onshoring efforts for manufacturers and have contributed to slower cross-border VC deal activity since 2022. The semiconductor production race is of particular concern for both large economies.

3: "World Economic Outlook," International Monetary Fund, April 2024.
4: "PitchBook VC Dealmaking Indicator," PitchBook, May 7, 2024.
5: "2H24 Technology Outlook,"HSBC Global Research, Stephen Bersey, Abhishek Shukla, and Govinder Kumar, July 24, 2024.

Dealmaking Trends

Figure 3: Global tech VC deal activity by quarter



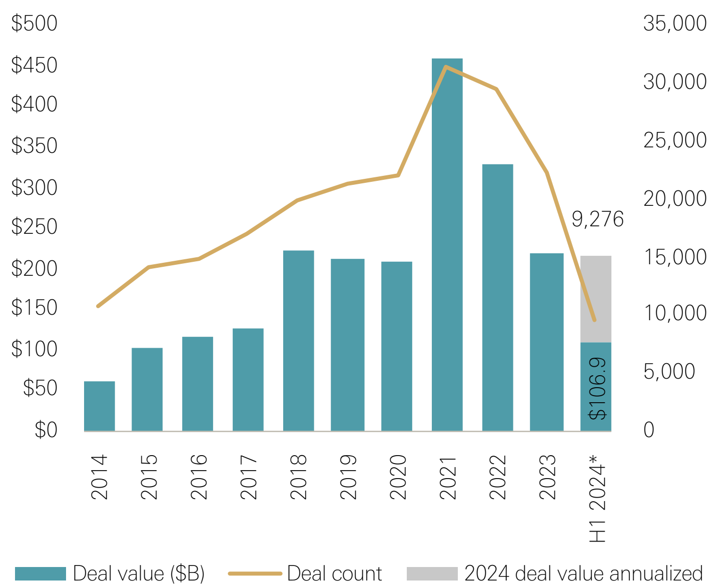
Source: PitchBook • *As of June 30, 2024

Overview

The global innovation economy has grown exponentially over the past several decades, supported by private market players and VC investors in particular. A record amount of VC deal value closed in 2021 due to a low-rate environment, prolonged bull market, and transformational change in daily life amid the COVID-19 pandemic. The market corrected in mid-2022, resulting in VC dealmakers pulling back, but total deal value has exceeded a steady threshold of $40 billion per quarter since then (Figure 3). Deal count has returned to pre-2021 levels, however, as the pace of new VC investments recalibrated amid more intensive due-diligence processes. Hurdles remain on the road ahead for startups seeking fresh capital, but signals indicate the worst may be behind us.

Global deal value grew materially in Q2 2024 after two consecutive quarterly declines, notching the highest quarterly deal value since Q2 2022 (Figure 3). This uptick indicates greater momentum for the tech space, with VC's resuming larger check writing later in the year. H1 2024 figures yield an annualized deal value of $213.7 billion (Figure 4). If Q2 momentum holds, deal value could meet or exceed the level closed in 2023—a welcome change for the market after two years of annual declines greater than 25%.

Figure 4: Global tech VC deal activity



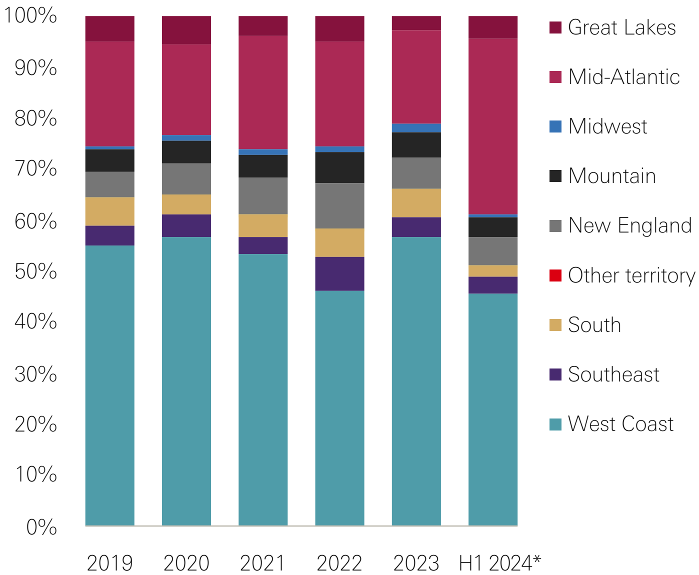
Source: PitchBook • *As of June 30, 2024

More than half of global VC deal value in H1 2024 was generated in North America, driven primarily by the US market. Within the US, the Bay Area continues to dominate tech despite the pandemic-era scattering of firm and startup offices. The West Coast region consistently accounts for roughly half of all tech VC deal value. This share hit 41.9% in Q2 2024, driven in large part by the entrenched concentration of tech VC firms within Silicon Valley (Figure 5). As the world's largest VC market, shifts in the US create strong ripple effects for all global regions.

There are four primary factors that may act as catalysts for a shift in US dealmaking trends before the end of the year: interest rate policy changes, technology legislation, public market performance, and the denominator effect on investor strategies.

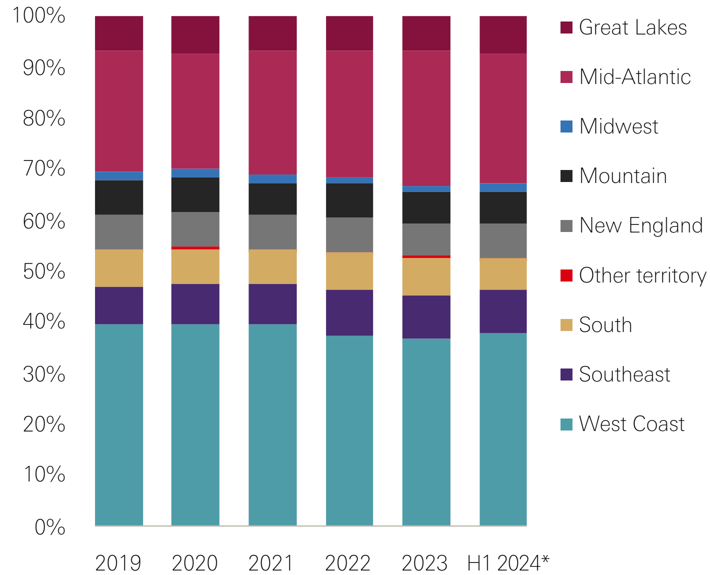
The broader VC slowdown has been felt globally despite the recent momentum, with each region experiencing material declines in cumulative deal value over the past two years.

Figure 5: Share of US tech VC deal value by region



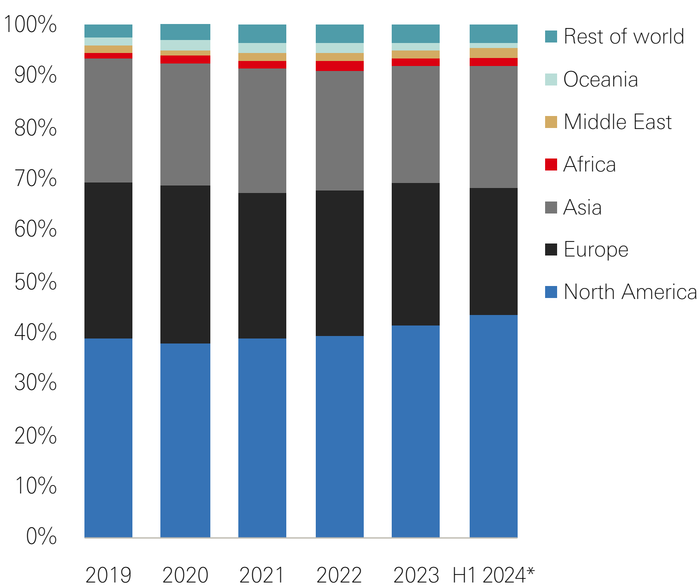
Source: PitchBook • *As of June 30, 2024

Figure 6: Share of US tech VC deal count by region



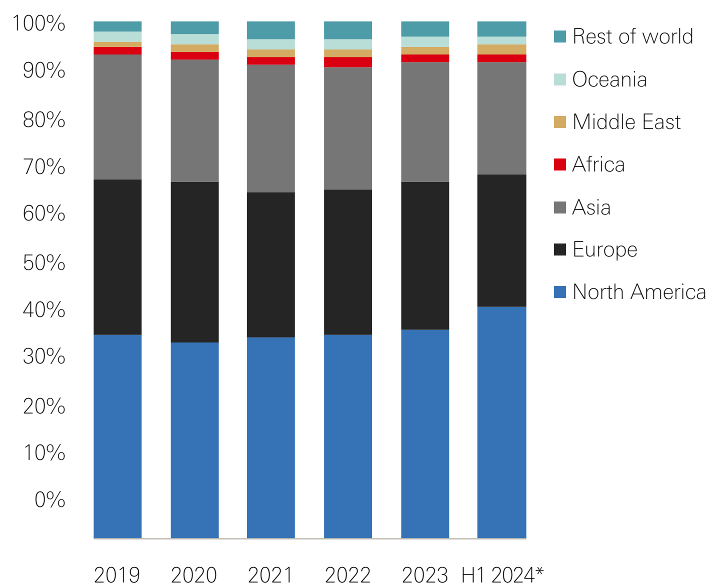
Source: PitchBook • *As of June 30, 2024

Figure 7: Share of global tech VC deal value by region



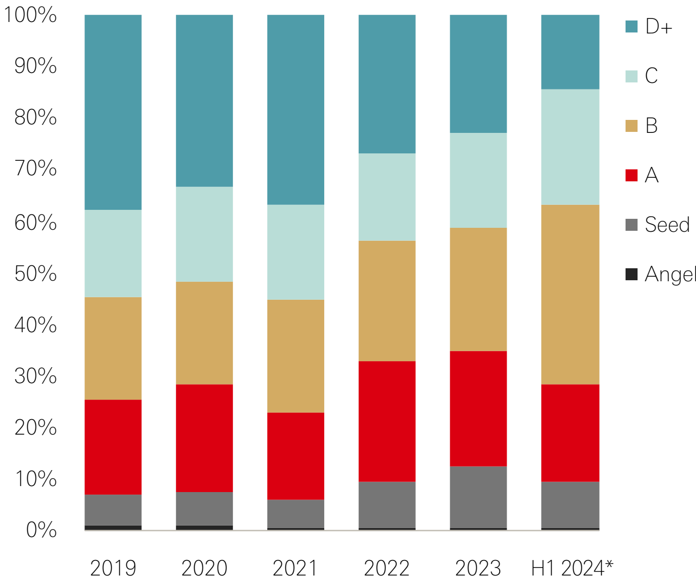
Source: PitchBook • *As of June 30, 2024

Figure 8: Share of global tech VC deal count by region



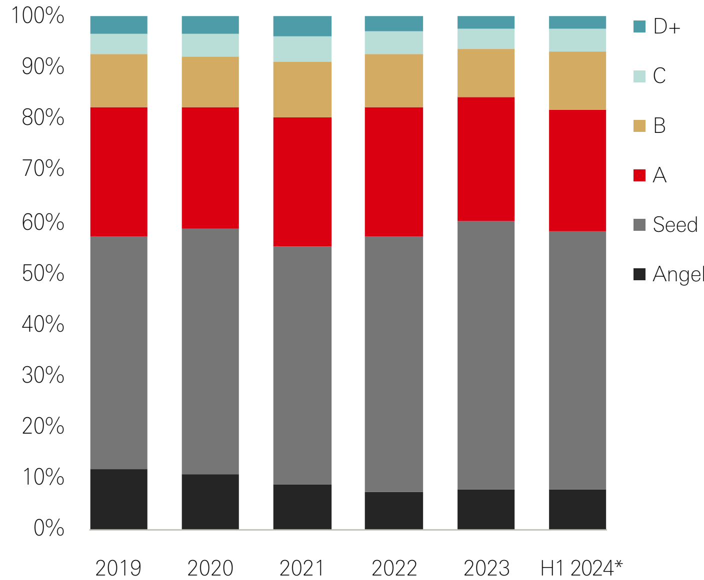
Source: PitchBook • *As of June 30, 2024

Figure 9: Share of global tech VC deal value by series



Source: PitchBook • *As of June 30, 2024

Figure 10: Share of global tech VC deal count by series



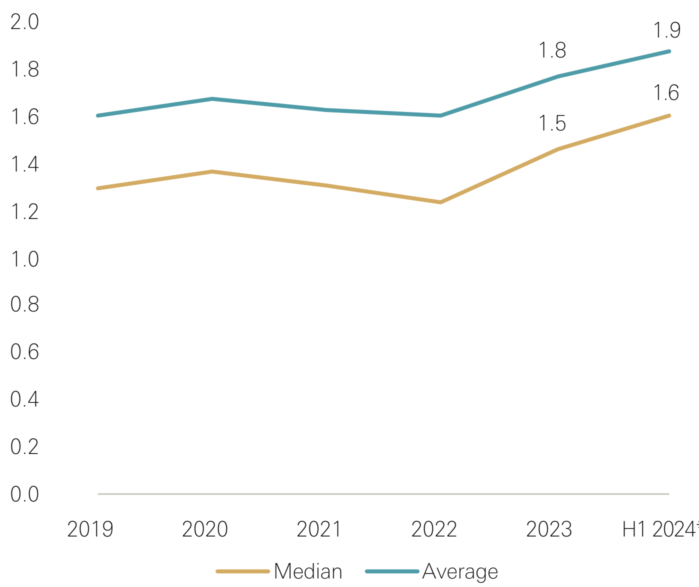
Source: PitchBook • *As of June 30, 2024

VC funding has become more concentrated among a smaller population of portfolio companies, but many well-positioned startups are still able to secure meaningful checks from investors. 167 deals over $100 million each closed in the first half of 2024, compared with 161 in the same period in 2023, underscoring improving sentiment among firms and strong funding options in innovative tech spaces.

Positive signals are beginning to emerge but will take time to materialize across the broader market. Most startups are not raising capital as frequently; therefore, efforts to reduce cash burn and extend runway remain center stage. The median time between rounds shot up by 18.4% in 2023 amid prolonged macro concerns—the sharpest YoY uptick in more than a decade. It has risen further in 2024, though at a slower rate of 9.0% (Figure 11).

Deal sizes for earlier-stage companies, including those at the pre-seed and seed stages, regained momentum in 2023. **The median check size for the pre-seed/seed stage reached a record $2 million as of H1 2024. The early-stage category, which includes Series A and Series B rounds, also saw its median deal size tick upward to record highs in 2024 (Figure 13).** Greater selectivity in dealmaking has contributed to larger individual check sizes, as well as a shift in focus for some investors toward earlier-stage plays with lifecycles that extend beyond near-term challenges. Growth in deal sizes has contributed to a rise in early-stage valuations as well, with

Figure 11: Global median time (years) between tech VC rounds



Source: PitchBook • *As of June 30, 2024

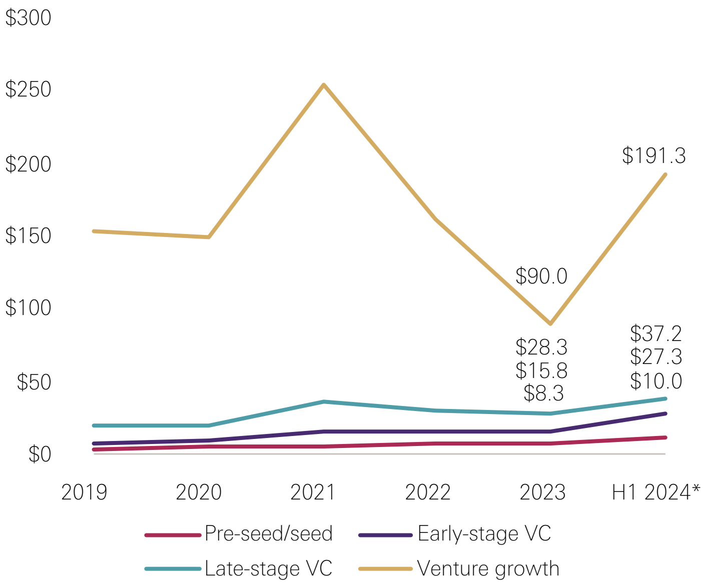
median pre-money valuations trending above 2021 levels for all stages except venture growth, which represents Series E or later (Figure 12).[6]

6: "PitchBook Introduces New Venture Category, Venture Growth," PitchBook, December 6, 2022.

Later-stage deals, including Series C and Series D rounds, experienced a sharper downward trend in check sizes following the 2021 dealmaking exuberance, but the median has held steady since correcting. The venture-growth stage has experienced the greatest volatility in median deal sizes, highlighting the hurdles faced by companies that are now closest to their exit windows in a slower IPO market. Valuations for both the later-stage and venture-growth categories rose again in 2024, however, indicating some recalibration and improved prospects moving forward.

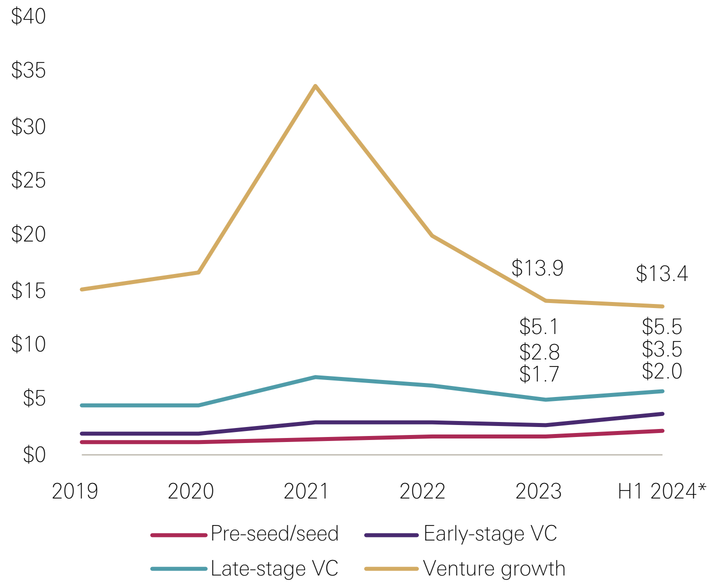
VC exit activity has disappointed since the market correction in 2022, and expectations remain low. Public market rallies driven by tech giants have yet to translate into greater IPO activity, though cautious optimism is growing. Total tech exit value reached $19.6

Figure 12: **Global median tech VC pre-money valuation ($M) by stage**



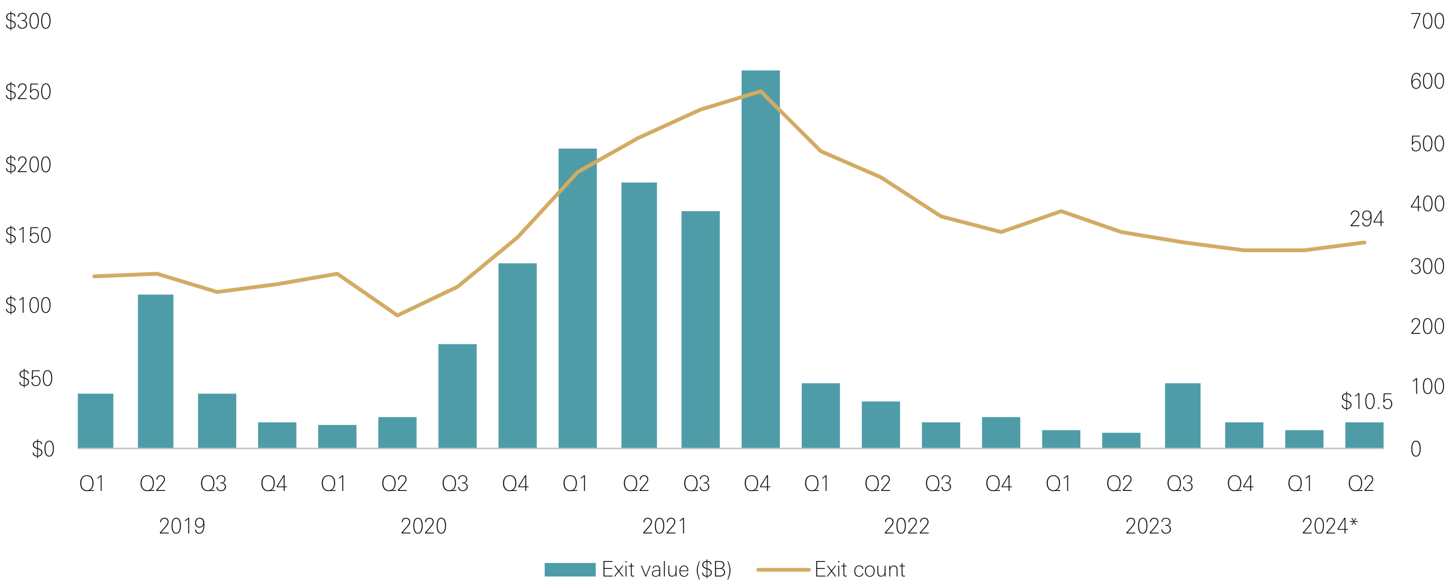
Source: PitchBook • *As of June 30, 2024

Figure 13: **Global median tech VC deal value ($M) by stage**



Source: PitchBook • *As of June 30, 2024

Figure 14: **Global tech VC exit activity by quarter**

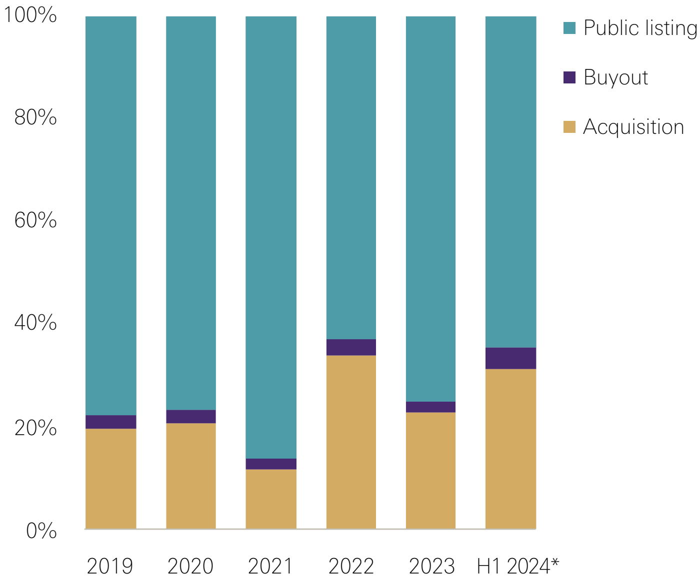


Source: PitchBook • *As of June 30, 2024

billion in Q2, up 49% from Q1 alongside modest growth in exit count. This growth was driven by greater public listing activity in Q2, with 31 listings compared with 24 in Q1. The total value for public listings nearly doubled in the same period, highlighting better prospects for later-stage VC-backed companies eyeing IPOs in the coming quarters. Recent IPO performance suggests an appetite for new listings, with warm receptions for Astera Labs and Arm Holdings in the chip space as well as for Reddit and Ibotta in the consumer internet realm.

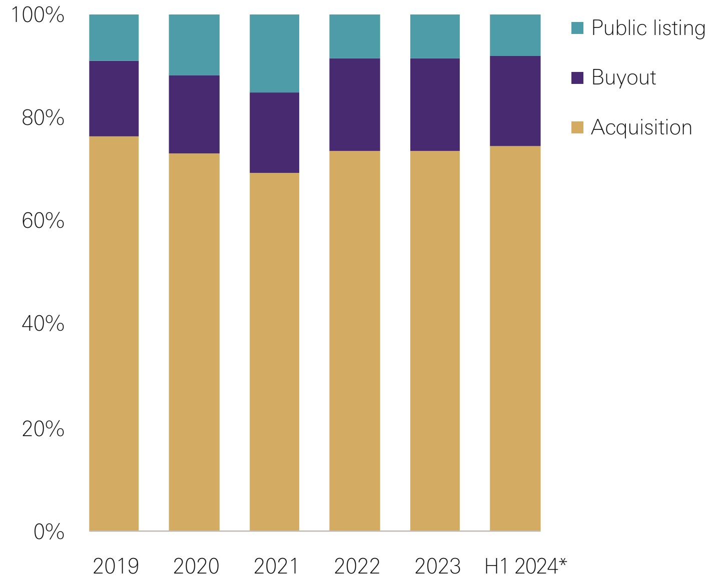
Companies are taking longer to exit through acquisitions and public listings, but buyouts are closing faster. In 2024, the median time to exit through a public listing exceeded 10 years for the second time since 2016, while the median time to exit via buyout dropped 6.2% from 2023 (Figure 17). PE firms are taking note of opportunities in the tech space, where lower valuations and operational challenges persist.

Figure 15: **Share of global tech VC exit value by type**



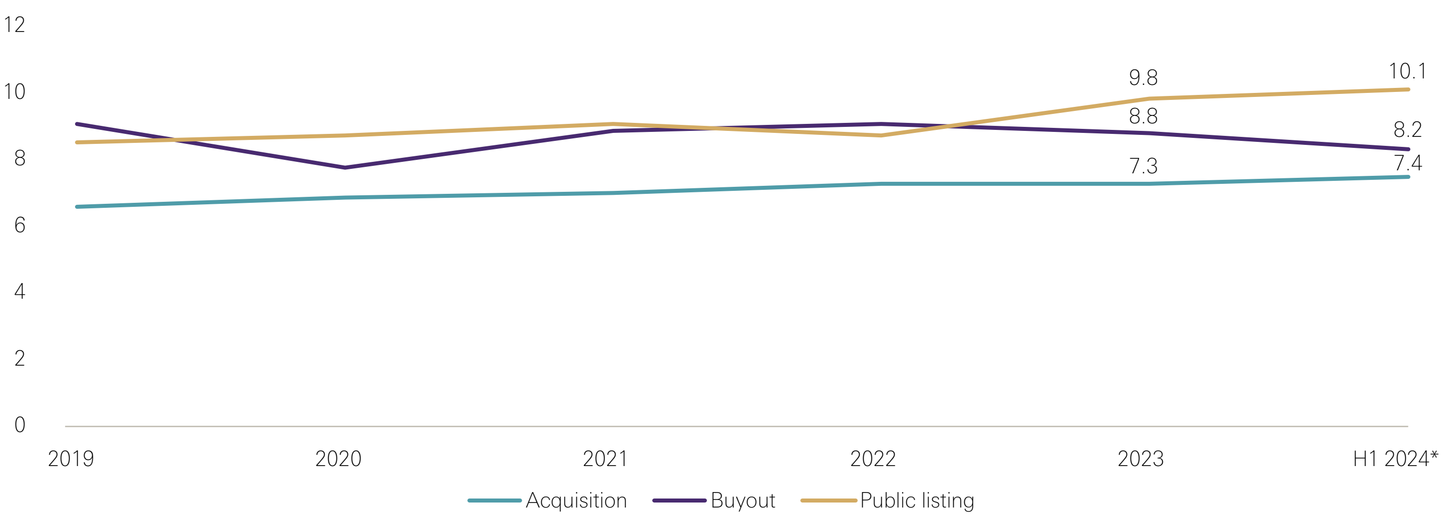
Source: PitchBook • *As of June 30, 2024

Figure 16: **Share of global tech VC exit count by type**



Source: PitchBook • *As of June 30, 2024

Figure 17: **Global median tech VC time (years) to exit by type**



Source: PitchBook • *As of June 30, 2024

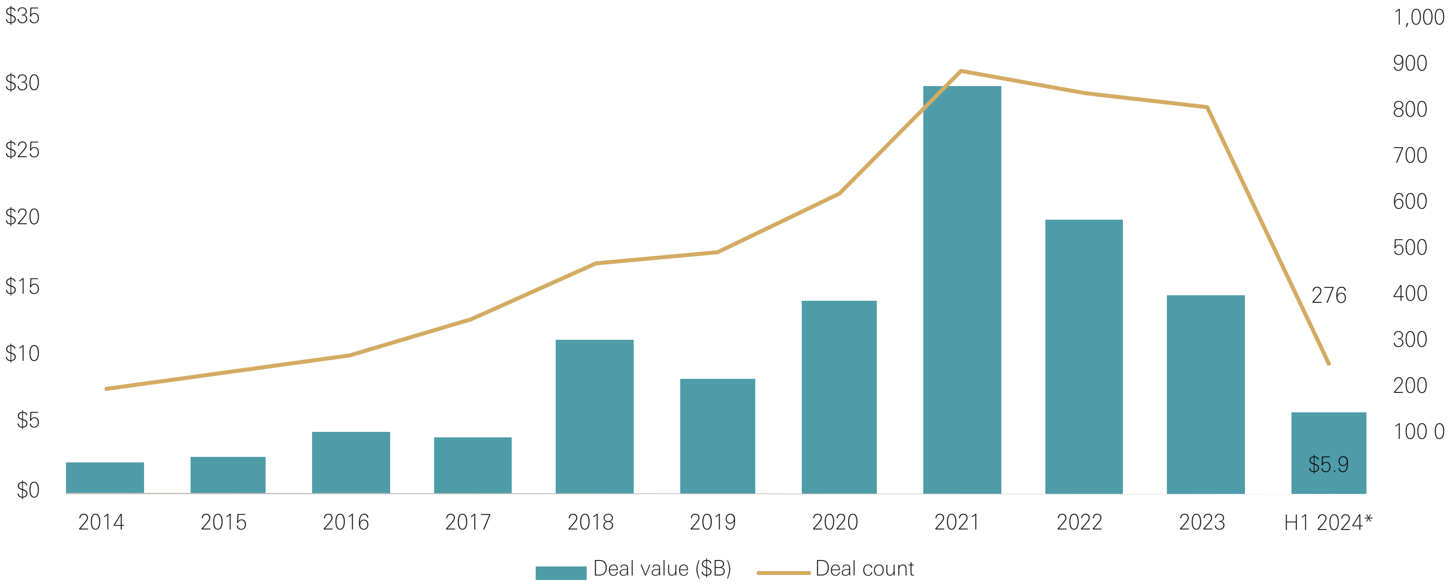
Climate Tech

Climate tech has proven to be one of the more resilient verticals against the recent VC slowdown, driven in part by public sector support and funding incentives including the Inflation Reduction Act of 2022 and the long-term horizon of the global energy transition, which have drawn in continued private investment in sustainable technologies.

Deal value grew 17.2% in Q2 2024, but deal count in the first half of the year represents roughly one-third of the same period last year, meaning dealmakers remain more hesitant.

Heightened trade tensions between the US and China have pulled the semiconductor and electric vehicle markets into focus. Increased tariffs and retaliatory measures between the two countries are creating uncertainties for cross-border growth.

Figure 18: US climate tech VC deal activity



Source: PitchBook • *As of June 30, 2024

Figure 19: Largest climate tech VC deals in H1 2024*

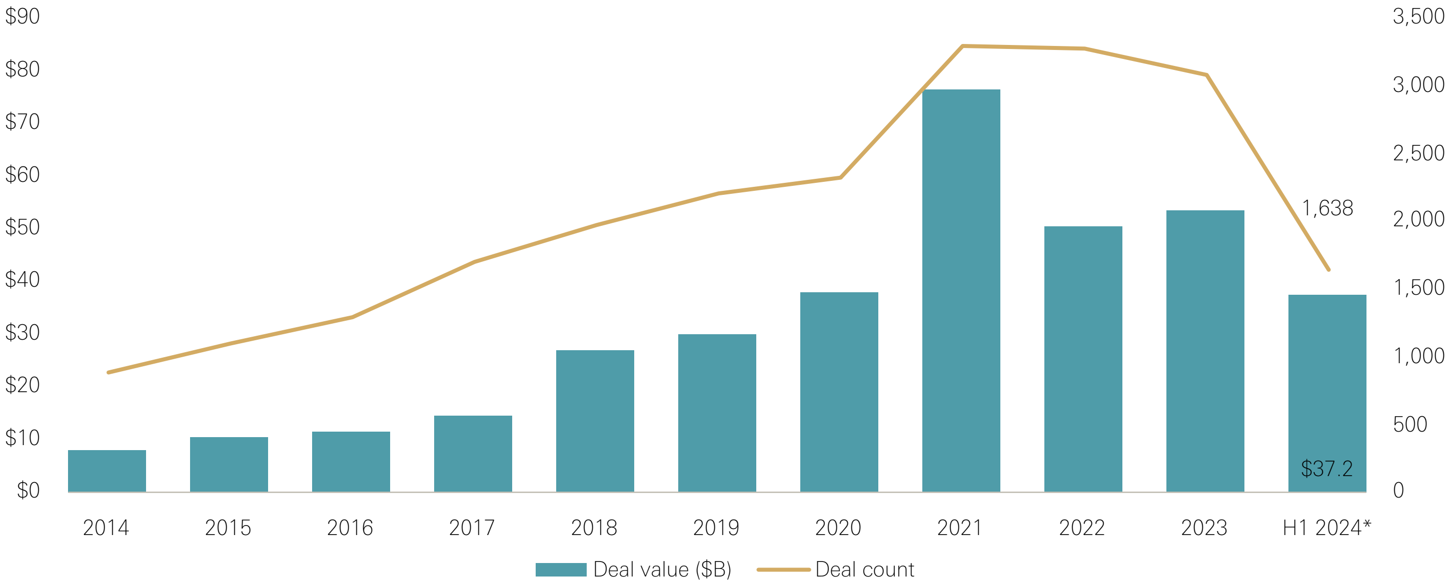
Company	Country	Deal value ($M)	Deal type	Vertical
IM Motors	China	$1,117.5	Series B	Automotive
Tianjin Clean Energy Investment	China	$702.4	N/A	Holding companies
Neta Auto	China	$693.3	N/A	Automotive
Ascend Elements	US	$621.9	Series D	Other materials
Nexamp	US	$520.0	Series A	Energy infrastructure
Highview Power	UK	$381.9	N/A	Energy storage
Sila	US	$375.0	Series G	Other materials
Sunfire	Germany	$340.1	Series E	Alternative energy equipment
Electra	France	$333.9	Series B	Other energy services
H2 Green Steel	Sweden	$329.1	N/A	Iron and steel mining

Source: PitchBook • *As of June 30, 2024
Note: Overlap may exist between verticals, but deals are deduplicated for largest deal tables and overall activity charts. See methodology for more details.

Frontier Tech

Frontier tech includes players in emerging spaces across all industries where software, data, and hardware converge in the real world. Unsurprisingly, due in large part to the surge of interest in AI, frontier tech dealmaking has exhibited strength despite hurdles in other areas. **Annual deal value grew 6.7% in 2023 when all other segments experienced declines; and quarterly deal value more than doubled between Q1 and Q2 2024, as disruptive tech continues to draw in large check sizes.** Pandemic-era supply chain snares are unraveling, but onshoring efforts in countries like the US may present challenges for hardware production alongside opportunity for innovation within domestic manufacturing. One area spurring particular interest, and outsized investment, is AI applications' move beyond screen devices and into the physical realm through the development of embodied AI.

Figure 20: US frontier tech VC deal activity



Source: PitchBook • *As of June 30, 2024

Figure 21: Largest frontier tech VC deals in H1 2024*

Company	Country	Deal value ($M)	Deal type	Vertical
CoreWeave	US	$8,600.0	Series C	Business/productivity software
xAI	US	$6,000.0	Series B	Business/productivity software
Anthropic	US	$1,200.0	Series D	Media & information services (B2B)
Wayve	UK	$1,050.0	Series C	Business/productivity software
Moonshot AI	China	$1,000.0	Series B	Business/productivity software
Xaira Therapeutics	US	$1,000.0	Series A	Drug discovery
Scale AI	US	$1,000.0	Series F	Business/productivity software
Wonder	US	$700.0	Series C	Other restaurants, hotels & leisure
Figure AI	US	$675.0	Series B	Other hardware
Mistral AI	France	$650.6	Series B	Business/productivity software

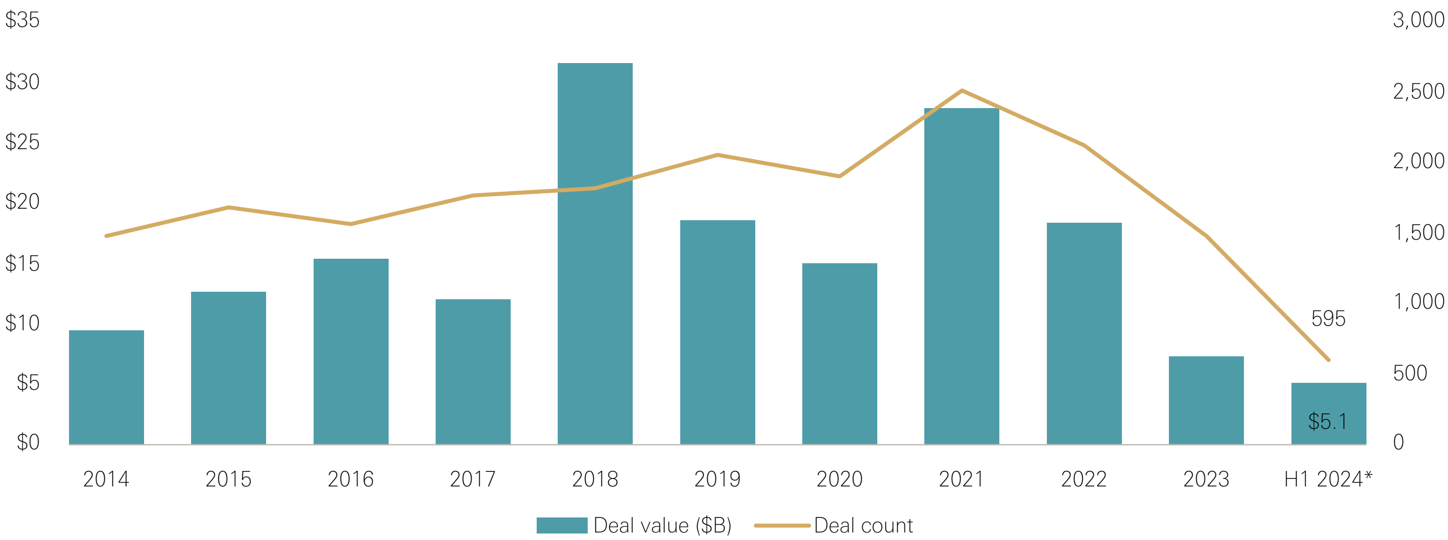
Source: PitchBook • *As of June 30, 2024
Note: Overlap may exist between verticals, but deals are deduplicated for largest deal tables and overall activity charts. See methodology for more details.

Consumer Internet

Consumer internet dealmaking has exhibited greater volatility over the past decade compared to other segments, including a material drop in VC activity in 2020 and shorter-lived tailwinds in 2021. Total deal value reached $7.2 billion in 2023, marking the slowest year of the past decade. 2024 appears on track to exceed last year's level with $5.1 billion already closed in the first half of the year, but deal count remains sluggish.

Deal activity in the segment has yet to recover after its most recent deceleration, but specialty retail and e-commerce marketplaces are common themes among the deals that do close. **Global emerging economies like India are attracting more recent deal activity compared to the US, as dominant industry incumbents are difficult to compete with.** That said, legacy service providers are consistently evaluating new tech integrations, which has expanded entry opportunities for some startups in the segment. E-commerce players are contending with economic shifts impacting consumer behavior as well as increasing consumer demand for personalization, sustainability, and cybersecurity. Interest rate cuts may improve consumer sentiment and B2C growth trajectories, which would support a resumption in consumer internet dealmaking on a lagging basis.

Figure 22: US consumer internet VC deal activity



Source: PitchBook • *As of June 30, 2024

Figure 23: Largest consumer internet VC deals in H1 2024*

Company	Country	Deal value ($M)	Deal type	Vertical
Lazada	Singapore	$1,956.7	N/A	Internet retail
Flipkart	India	$1,000.0	N/A	Internet retail
Zepto	India	$665.0	Series E	Internet retail
Picnic	Netherlands	$389.1	N/A	Specialty retail
inDrive	US	$300.0	N/A	Automotive
Getir	Turkey	$250.0	N/A	Other services
PharmEasy	India	$217.5	N/A	Specialty retail
Lenskart	India	$200.0	N/A	Therapeutic devices
NTWRK	US	$150.0	N/A	Media & information services
Planteka Community	Spain	$150.0	N/A	Other consumer nondurables

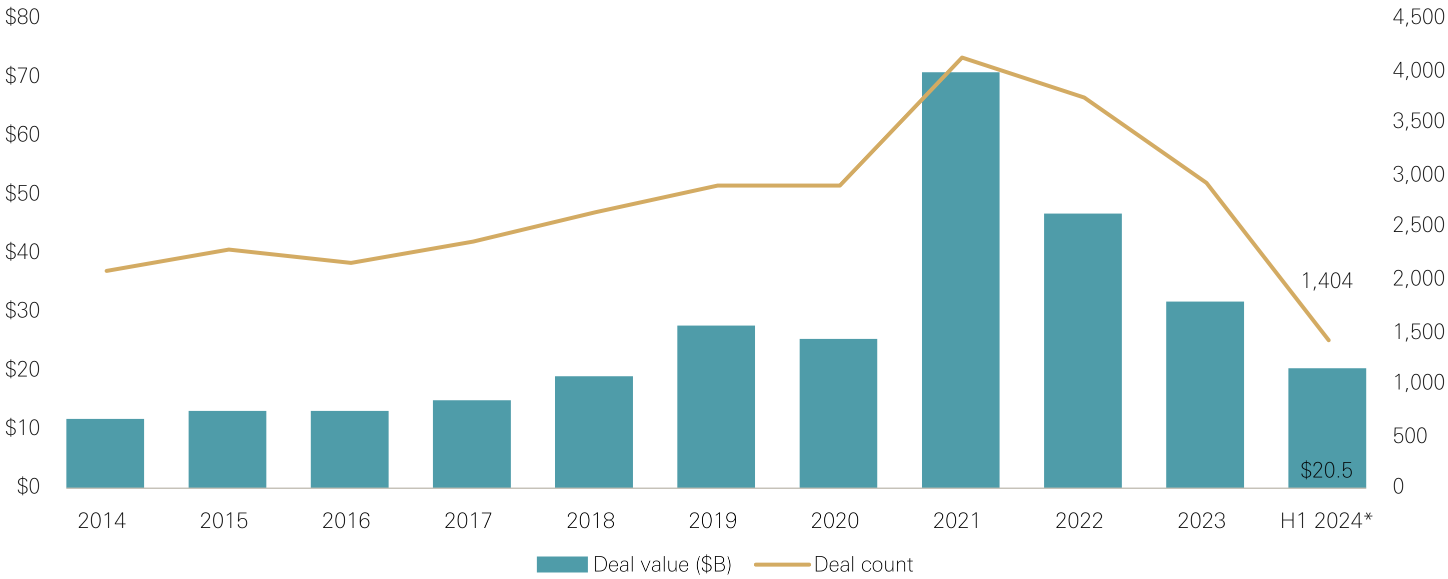
Source: PitchBook • *As of June 30, 2024
Note: Overlap may exist between verticals, but deals are deduplicated for largest deal tables and overall activity charts. See methodology for more details.

Enterprise Software

Enterprise software remains a highly favored track for tech VC investors as the second-largest segment examined in this report based on 2023 investment figures, behind only frontier tech. VC funding in the segment has held on to historically high levels when looking at the past decade despite the correction in 2022. **Deal value in the first half of 2024 exceeds that of the same period in 2023 and grew 82.6% QoQ this year, meaning dealmakers are now more comfortable writing larger checks and view the growth potential of startups in a more favorable light.**

Overlap between enterprise software and other segments, including frontier tech and climate tech, reflects ever-expanding applications as well as niche strategies in the space. Software companies that intersect with AI, cleantech, and Big Data exhibited the greatest resilience in terms of total deal value in 2023, and AI unsurprisingly maintained a strong presence among the largest deals at the start of 2024 as well.

Figure 24: US enterprise software VC deal activity



Source: PitchBook • *As of June 30, 2024

Figure 25: Largest enterprise software VC deals in H1 2024*

Company	Country	Deal value ($M)	Deal type	Vertical
Cinq Music Group	US	$250.0	N/A	Business/productivity software
Sequin	US	$225.0	N/A	Business/productivity software
Huntress	US	$180.0	Series D	Network management software
RapidSOS	US	$150.0	Series C1	Media & information services (B2B)
Salla	Saudi Arabia	$130.0	Series B	Business/productivity software
Guesty	US	$130.0	Series F	Business/productivity software
Platform Science	US	$125.0	Series C1	Business/productivity software
SkyCell	Switzerland	$116.0	Series D	Metal containers & packaging
ThreatLocker	US	$115.0	Series D	Network management software
Mews	Netherlands	$109.4	Series C2	Business/productivity software

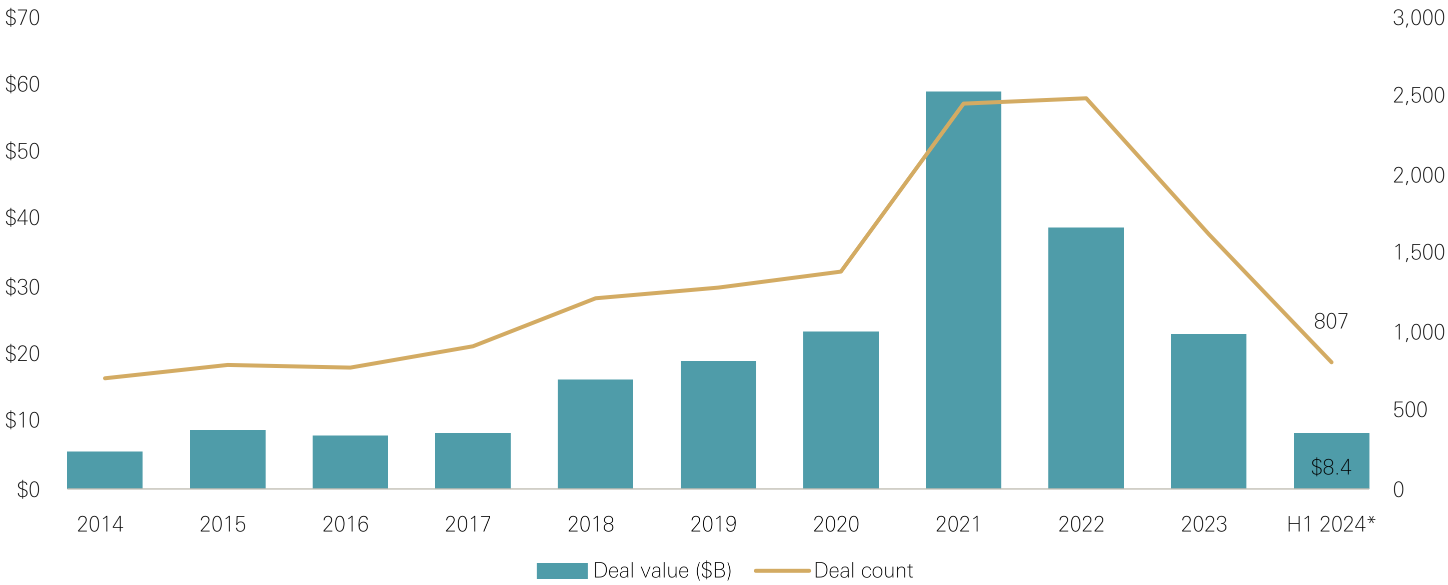
Source: PitchBook • *As of June 30, 2024
Note: Overlap may exist between verticals, but deals are deduplicated for largest deal tables and overall activity charts. See methodology for more details.

Fintech

Fintech VC investment returned to pre-pandemic levels in 2023 and is not yet on the path of a resurgence. Stripe's $6.9 billion Series I in Q1 2023 was an outlier, resulting in a post-money valuation exceeding $50 billion. Deal activity in the first half of 2024 suggests that, compared to 2023, lower total deal value and roughly equal deal counts are on the horizon.

Macroeconomic shifts have impacted fintech startups from multiple directions, including both consumer and investor behavior. Heightened regulatory action targeting banking-as-a-service providers has created uncertainties as well, and investors may maintain a holding pattern for new deals until final rulings are made. Recovery in crypto markets and the potential for new blockchain applications could create momentum later in the year, as could proof of concepts for AI integration in the financial markets. **Fraud detection is top of mind for financial institutions in an era of new tech, driving more deal value into the cross-section of fintech and AI in 2023 compared with the year prior.** More focus on these areas is expected to continue in the coming quarters.

Figure 26: US fintech VC deal activity



Source: PitchBook • *As of June 30, 2024

Figure 27: Largest US fintech VC deals in H1 2024*

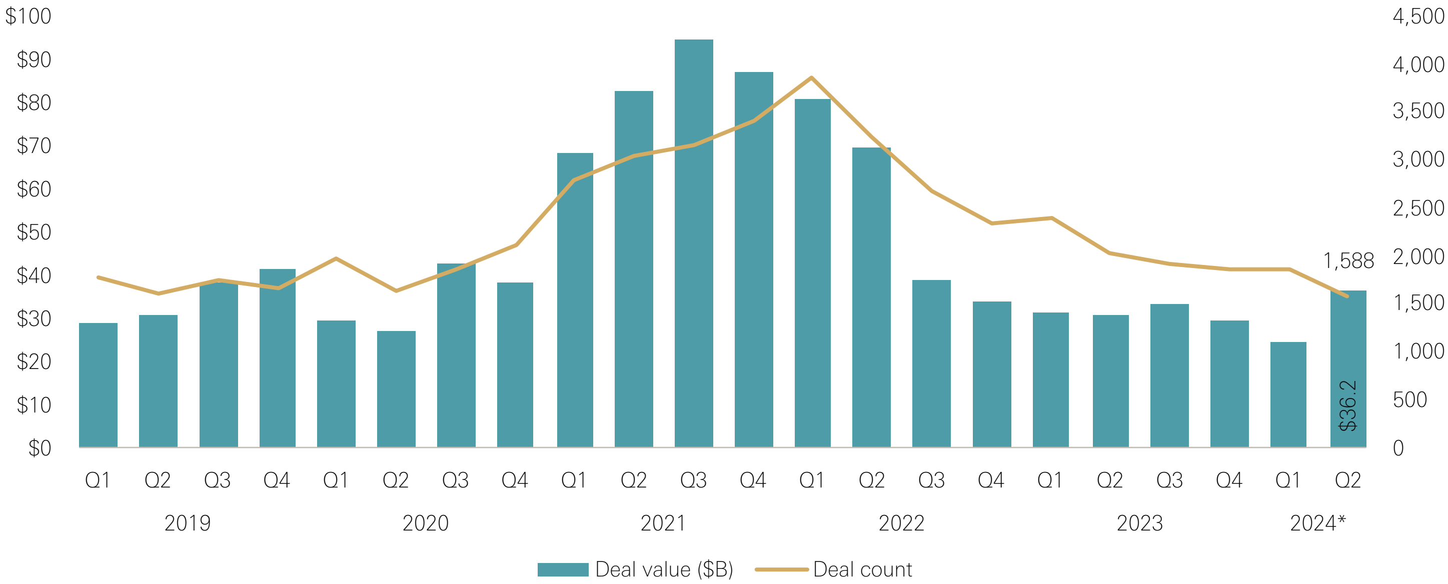
Company	Region	Deal value ($M)	Deal type	Vertical
Clear Street	Mid-Atlantic	$685.0	Series B	Business/productivity software
PayJoy	West Coast	$360.0	Series C	Consumer finance
Monad Labs	Mid-Atlantic	$225.0	Series A	Software development applications
Bilt	Mid-Atlantic	$200.0	Series C	Other financial services
AI2 Incubator	West Coast	$200.0	N/A	Other financial services
DailyPay	Mid-Atlantic	$175.0	Series E	Financial software
Altruist	West Coast	$169.0	Series E	Financial software
Yendo	South	$165.0	N/A	Consumer finance
Kin	Great Lakes	$151.7	Series D	Property & casualty insurance
Ramp	Mid-Atlantic	$150.0	Series D2	Financial software

Source: PitchBook • *As of June 30, 2024

Note: Overlap may exist between verticals but deals are de-duplicated for largest deal tables and overall activity charts. See methodology for more details.

Vertical Spotlight: Cross-Border Dealmaking and AI Influence

Figure 28: Global VC deal activity with cross-border investor participation by quarter

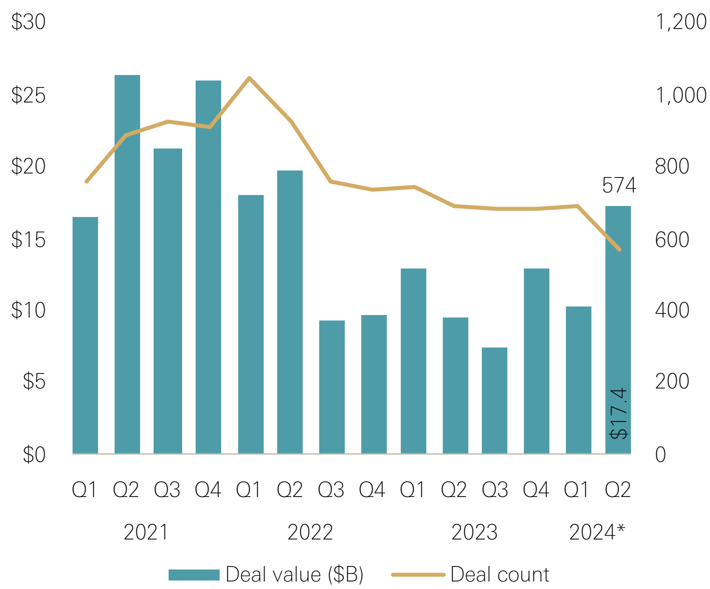


Source: PitchBook • *As of June 30, 2024

Cross-border VC investment pulled back in tandem with VC activity in the broader venture space in mid-2022. Heightened geopolitical tensions, particularly between the US and China, led investors to focus on their core markets and pass on deals incurring any additional risk. However, cross-border players have generated a fairly consistent level of venture deal value across fewer deals since late 2022. VC activity with cross-border investor participation has hovered around the $30 billion mark each quarter since late 2022. **Deal value jumped up by nearly half in Q2 2024 in a positive signal for global dealmakers (Figure 28).**

Cross-border investors are more willing to take the leap for deals in the AI space. Cross-border investment into artificial intelligence & machine learning (AI & ML) capabilities declined by a quarter in 2023 (Figure 29), showing more resilience compared with broader cross-border investment, which fell by more than a third in the same period. US dealmakers are

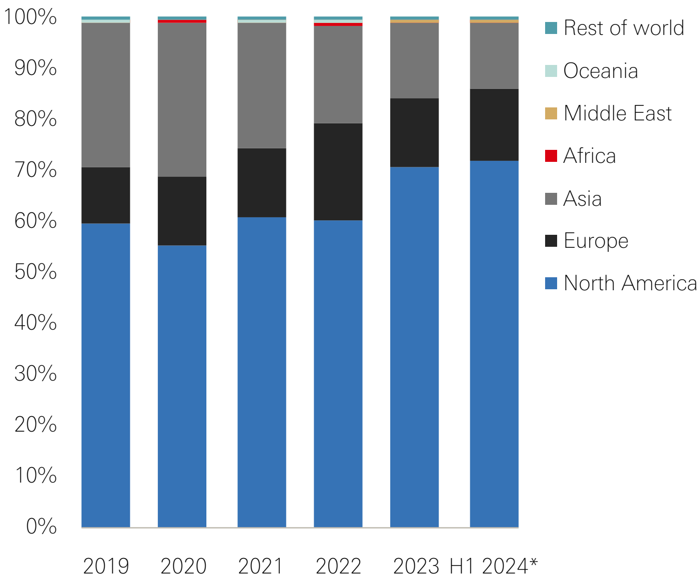
Figure 29: Global AI & ML VC deal activity with cross-border investor participation by quarter



Source: PitchBook • *As of June 30, 2024

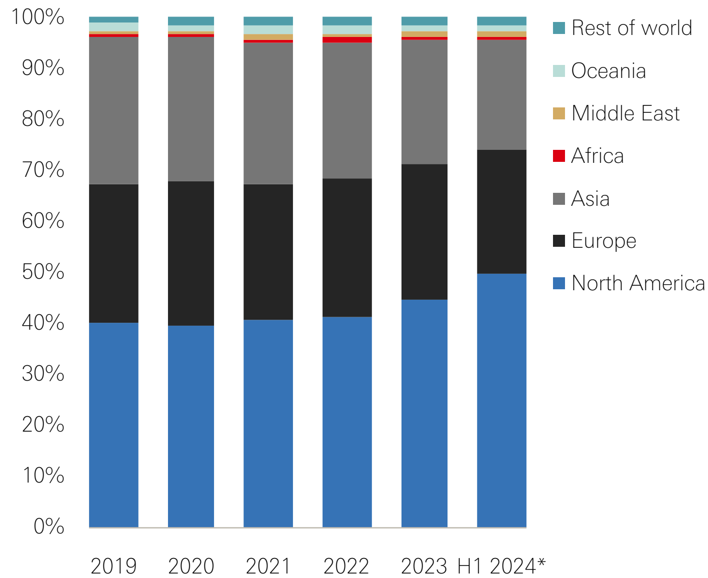
leading the charge on AI investment, with no signs of slowing down. **US deal value in the first half of 2024 represents nearly two-thirds of last year's annual value with a record volume of activity in Q2, suggesting 2024 may notch a second consecutive year of growth (Figure 32).** While the surge of funding into AI capabilities will eventually taper off, AI is expected to continue driving growth for software application vendors and cloud infrastructure expansion for the next several years.[7]

Figure 30: Share of global AI & ML VC deal value by region



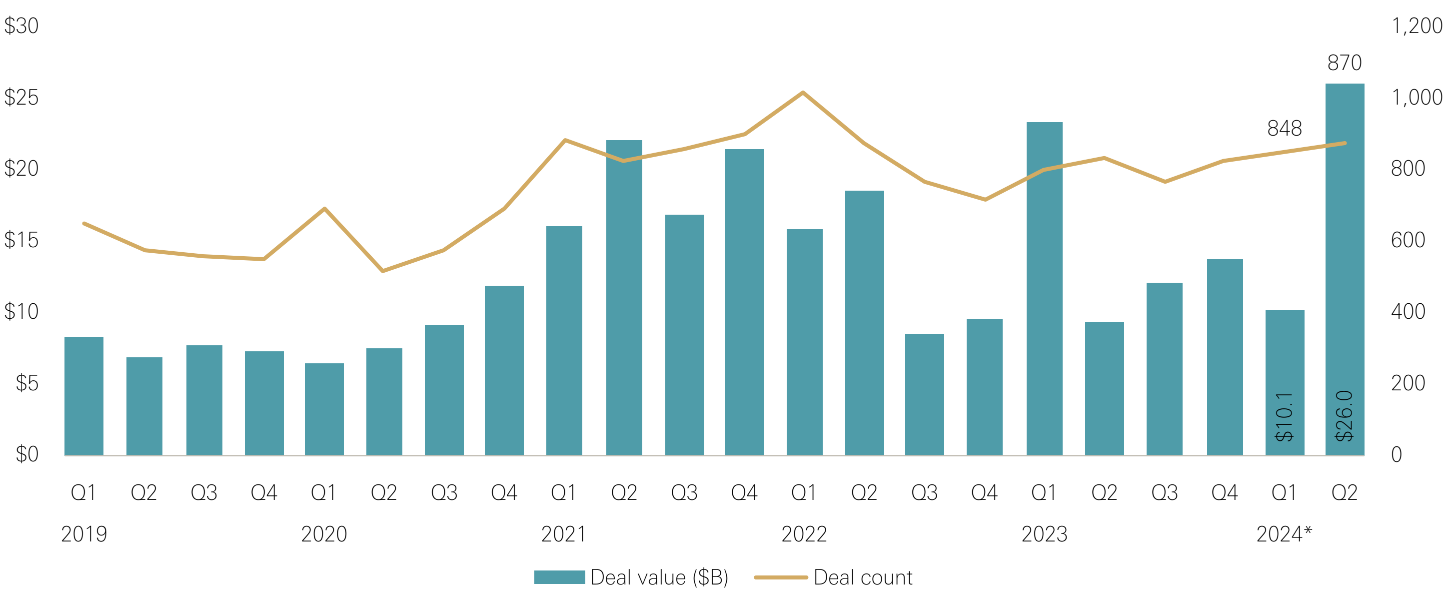
Source: PitchBook • *As of June 30, 2024

Figure 31: Share of global AI & ML VC deal count by region



Source: PitchBook • *As of June 30, 2024

Figure 32: US AI & ML VC deal activity by quarter

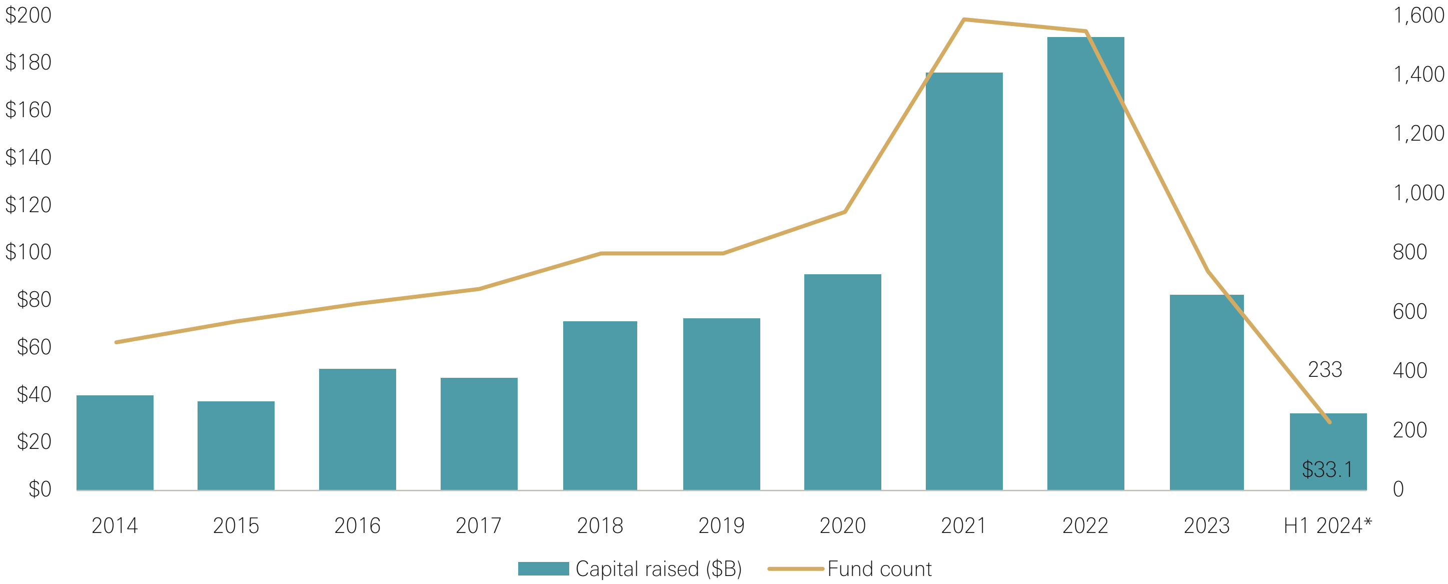


Source: PitchBook • *As of June 30, 2024

7: "2H24 Technology Outlook," HSBC Global Research, Stephen Bersey, Abhishek Shukla, and Govinder Kumar, July 24, 2024.

Fundraising & LP Monitor

Figure 33: US VC fundraising activity



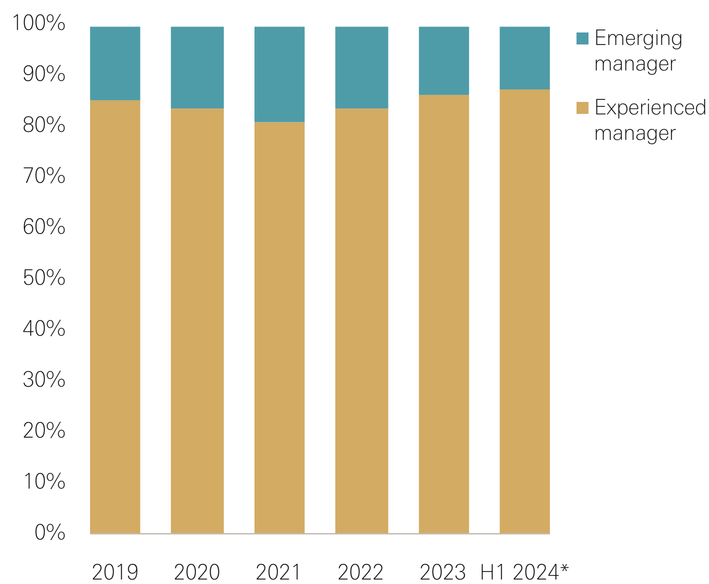
Source: PitchBook • *As of June 30, 2024

US VC fundraising has slowed significantly over the past 18 months, currently facing lagging downward pressure from sluggish dealmaking. On a rolling four-quarter basis, funds raised ticked up by a small margin in Q2 2024, though a full recovery of activity remains far on the horizon.

Along with the cumulative dollar amount raised, the number of funds contributing to the total dropped materially as well, highlighting capital flight toward a smaller number of experienced managers, which are perceived as lower risk by LPs. Across all private capital asset classes, the share of total funds raised by experienced managers in the US has exceeded 85% since 2023. Skilled managers that break off from larger firms are best positioned to entice LPs, and more recently minted vintages will likely fair better than their 2021 counterparts.

The cyclical relationship between fundraising and dealmaking suggests varying degrees of optimism for VCs. **Notably, 2023 was the first year in recent history in which tech VC dealmaking outpaced the amount of new capital raised by all VC funds globally.** Firms are still sitting on material piles of dry powder, but replenishment has slowed, adding to the value-creation pressure.

Figure 34: Share of US private capital raised by manager experience



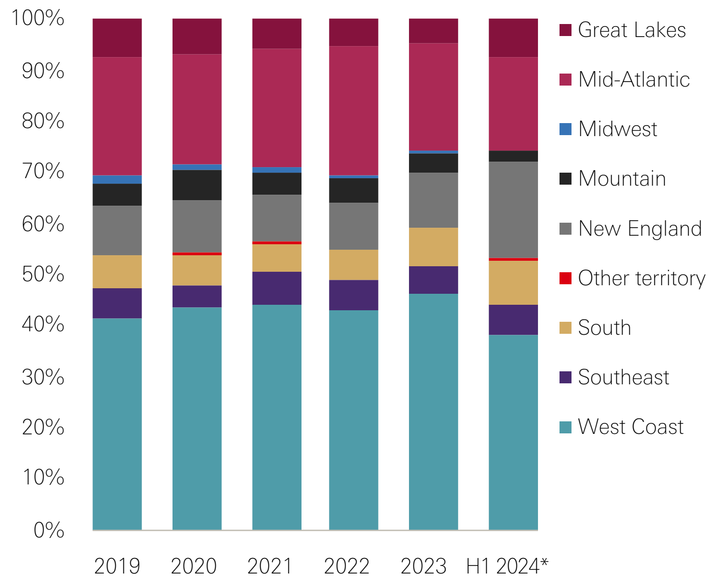
Source: PitchBook • *As of June 30, 2024

The median US VC fund value reached $30 million in 2023, up 18.8% from the year prior, before dropping back to $25 million in 2024. Stronger activity from larger outlier funds early in 2024 drove the average fund size up to $161.5 million in the first half of the year. A continued swell of larger fund sizes is expected moving forward, driven by further concentration of business among the experienced VC stalwarts. The clear and continued preference for experienced fund managers among LPs will more than likely result in a continued dominance of the US VC market on the global stage.

Nontraditional investors expanded their reach in the VC ecosystem beginning in 2018, though their participation has slowed since macro volatility emerged in 2022, seeing a further decline in deal count this year. Family offices are one of the more common and active LP types in the tech space, participating in more than 400 VC deals in the US each year since 2018—though 2024 is off to a slower start with 166 deals closed in its first half. Sovereign wealth funds engage with the US tech space to a smaller degree than family offices but participated in at least 28 deals each year since 2016. Geopolitical tensions have not had an outsized effect on this activity so far in 2024, though only 12 deals have closed YTD. Endowments maintain a smaller footprint in the tech VC space as well and have slowed their pace of investments to a greater extent than other LP types so far in 2024.

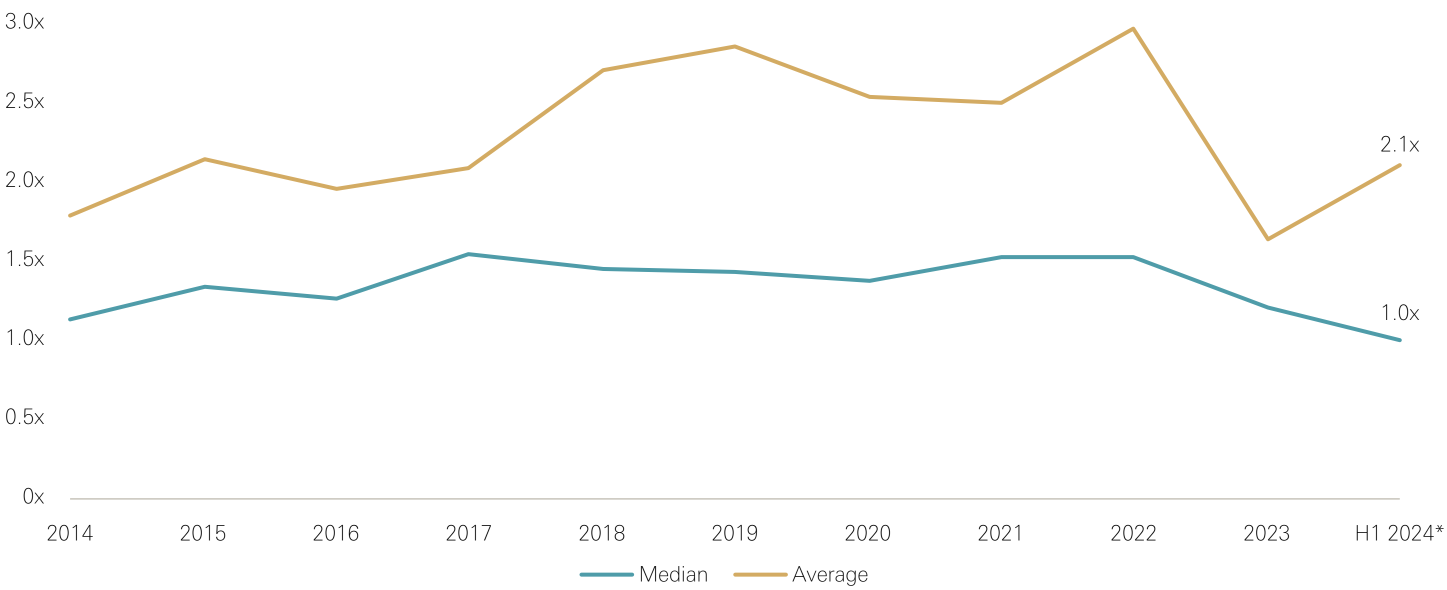
Corporate venture capitalists (CVCs) also maintain an active presence in the venture space, participating in nearly a quarter of all global VC deals in Q1 2024.[8] Motivations for CVC investment include strategic initiatives from parent corporations, as well as positive expectations for returns from the venture

Figure 35: Share of US VC fund count by region



Source: PitchBook • *As of June 30, 2024

Figure 36: Median & average US VC fund step-ups

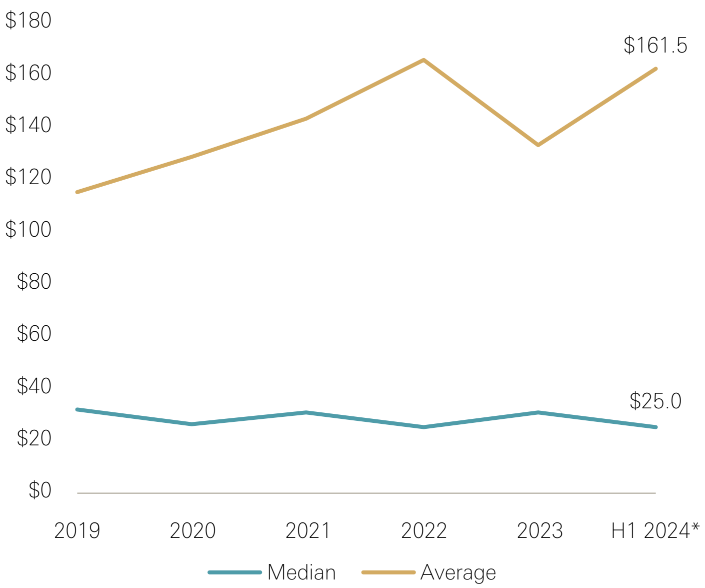


Source: PitchBook • *As of June 15, 2024

8: "Q1 2024 PitchBook-NVCA Venture Monitor," PitchBook, Kyle Stanford, Max Navas, and Kaidi Gao, April 2, 2024.

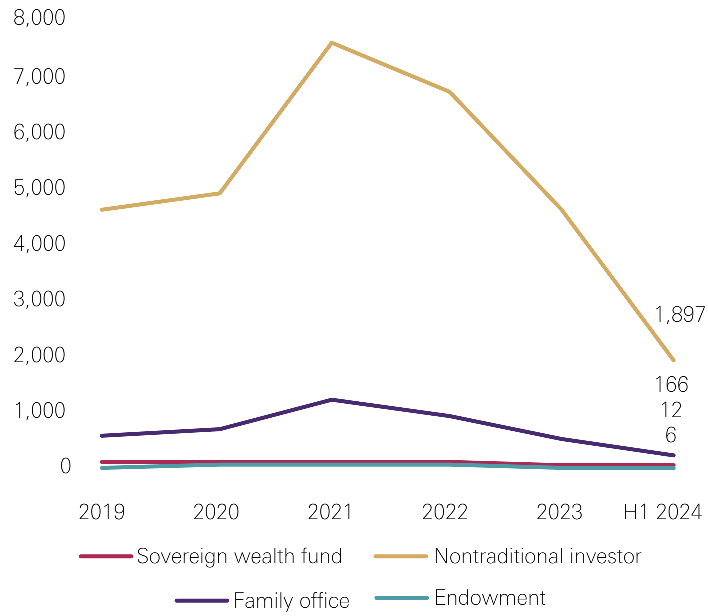
asset class. Sector specialization across tech segments increases alignment between corporate investors and innovative players. The energy sector in particular has seen growth in CVC involvement with seven of the 10 largest energy deals involving a corporate investor.[9] The climate tech segment specifically has drawn participation in the largest deals from a variety of corporate investors including Amazon, Hitachi Ventures, Mitsubishi, and Time Ventures. Exit paths and returns data will determine the next set of shifts, but the venture space has expanded its reach into the wallets of a broader range of investors.

Figure 37: Median and average US VC fund value ($M)



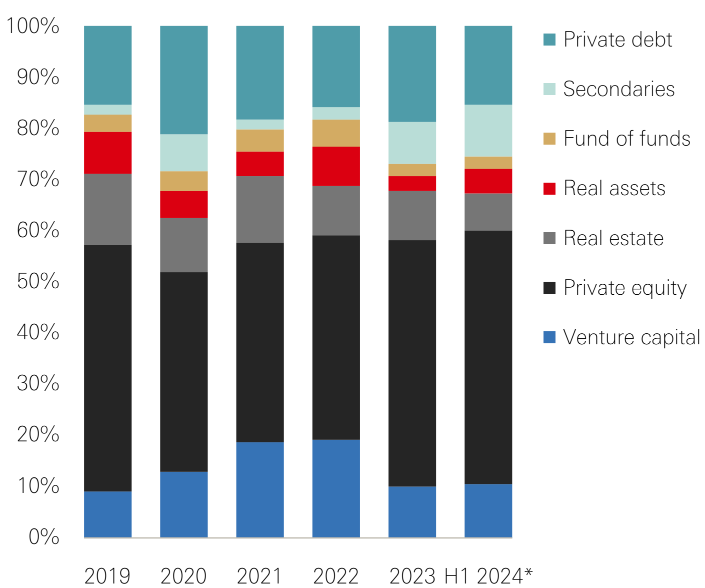
Source: PitchBook • *As of June 30, 2024

Figure 38: US VC deal count by LP type



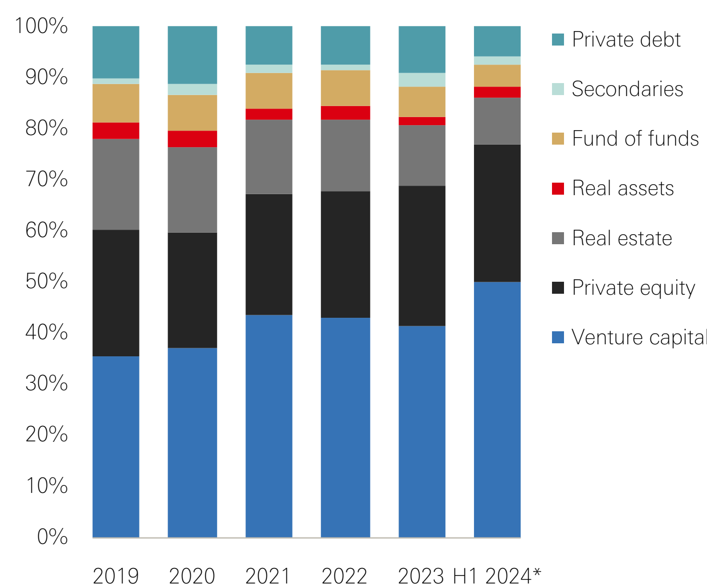
Source: PitchBook • *As of June 30, 2024

Figure 39: Share of US private capital raised by type



Source: PitchBook • *As of June 30, 2024

Figure 40: Share of US fund count by type



Source: PitchBook • *As of June 30, 2024

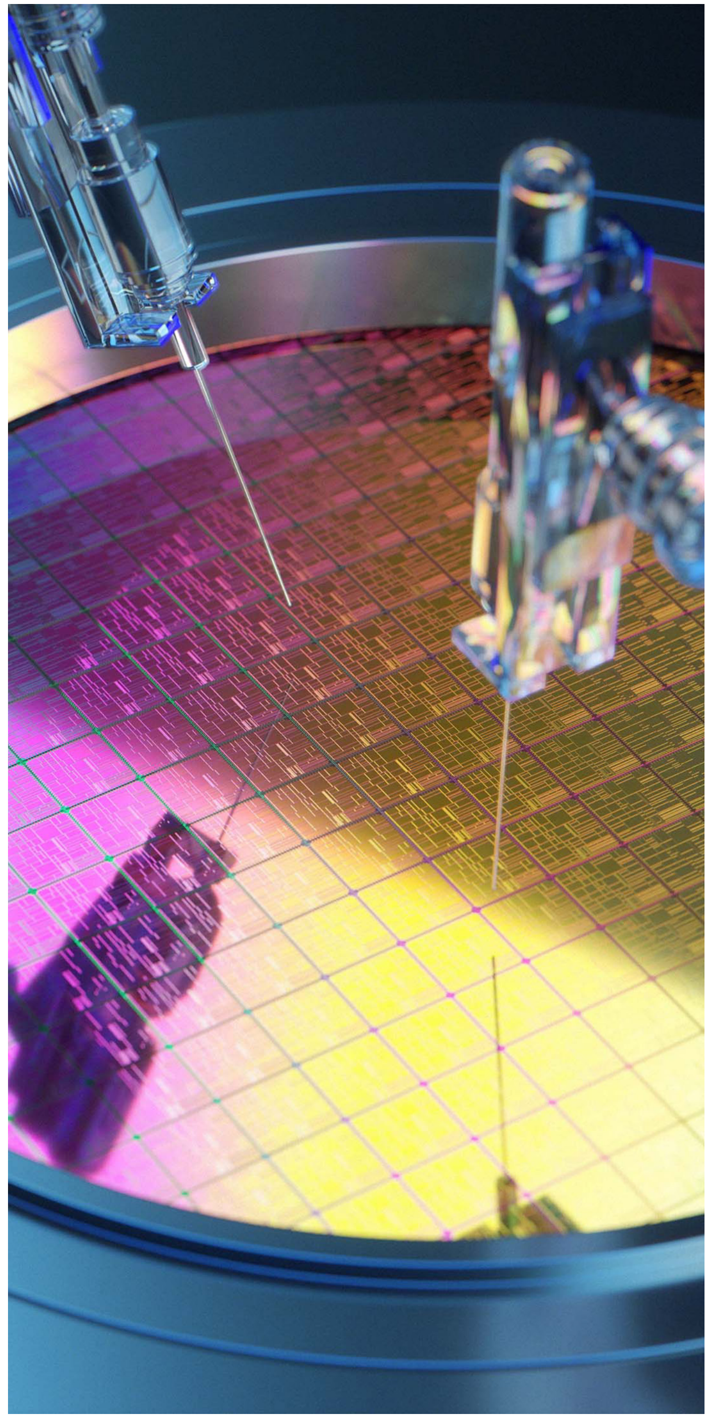
9: "A Third of Dollars Raised by Energy Startups Comes From Corporate-Backed Rounds," Global Corporate Venturing, Kaloyan Andonov and Maija Palmer, March 5, 2024.

Conclusion & Outlook

Fundraising activity will have a direct but lagging impact on dealmaking as 2024's fund vintages close. Slower VC fundraising dispersed across fewer managers suggests continued investor caution, but critical areas of tech, including climate tech and AI, still manage to secure rounds. Valuation expectations and stricter check-writing criteria among investors may also weigh on dealmaking activity, though recent growth in median valuations for several company stages indicates some rising momentum, further supported by excitement surrounding emerging technologies. Recent outlier deals, including OpenAI's $10 billion raise in 2023 and Anthropic's $4 billion raise in 2024, support the thesis that companies at the forefront of the AI revolution are pulling VC activity out from the sluggishness that began in late 2022.

Startups across all segments can still expect longer due-diligence timelines, but deals are undoubtedly still closing. Momentum is materializing in the form of upticks in quarterly deal closings and a select number of more positive IPO debuts.

Monetary policy will be closely watched over the next few quarters, with highly anticipated rate cuts in the US—the largest VC market globally—beginning in Q3 2024.[10] Rate cuts signal positive economic momentum and increased capital availability, likely contributing to a more active pace for VC check writers as well. The global economic outlook is mixed, but VC dealmaking in the innovation economy is evolving to meet the new normal.



10: "CME FedWatch Tool," CME Group, n.d., accessed September 10, 2024.

About & Methodology

"Tech" in this report comprises the following five segments: climate tech, frontier tech, consumer tech, enterprise software, and fintech. Segments were defined using PitchBook's dedicated verticals and industry tags. PitchBook's standard venture methodology was applied for all relevant transactions. The geographic scope was global unless otherwise noted. For breakouts by industry or other verticals, each company had to be tagged with at least one other relevant vertical. Given overlap between segments, it is possible for a single deal to be represented in deal activity data for multiple segments, but these deals are deduplicated for largest deal tables and overall tech activity charts to prevent double counting. Relative proportions were utilized to minimize the impact upon trend analysis.

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