Capital Advisors Group's

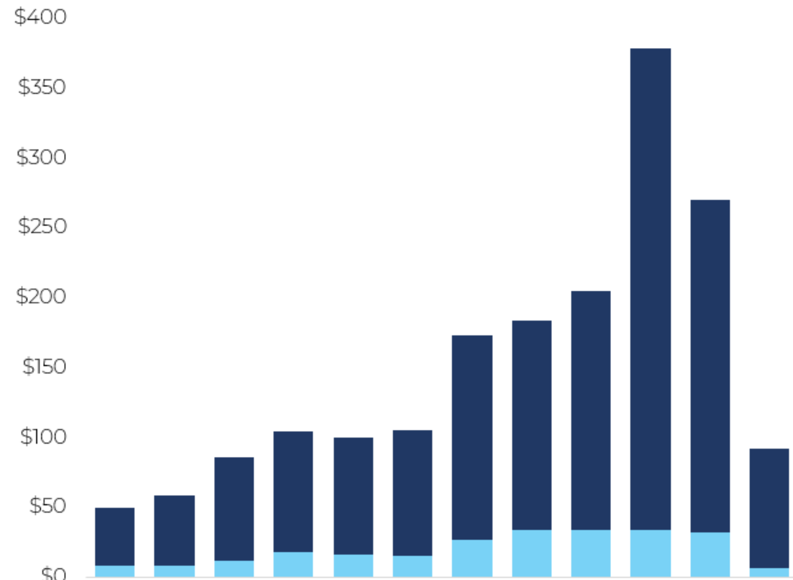
Debt Market Quarterly Update

Q2 2023

Commentary

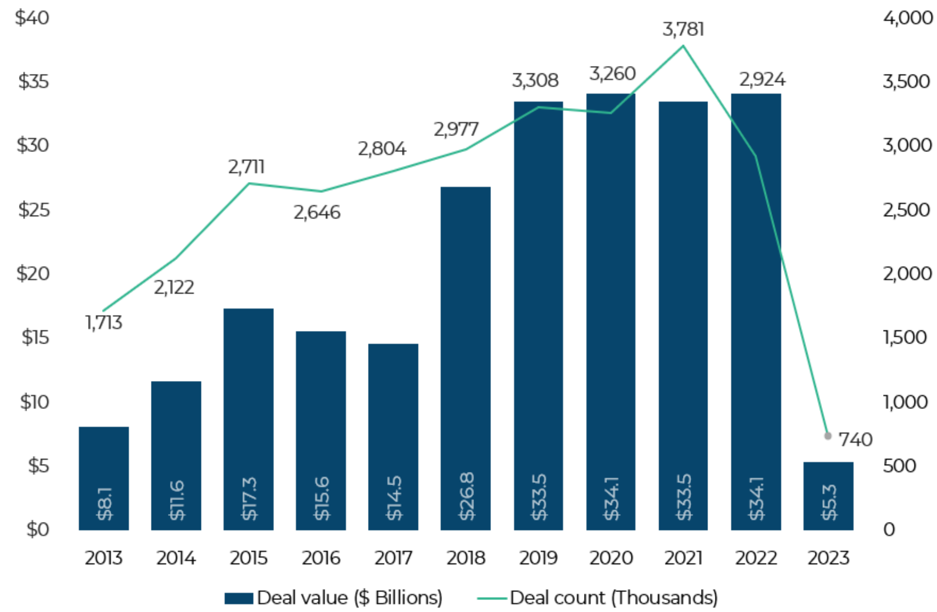
The venture debt markets got off to a historically tepid start in 2023 and continued to slow its pace through Q2. According to Pitchbook, total funding was down another 15% from the prior quarter and dropped more than 67% from the same period in 2022. As we review debt as a percentage of the venture equity markets, the Q2 2023 debt total of $3 billion rose to just over 10%, up from 8% the prior quarter. One potential positive highlight during the quarter is that venture debt deal count rose 34% from the prior quarter, showing that activity is somewhat recovering. However, average deal size is diminishing, falling to just over $5 million at the end of Q2, down from just over $9 million from the prior quarter and nearly $14 million during the same period in 2022.

US Venture Capital and Debt Activity



	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
VC Equity ($ Billions)	$41.7	$50.1	$73.7	$86.4	$84.1	$90.1	$145.	$150.	$171.	$344.	$238.	$85.6
VC Debt ($ Billions)	$7.5	$8.2	$11.6	$17.3	$15.5	$14.6	$26.5	$33.3	$33.5	$33.2	$31.8	$6.3
Debt/Equity %	15.2	14.0	13.6	16.7	15.6	13.9	15.4	18.2	16.4	8.8	11.8	6.9

US Venture Debt Activity



Information and data sources include PitchBook Data as of 6/30/2023 and other publicly available data from parties that Capital Advisors Group has engaged with on historical debt transactions and is suited for general informational purposes only. Capital Advisors Group makes no representation or warranty regarding the accuracy or completeness of the data. Please click here for disclosure information: Our research is for personal, non-commercial use only. You may not copy, distribute or modify content without prior written authorization from Capital Advisors Group.

Healthcare

Prior to Q2 2023, healthcare debt financing (in total deal value) had dropped each of the prior three quarters. However, in the most recent quarter, deal value recovered to $800 billion, which represented a 50% increase from the prior quarter. We also saw deal count recover by 65% from the prior quarter. We view this as a positive sign that healthcare lenders remain relatively active in light of equity markets which remain stagnant and amidst a virtually nonexistent healthcare IPO market.

We continue to see prolonged diligence processes and far greater scrutiny by early-stage lenders of companies that aren't backed by the strongest equity sponsors. Early-stage finance has always been a story of the "haves and have nots," and this market is no different. However, there are now fewer "haves" that can raise equity and debt with relative ease. We expect this trend to continue until venture and IPO markets recover.

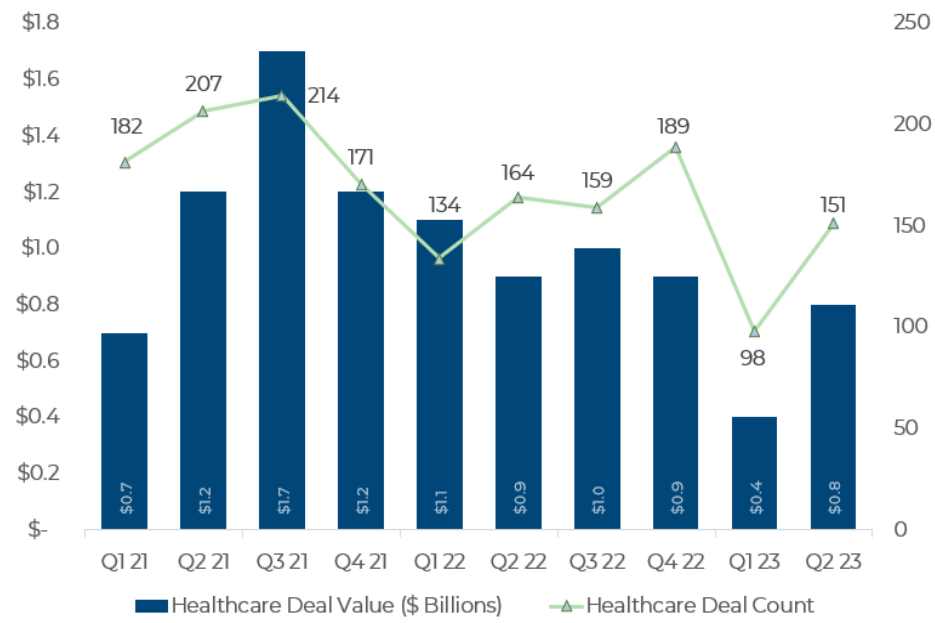
Technology

Within the tech sector, venture debt remains suppressed relative to where it's been in recent years. In Q2 2023, tech companies raised $2.9 billion, representing a 71% decrease compared to Q2 2022 and a 14% decrease compared to the already low level we observed in Q1 2023.

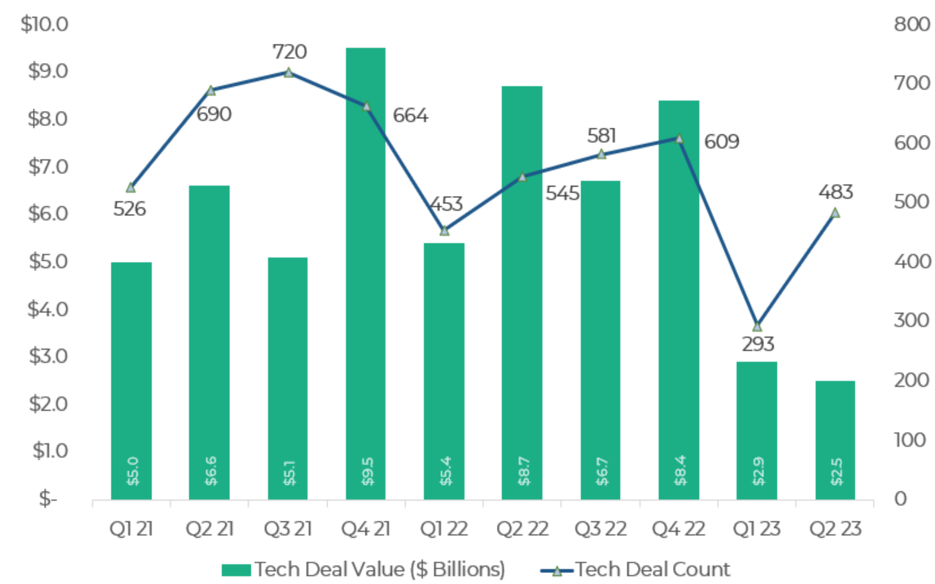
Interestingly, while the amount of capital being deployed in the space is significantly lower, the number of deals being done is showing signs of recovery. In Q2 2023, there were 483 venture debt deals completed with tech companies. While this is down 11% from Q2 2022, it's up by 70% relative to Q1 2023.

With the decrease in capital deployed and the increase in deal count, average deal size plummeted from $10.2 million in Q1 2023 to $5.1 million in Q2 2023. This part is not surprising given the backdrop in the equity markets. As VCs are writing smaller checks at lower valuations, venture lenders are also scaling back the amount of capital that they are deploying.

US Healthcare Venture Debt Activity



Technology Venture Debt Activity



Why Consider Venture Debt

Runway Extension
Extends runway required to hit important milestones prior to next equity raise, which may help drive a higher valuation.

Less Dilutive Growth Capital
Enables continued investment in growth, while minimizing the dilution associated with raising equity.

Enhance Liquidity
Provides a cash cushion, which may act as "insurance" if it takes longer than anticipated to reach the next milestone or raise the next equity round.

Acquisition Financing
Reduces operating burn to provide more cash for potential acquisitions.

No Board Seat Requirements
Brings on a significant capital partner without impacting current board dynamic.

End-to-End Transaction Support

From initial query to cash in hand, we develop your strategy, evaluate potential lenders, solicit bids, and help you source the most favorable deals.

Sample Transactions

inozyme pharma	gritstone bio	connect RN
Term Loan	Term Loan	Asset-Based Revolver & Term Loan
$70,000,000	$80,000,000	$65,000,000

Recently completed debt deals. For our clients' confidentiality, only those clients who have authorized us to use their name and financing information in our marketing materials are listed. Clients listed do not necessarily endorse or approve of the debt advisory services provided by Capital Advisors Group.

Key Team Members

Since 2003, we have worked side-by-side with emerging growth companies to help obtain the best terms and conditions for debt transactions ranging from $5M to more than $200M.

Stefan Spazek
EVP – Director of Debt Placement

Ryan McCarthy
Managing Director

Kerry Hu
AVP – Financial Analyst

Disclaimer

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") 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, changes 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 presentation 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 presentation 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. Photocopying or redistributing this presentation in any form is strictly prohibited. This presentation is a confidential document and may not be provided or disclosed to any parties other than the intended recipient(s) without the prior written consent of CAG. FundIQ® and CounterpartyIQ® are registered trademarks of Capital Advisors Group. Debt Advisors Group is a division of Capital Advisors Group, Inc. that provides debt finance consulting services. Debt Advisors Group is not part of Capital Advisors Group, Inc.'s investment advisory business.