Venture Debt

What is Venture Debt, why Venture Debt may be applicable to you & how Capital Advisors Group helps to support Venture Debt raises.

What is Venture Debt?

Venture debt is a broad term but is often referred to as growth debt or term debt. It is a loan that is commonly offered by venture banks or dedicated venture debt funds.

Who Benefits from It?

Venture debt is often used by venture capital-backed and/or early-stage companies that are looking to raise capital but may wish to avoid or supplement equity financing and that do not qualify for traditional commercial bank loans. These companies typically lack the assets, or the cash-flow required to secure traditional commercial bank debt and may operate in sectors, such as biotech, where significant upfront R&D or other capital expenditures are needed prior to product commercialization.

When Should I Raise Venture Debt?

For companies that aren't profitable or generating revenue, venture debt can serve as a complement to equity financing and is often raised alongside or directly after an equity round. It can sit senior in the capital stack[1] or subordinate to other existing financing and can be distributed in tranches[2] to extend the utility of the financing and spread cost over a longer period. As for the question of when is best, there are a lot of different circumstances in which it may be the right time to raise venture debt.

- If you need to extend the cash runway to hit a milestone
- If you wish to invest in revenue enhancing initiatives (i.e., sales and marketing)
- If you need one more financing to reach profitability
- If you are interested in funding significant capital expenses
- And many more!

Why Venture Debt?

Other than providing a way to raise capital to those that typically do not qualify for other forms of financing, venture debt has several positive features including its flexibility. Often venture debt provides a more flexible option than standard loans as it tends to be less dilutive than equity and sometimes can be refinanced to allow the borrower to adjust structure based on growth and need of additional access to capital.

What Terms Should I be Thinking of When Raising Venture Debt?

Venture debt may be raised on the heels of an equity round with venture lenders sometimes giving consideration to the reputation of the equity investors. Given the many sources of debt capital in the market, terms can vary dramatically between lenders. The following are some terms to consider with raising venture debt: the size of the loan, the duration of the loan and interest only period (if any) as well as, the corresponding length of the amortization period, warrants, and the price of the loan including fees and interest rates. Read our whitepaper to learn more about how the state of the market can affect these terms.

Borrowers should also be aware of prepayment penalties that sometimes decrease as the loan approaches maturity. The amount of capital provided typically depends on several factors including cash on hand, cash life, revenue and/or profitability (if applicable). For example, with purely cash burning companies that have no revenue, the loan leverage may be directly linked to the size of a preceding equity round.

What is The Current Market for These Terms?

Given the state of the current market, the venture debt loan will generally coalesce around a 3-5-year term, with an interest-only period followed by an amortization period, an annualized interest rate in the single to low double digits or even mid-teens, with origination and an end-of-term fees tied to the loan amount, and a small warrant or success fee component based on the loan amount.

Factors such as revenue, revenue growth, cash runway and even sector can come into play when venture lenders determine an appropriate loan amount for a company. Loans can be provided in single or multi tranche structures to match borrower needs with interest payable monthly. The cost of capital can vary based on the lender, the size of the loan, the financial strength and historical performance of the borrower, and exogenous risk factors such as regulatory risk, among others. An existing minimum cash runway of around 12 months or more is a common requirement, suggesting that a debt fundraising process should be run well in advance of when the debt is to be relied upon.

Where Can I Get Help with Venture Debt?

When considering venture debt, broad market knowledge is critical for superior outcomes. Since 2003, Capital Advisors Group has worked side-by-side with emerging growth companies to help obtain the best terms and conditions for debt transactions ranging from $5M-$200M. Along with the work of our debt finance team, we also have various written resources on venture debt that can help guide you through learning about the process. To see an example of our work, please read our case study on how circumstances can affect venture debt recommendations.

[1]The capital stack is the structure of all of the capital invested in a company. Capital stacks prioritize different capital types by seniority, placing the least senior at the top and the most senior at the bottom. Typically, equity positions register first, and debt positions fall below.

[2]Tranches make up a collection of securities, usually debt instruments, that are ordered by risk or other characteristics in order to be marketable to various investors. They often have differentiating characteristics such as varying maturities, degrees of risk, and yields.

About Us

Capital Advisors Group, Inc. is an independent SEC-registered investment advisor specializing in institutional cash investments, risk management, and debt finance consulting. Our clients range from venture capital-funded startups and emerging growth companies to Fortune 100 companies.

Drawing upon more than a quarter of a century of experience through varied interest rate cycles, the firm has built its reputation upon deep, research-driven investment strategies and solutions for its clientele.

Capital Advisors Group manages customized separately managed accounts (SMAs) that seek to protect principal and maximize risk-adjusted returns within the context of each client's investment guidelines and specific liquidity needs. Capital Advisors Group also provides FundIQ® money market fund research; CounterpartyIQ® aggregation and credit analysis of counterparty exposures; risk assessment on short-term fixed income securities and portfolios; and independent debt finance consulting services.

Headquartered in metropolitan Boston, Capital Advisors Group maintains multiple U.S. regional offices.

Disclosure Information

Any projections, forecasts and estimates, including without limitation any statement using "expect" or "believe" or any variation of either term or a similar term, contained herein are forward-looking statements and are based upon certain current assumptions, beliefs and expectations that Capital Advisors Group, Inc. ("CAG", "we" or "us") considers reasonable. Forward-looking statements are necessarily speculative in nature, and it can be expected that some or all of the assumptions or beliefs underlying the forward-looking statements will not materialize or will vary significantly from actual results or outcomes. Some important factors that could cause actual results or outcomes to differ materially from those in any forward-looking statements include, among others, changes in interest rates and general economic conditions in the U.S. and globally, changes in the liquidity available in the market, change and volatility in the value of the U.S. dollar, market volatility and distressed credit markets, and other market, financial or legal uncertainties. Consequently, the inclusion of forward-looking statements herein should not be regarded as a representation by CAG or any other person or entity of the outcomes or results that will be achieved by following any recommendations contained herein. While the forward-looking statements in this report reflect estimates, expectations and beliefs, they are not guarantees of future performance or outcomes. CAG has no obligation to update or otherwise revise any forward-looking statements, including any revisions to reflect changes in economic conditions or other circumstances arising after the date hereof or to reflect the occurrence of events (whether anticipated or unanticipated), even if the underlying assumptions do not come to fruition. Opinions expressed herein are subject to change without notice and do not necessarily take into account the particular investment objectives, financial situations, or particular needs of all investors. This report is intended for informational purposes only and should not be construed as a solicitation or offer with respect to the purchase or sale of any security. Further, certain information set forth above may be based upon one or more third-party sources. No assurance can be given as to the accuracy of such third-party information. CAG assumes no responsibility for investigating, verifying or updating any information reported from any source.

Capital Advisors Group, Inc.
One Federal Street, Suite 2200
Boston, MA 02110
Tel: 617.630.8100 ~ Fax: 617.630.0023
www.capitaladvisors.com
info@capitaladvisors.com