DEBT ADVISORS GROUP
Independent Treasury and Debt Solutions

Case Study

Utilizing Growth Capital Financing to Maximize Runway Extension

BACKGROUND

A late stage Venture Capital backed Bio-Tech company was seeking debt to extend its runway. However, the company had very little collateral with which to secure debt financing. This case study illustrates the benefit of Growth Capital (also known as an "airball" by lenders or "Venture Debt") as a form of debt financing for firms with limited tangible collateral.

CLIENT PROFILE

Industry	Bio-Tech
Stage	Late
Investors	Recently raised $70MM from top tier VCs in tranches
Burn	$1.87MM / Month

EVALUATION

DAG was engaged by the client at the beginning of the debt acquisition process. We began looking for a combination of venture debt and equipment financing. The client already had an equipment line in place but wanted to refinance because the loan terms severely limited financial flexibility. We asked lenders to propose on a growth capital line with a draw down period of approximately one year, in addition to a refinancing of the current line.

DEBT NEEDS

The company sought minimum debt financing of $11.5MM:

- Takeout of existing equipment financing - $1.5MM
- Venture Loan - $10MM with a one year draw down period

FINANCING GOALS

Our explicit goals for the new round of financing were:

- Maximize future financial flexibility: Secure a venture loan that would not require a lien on IP and which would allow the firm to acquire more debt, specifically an equipment loan
- Significantly extend runway: Secure a takeout of existing equipment loan that would increase runway. The equipment loan in place required all accounts to be maintained with the lender, providing a loan that did not extend the company's runway in any meaningful way
- Reduce overall cost: Find lowest IRR alternative

LENDER RESPONSE

Several lenders submitted proposals for both the venture loan and the equipment loan. After careful comparison we determined that no single lender had a great combination loan. We therefore decided to utilize two separate lenders. We then negotiated a carve-out for a specific asset lien for the equipment portion from the all asset lien attached to the growth capital loan.

NET RESULTS

The final terms negotiated included:

General Terms

- Total Commitment: $13MM
- Financial Covenants: None
- Material Adverse Change Clause: Draw down period only

Growth Capital

- Commitment: $10MM with a draw down period of 15 months collateralized by an all asset lien with a negative pledge on IP
- 6.75% warrants
- 48 month fixed principal and interest payments at a run rate of 5.5% with a balloon payment and an IRR of less than 8.5% including fees

Equipment

- Commitment: $3MM loan as a takeout of the old bank line even though the remaining loan amount was only $1.5MM
- Lien coverage: Specific asset lien
- 2% warrants
- 36 month fixed principal and interest payments at a run rate of 7.7% and an IRR of less than 8.33% including fees

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.

For more information, contact:
Richard Bowman, President
rbowman@debtadvisorsgroup.com
617.630.8110