Capital Advisors Group's

Debt Market Quarterly Update

Q3 2022

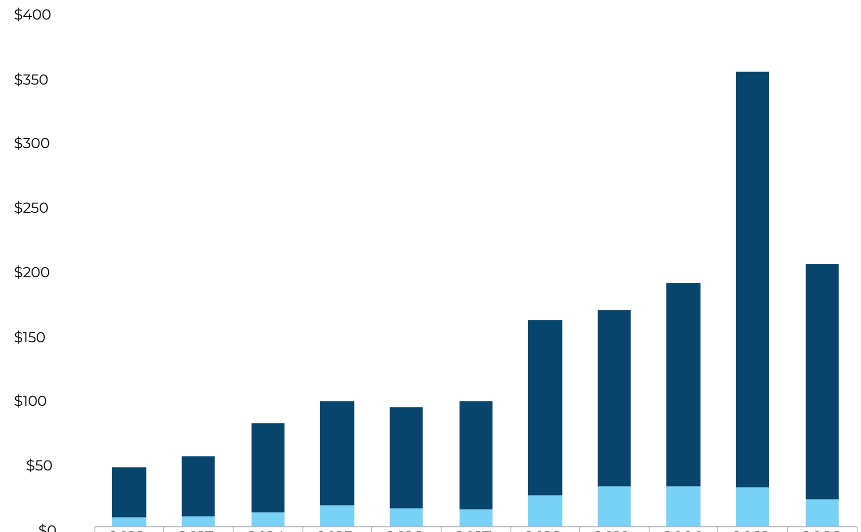
Overview

Welcome to Capital Advisors Group's inaugural quarterly newsletter that will provide a snapshot update of the current state of the debt financing markets. Capital Advisors Group has been advising innovative venture-backed and growth-stage companies on debt finance transactions for more than 18 years. This newsletter will provide insight into debt markets, specifically as they relate to prominent trends in venture debt and lower middle market transactions. On a quarterly basis, we'll review the market as a whole and how it stacks up to equity financing. We'll also break down the market on a broad sector basis and assess the health of the market—tracking publicly available data on impaired debt, troubled debt, and loan defaults at banks and debt funds.

Commentary

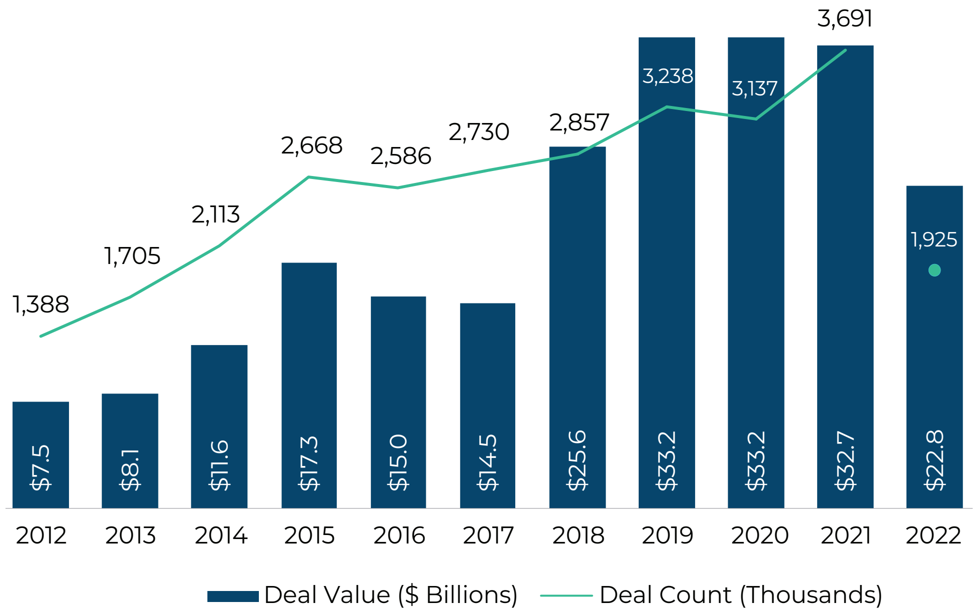
For the past decade, the US venture debt market has boomed, growing nearly every year on a volume (number of deals) basis. Over the course of 2021, the market reached a record number of deals with more than 3,600 completed across all sectors. However, the market bucked the growth trend in actual capital raised in 2021, dipping slightly, just more than 2%, from the prior year. This may have been due, in part, to a dramatic drop in deal flow in the healthcare sector in the second half of 2021. Unsurprisingly, deal volume has dropped 20% year-over-year through Q3 2022 in parallel to the pullback of both private and public equity markets. Finally, as we review debt as a percentage of the venture equity markets, the numbers held relatively steady from 2012 to 2020, averaging just over 15%. However, that number dropped to 8.7% during the record setting equity financing levels in 2021 and hasn't recovered to prior years' levels through Q3 2022. In fact, venture debt deal value dropped dramatically, more than 50%, between Q2 and Q3 this year and, according to Pitchbook, reached a five-year quarterly low point of $4.7B in total fundings.

US Venture Capital and Debt Activity



	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
VC Equity ($Billions)	$41.7	$49.7	$73.8	$86.3	$83.8	$89.2	$145.1	$145.8	$168.7	$343.6	$194.9
VC Debt ($Billions)	$7.5	$8.1	$11.6	$17.3	$15.0	$14.5	$25.6	$33.2	$33.2	$32.7	$22.8
Debt / Equity (%)	**15.2%**	**14.0%**	**13.6%**	**16.7%**	**15.2%**	**14.0%**	**15.0%**	**18.6%**	**16.5%**	**8.7%**	**10.5%**

US Venture Debt Activity



Sector Activity – A Tale of Diverging Markets

Healthcare

Not surprisingly, in 2021, the healthcare sector's venture debt deal flow fell significantly, nearly 13%, from its 2020 peak in terms of total dollars. The presence of record equity financing in this sector likely drove this 2021 trend because it supplanted the need for debt financing in many cases. However, the equity markets in life sciences began to slow considerably toward the end of 2021. The slowdown has persisted through Q3 of 2022, which has dramatically affected lending. Year over year, healthcare lending has fallen 17% in dollars raised. Additionally, many lenders have tightened their credit requirements, and deal flow in the first half of this year has fallen to its lowest level in five years, dropping nearly 25% from the same time last year.

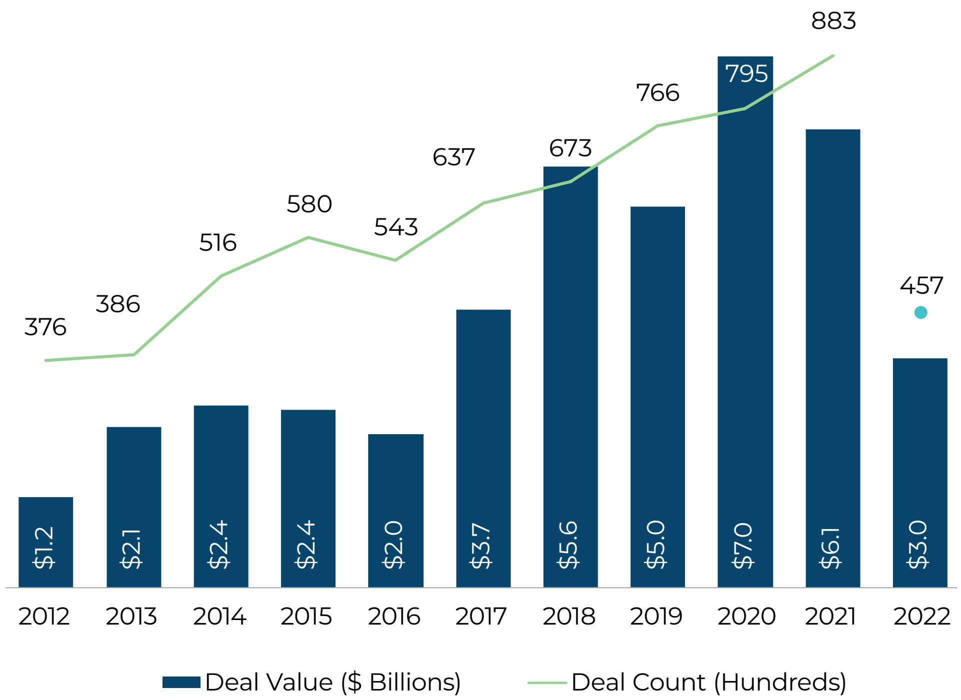
Technology

In contrast to the healthcare sector, the technology sector enjoyed a record year in 2021 for debt financing and has continued that trend through Q3 2022. As of 9/30/2022, the market crested $20B for the fourth year in a row and that mark was 20% higher than this time last year.

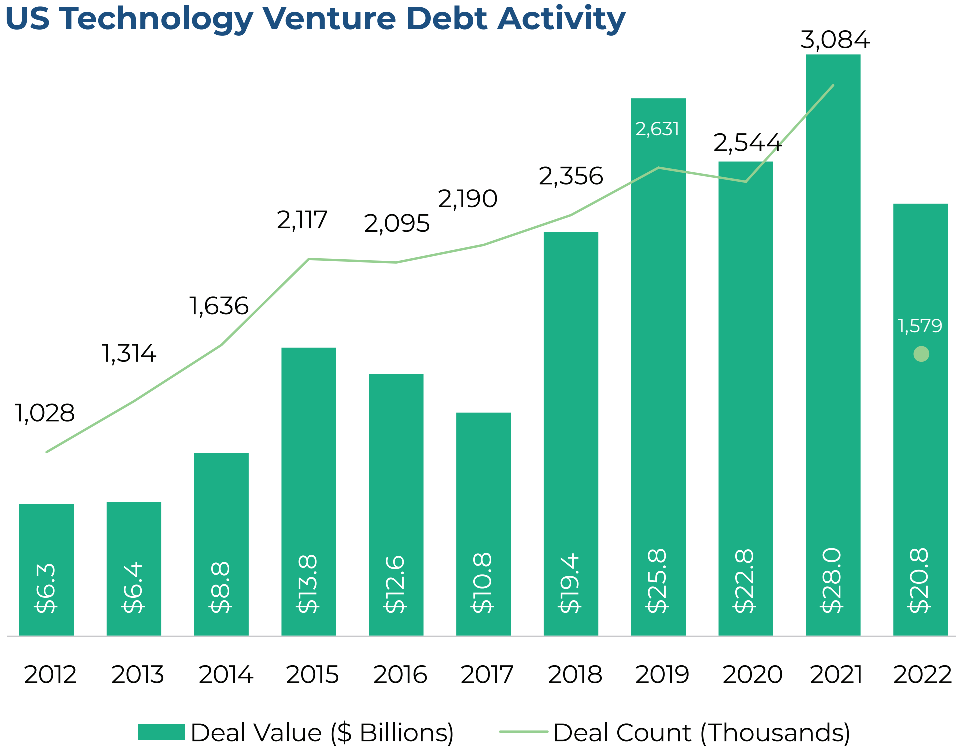
Deal values are growing in the technology sector and may reach another record in 2022. Over the past decade, deal volume in the technology sector has grown by more than 1000% as the sector has embraced debt financing as a non- or less-dilutive form of growth capital.

Finally, through Q3 2022, an emerging trend is showing that funds have focused investments slightly toward later stage companies.

US Healthcare Venture Debt Activity



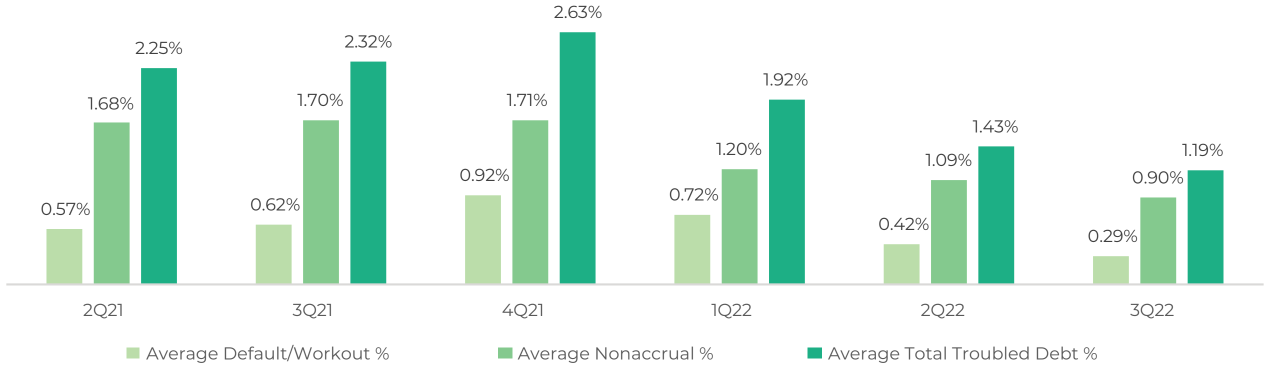
US Technology Venture Debt Activity



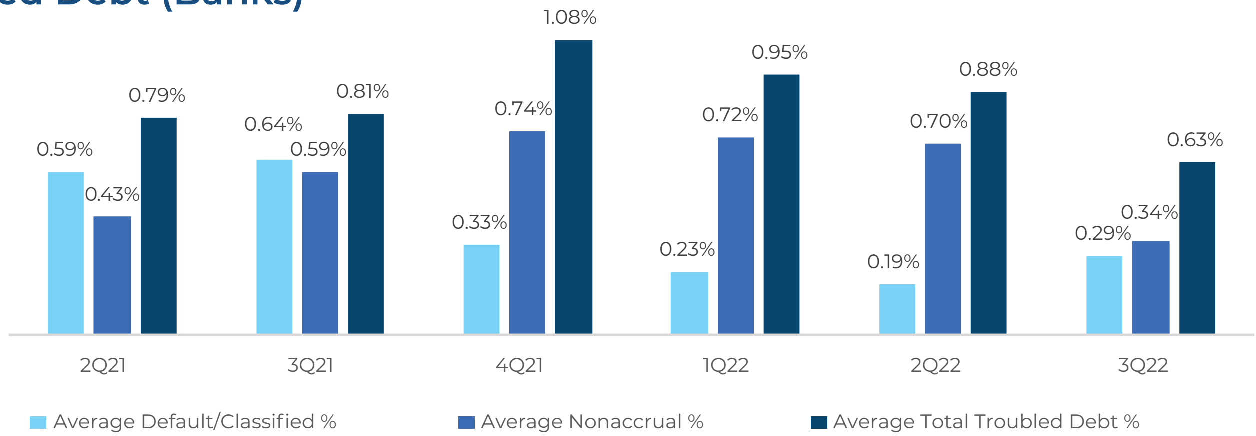
CAG Market Health Index

Capital Advisors Group has developed a market health index of publicly available market information to provide a broad assessment of the health of the debt finance industry. Historically, default rates remained well below the 10-year trailing US speculative grade debt average default rate of 3.4%*.

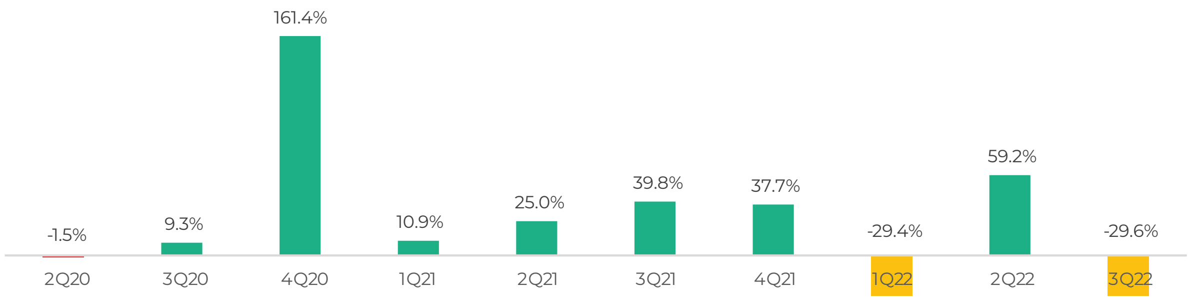
Impaired Debt (BDCs)



Impaired Debt (Banks)



Average Net Investment +/- Percentage over Prior Quarter



*Moody's research data.

Information and data sources include publicly available information compiled by Capital Advisors Group as of 9/30/22. 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.

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.

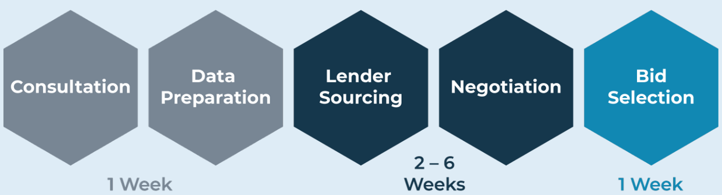
Enhance Liquidity
Provides a cash cushion, which may act as "insurance" if it takes longer than anticipated to reach the next milestone or raise the next equity round.

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