Capital Advisors Group's

Debt Market Quarterly Update

Q1 2023

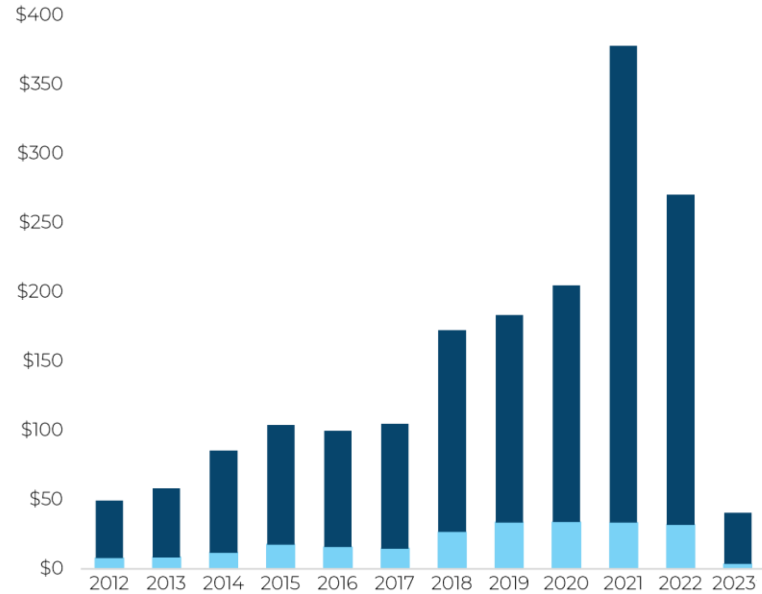
Commentary

The venture debt markets got off to a historically tepid start in 2023. According to Pitchbook, total funding was down more than 60% from the prior quarter and dropped more than 40% from the same period in 2022.

As we review debt as a percentage of the venture equity markets, the Q1 2023 debt total of 3.5B was a paltry 8% of the $44.1B equity financing total (according to EY). This was a sharp decline from Q4 2022 when the debt financing total eclipsed 29% of the total quarterly equity market. During this same period in 2022, total debt financing similarly totaled just 7% of the equity financing totals during the quarter.

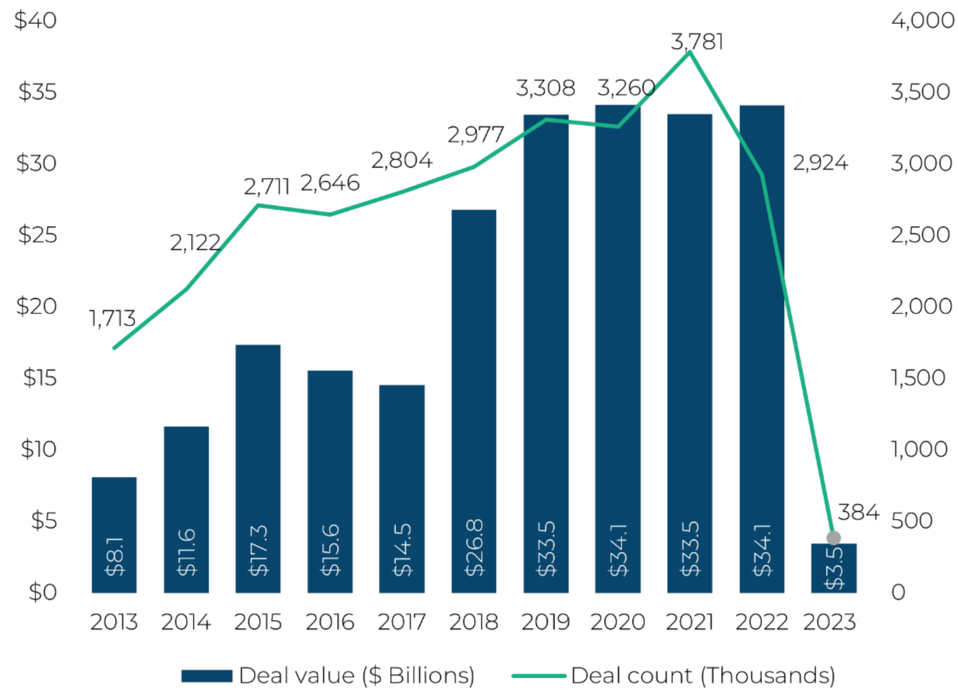
The major departure from Q1 2023, however, is that equity financing a year ago topped $80B, nearly twice the total of Q1 2023. According to Pitchbook, the average deal size across all sectors was just over $9M, a decrease of 30% from the prior quarter. As we look at the sector breakdowns from Q1 2023, the numbers seem to show an even bleaker picture.

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.	$37.0
VC Debt ($ Billions)	$7.5	$8.2	$11.6	$17.3	$15.5	$14.6	$26.5	$33.3	$33.5	$33.2	$31.8	$3.5
Debt/ Equity (%)	15.2	14.0	13.6	16.7	15.6	13.9	15.4	18.2	16.4	8.8	11.8	8.6

US Venture Debt Activity



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Healthcare

In Q1 2023, total debt financing in the healthcare sector fell to historic lows. The sector is currently on pace to raise the lowest amount of total debt financing in more than a decade. Deal count over the first quarter was also off 45% from the historic quarterly average. To date, 2023 has reflected an even more difficult market than the declines seen over the course of 2022. We continue to see tighter credit and greater conservatism among lenders in the space and expect this trend to continue until the market stabilizes.

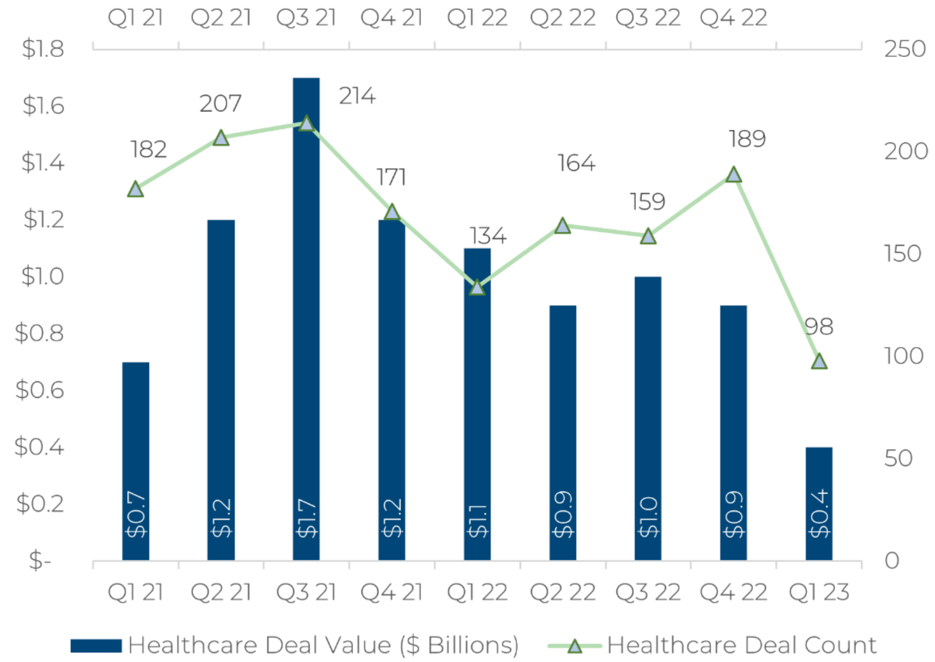
Technology

Venture debt has been difficult to come by so far in 2023. This is to be expected given that lenders tend to be more conservative than equity investors, and the venture equity markets remain challenged. Technology companies raised just $2.9B in venture debt in Q1 2023, representing a 65% decline from the $8.4B raised in Q4 2022.

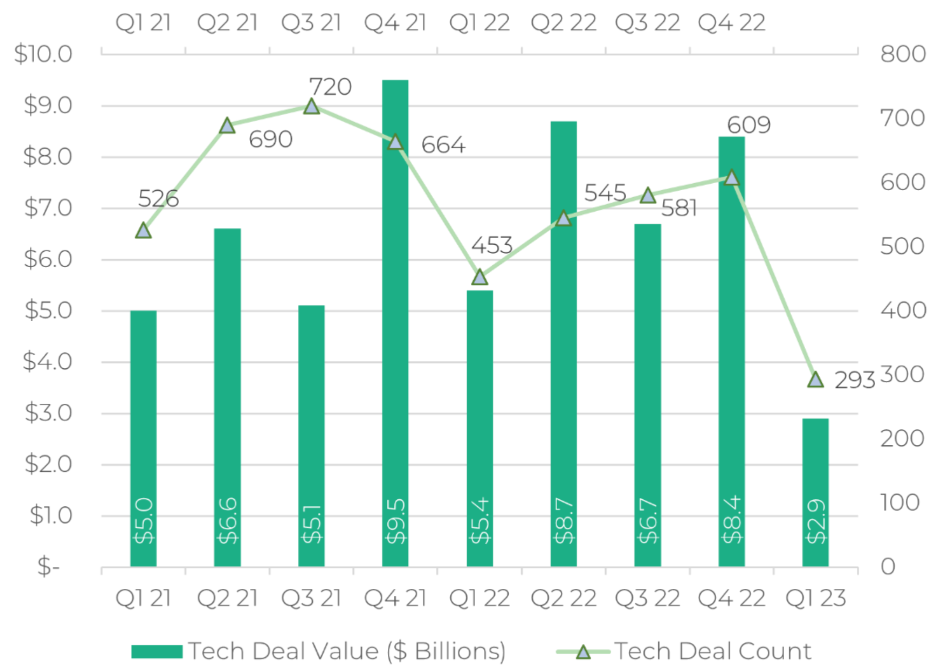
Some lenders have noted that underwriting standards have become significantly tighter given the current macroeconomic environment. Venture lenders are generally requiring that companies have a lower burn and longer cash runway.

Many lenders are also narrowing their sector focus. For example, some banks and non-banks that were previously willing to look at deals across the technology sector are now looking almost exclusively at SaaS companies. SaaS has long been one of the most favored business models given its tendency toward high margin recurring revenue. So, it's not entirely surprising that lenders are honing in on this subsector given the current market backdrop.

US Healthcare Venture Debt Activity



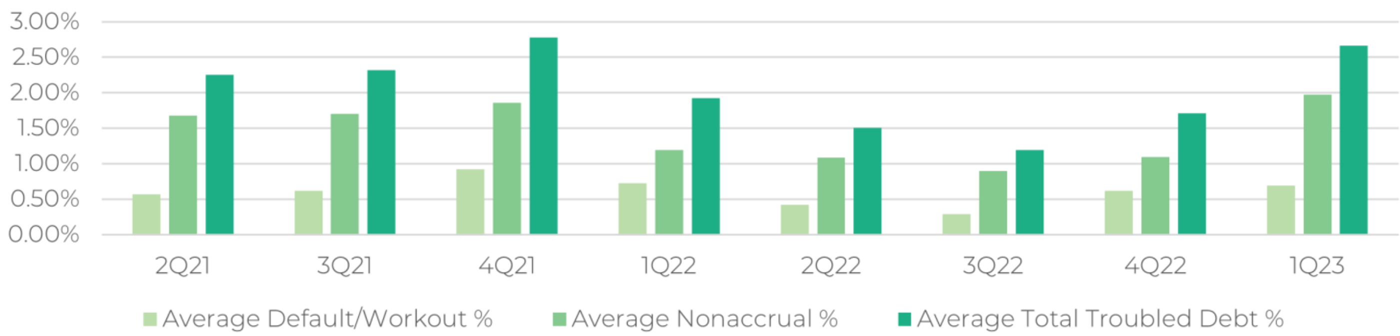
Technology Venture Debt Activity



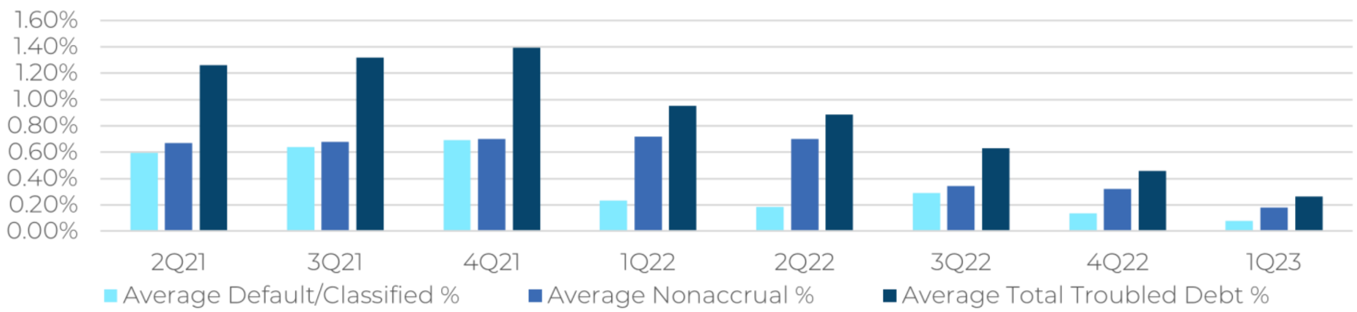
CAG Market Health Index

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%*.

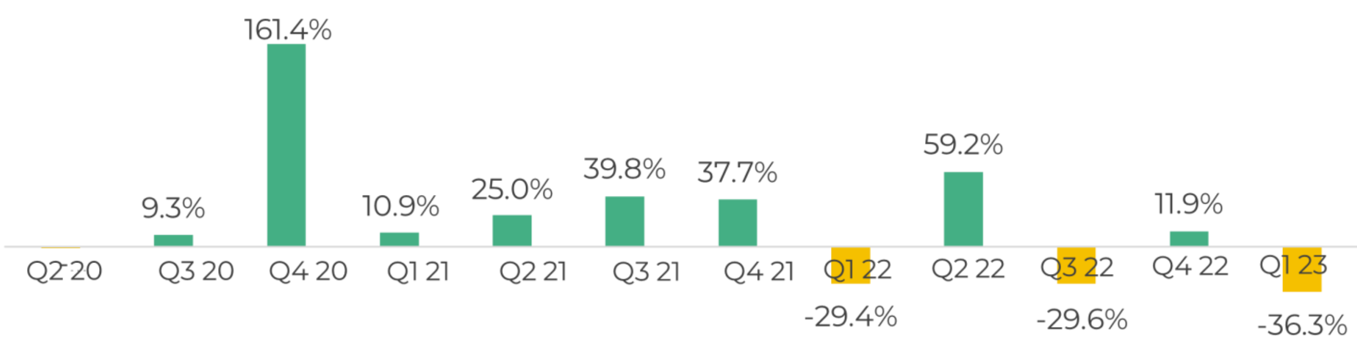
Impaired Debt (BDCs)



Impaired Debt (Banks)



Average Net Investment +/- Percentage over Prior Quarter



*Moody's research data.

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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

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