

San Diego sees fewer startup deals in 2023 as investors write larger checks for select companies

By Natallie Rocha

Venture capitalists wrote bigger checks to fewer San Diego startups last year, leading to the lowest number of regional deals in five years.

San Diego notched 240 startup deals in 2023 for a total of \$4.1 billion in investments, according to data from the latest Venture Monitor report from the National Venture Capital Association and PitchBook, an industry research firm. That's 81 fewer deals than 2022 and a 17 percent decline in venture capital dollars flowing into the region.

That decline was reflected in data for startups across the country.

Nationally, startup deals declined by 10 percent and the value of investments dropped about 30 percent year over year. While both figures exceed pre-pandemic levels, it's the lowest level since 2019.

Overall, venture capitalists acted conservatively in the face of high interest rates, struggling supply chains and international conflict.

Last year "ended with fewer deals and less capital invested than 2022; that is obvious," wrote Bobby Franklin, CEO of the National Venture Capital Association in the report. "However, the industry is extremely well capitalized, and advances in AI, life sciences, and clean tech are all attracting significant levels of public and private investment."

Mike Krenn, head of Connect/San Diego Venture Group, said that despite the year-over-year decline in venture capital activity, San Diego did well compared to other major markets. During 2023, San Diego startups netted more money than Austin, Texas, Seattle and Denver, despite those regions having more resident venture capital firms.

While San Diego is well known for its biotech sector, the growing diversity of startups from traditional tech to consumer products has helped the region fare better than other major metros, Krenn said.

Krenn anticipates the first half of 2024 will echo the cautious approach by firms in 2023, but he said there's still money "sitting on the sidelines" ripe for investment. He said another challenge of the past year was investors trying to refocus their portfolios and be more selective about continued investments.

At the ground level, that selective focus by investors is what Rory Moore has seen for startups at EvoNexus, a nonprofit incubator he founded that has helped more than 250 startups through mentorship, fundraising and acquisitions. He shared that EvoNexus startups raised more money in

2023, but only a small portion of those funds were seed or series A rounds, which typically help launch startups.

In the pre-COVID venture capital environment, Moore said investors were much more willing to take on risk and throw money at early-stage companies that could be the next Uber or Airbnb. Now, he said the venture capitalists who are writing larger checks are seeking high quality companies that are further along in their growth where there is more potential for an acquisition or IPO.

"I think there's been a reset of venture capital," Moore said.

For instance, San Diego has a track record of building promising biotech startups that draw big pharma companies to the region for sizable deals.

Bristol Myers Squibb is the most recent example with two large biotech acquisitions in the fourth quarter of 2023. It purchased local cancer therapy companies Mirati Therapeutics for \$4.8 billion in October and RayzeBio for \$4.1 billion in December.

Nationally, the fourth quarter data estimates ending Dec. 31 showed deal activity and deal value were both down compared to the previous year.

In San Diego, there were 23 percent fewer deals during the fourth quarter, but there was more money invested in the region — a 15 percent increase year over year.

During the fourth quarter, most of the funding in San Diego went to health care startups including Rakuten Medical (\$182.1 million), Iambic Therapeutics (\$103.2 million), Lassen Therapeutics (\$85 million) and MBrace Therapeutics (\$85 million).

But the biggest local financing round went to technology firm Shield AI at \$500 million.