DEBT ADVISORS GROUP
Independent Treasury and Debt Solutions

Case Study

$10MM Line of Credit

BACKGROUND

This early stage biotech company sought to expand its line of credit and extend its cash runway. Debt Advisors Group* assisted them from start to finish, including needs evaluation, bid solicitation, proposal assessment, terms negotiation, competitive analysis and summary recommendation. This case study illustrates the key financing goals, decision factors and overall process. The results achieved by this company are the product of their unique credit profile and the risk appetite of the lenders considered.

CLIENT PROFILE

Industry	Biotech
Stage	Early
Investors	Over $50MM from top tier VCs
Cash Runway	Approximately 20 months

PREVIOUSLY INSTALLED DEBT FACILITY

The company had established a $2.5 million equipment backed line of credit during their initial start-up period. The line was a standard venture bank line, characterized by the following:

- Lien Coverage: First security lien on all corporate assets except intellectual property, which requires a negative pledge
- Additional Requirements: All primary depository, operating, and securities accounts kept at bank, with bank having right to set-off without notice (possible sweep)
- Material Adverse Change Clause: Throughout draw-down period and term
- Rate: 36 months at floating rate of Prime plus 0.25% with 8% end of term balloon and resulting internal rate of return of 8.78%
- Soft Costs: Capped at 25%
- Warrant Coverage: None
- Prepayment: Borrower may prepay without penalty or premium with thirty day notice

EVALUATION

Debt Advisors Group analyzed the outstanding loan looking for areas to improve the structure. Debt Advisors Group determined that the full cash collateralization and right to set-off made runway extension impossible. In essence, the company was borrowing its own money. Additionally, the blanket lien severely limited all future financial flexibility such as bridge financing.

Based on this evaluation, the company decided to include a refinancing of this loan with other current debt requirements.

DEBT NEEDS

With the infusion of a fresh round of equity financing, the company looked to extend its runway through leverage. The company sought debt financing of $10 million:

- Takeout of existing financing - $2.5 million
- Large tenant improvement (soft costs) - $3.5 million
- Significant European based lab assets - $2 million
- 2004 Equipment capital expenditures - $2 million
- Total: $10M takeout

FINANCING GOALS

The chief financial officer's explicit goals for the new round of financing were:

- Maximize financial flexibility: Complete an equipment-backed structure with no additional collateral requirements and no financial covenants.
- Lower warrant coverage: Negotiate warrant coverage below industry norms.
- Minimize early cash outflows: Seek a structure that offers the lowest cash outflow during current runway and is back end loaded for a three to five year period.
- Minimize overall cost: Find lowest IRR alternative.
- Select direct funding, service oriented lenders only. These lenders must have a proven track record of completing life science debt financing in the $10 million range.

*Debt Advisors Group, Inc. is a separate and distinct entity affiliated with Capital Advisors Group, Inc.

THE PROCESS

Three independent lenders with expertise in working with venture-backed companies were solicited to submit proposals. Using a comparative re-bid process, the negotiation of final conditions was completed in 2 weeks' time. The terms achieved included:

- Commitment amount: $10 million with a drawdown period of one year
- Lien coverage: Specific equipment only
- Additional requirements: None
- Financial covenants: None
- Material Adverse Change Clause: Drawdown period only
- Rate: Fourteen month interest only at fixed 8%, followed by 48 month fixed principal and interest payments to an 11.5% balloon: all in IRR less than 9.5%
- Warrant coverage: 5% preferred warrants

NET RESULT

This transaction accomplished the following objectives:

- Extended cash runway by over 10%
- Provided benefit of 39% extra cash when next equity event must occur
- Gave company financial leverage on raised equity
- Allowed complete financial flexibility for uncertainties in future.

Debt Advisors Group assisted the company in the debt placement process by utilizing our:

- Current experience in the venture-backed, life science lending market
- Knowledge base of common structuring practices
- Succinct Comparative Analytic Presentation (CAP) highlighting all relevant decision-making criteria for board approval

ABOUT DEBT ADVISORS GROUP

Debt Advisors Group's team of professionals brings years of lending expertise to help growing companies evaluate debt and lease terms. Debt Advisors actively monitors lenders, independently assessing their structures, terms, and rates. After rigorous review, DAG's professionals recommend a short list of lenders who will compete for your business. Using a Proprietary Lease Tools™ financial model, Debt Advisors compares financial covenants, warrants, net present value and other terms to achieve an apples-to-apples comparison. Part of the comparative analysis is a succinct but thorough executive summary that helps save time, particularly at board meetings.

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