Capital Advisors Group's

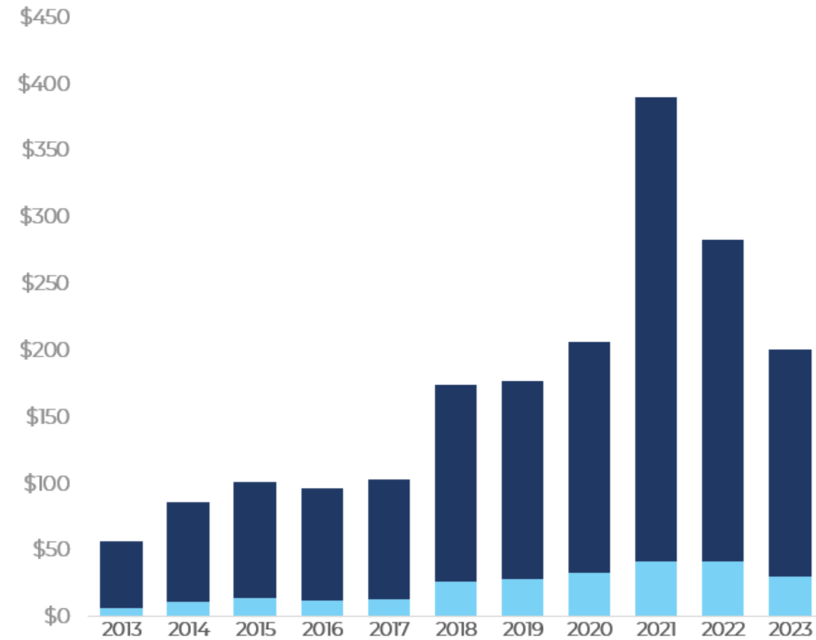
Debt Market Update

Full Year 2023

Commentary – Full Year 2023

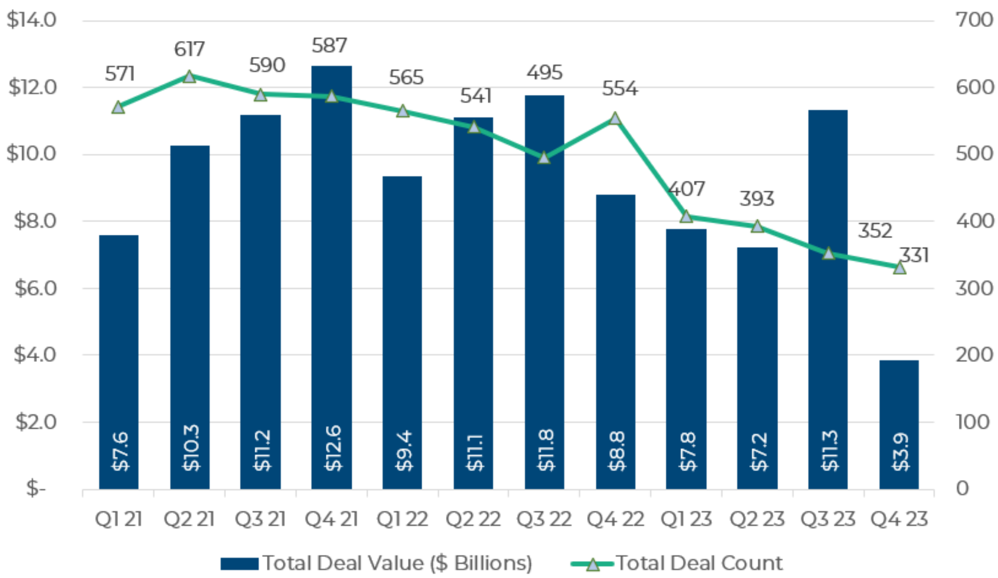
The venture debt markets got off to a historically tepid start in 2023 and continued its slow pace through Q2. According to Pitchbook, despite this slow start, the market rebounded significantly in the second half of 2023. Ultimately, total funding ended up at a four-year low while total deal count skidded to a five-year low. As we review debt as a percentage of the venture equity markets in 2023, the 2023 debt total of $30.2B rose to more than 17% of total equity financings which is in line with the trailing 5-year historical average of 16.86%. The debt markets were severely impacted in the first half of 2023 by the venture banking crisis. While the numbers in the second half demonstrate a rebound in the market, a deeper dive illustrates the continued impact felt by earlier stage companies. Lending to later stage companies drove the second half rebound while average early-stage deal size declined. Anecdotally, conservatism among earlier stage lenders reigned in 2023 as venture bank consolidation slowed the normal course of business and equity markets pulled back.

US Venture Capital and Debt Activity



	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
VC Equity ($ Billions)	$49.9	$74.2	$86.7	$84.2	$90.3	$147.3	$149.4	$173.1	$348.0	$242.2	$170.6
VC Debt ($ Billions)	$6.9	$11.5	$14.5	$12.6	$12.8	$26.6	$27.8	$32.8	$41.7	$41.0	$30.2
Debt / Equity (%)	121%	134%	143%	130%	124%	153%	157%	159%	107%	145%	150%

US Venture Debt Activity



Healthcare

In 2023, healthcare debt financing (in total deal value) retreated to lows not seen since 2016. As is often the case with earlier stage debt financing, the debt market tends to follow the equity markets. This reality is even more stark for healthcare companies that face long term R&D requirements and regulatory hurdles before generating revenue. In some cases, healthcare venture lenders will require some equity to be raised for companies to qualify for debt financing. In 2023, with equity more difficult to raise, lenders had to pass on deals where equity would likely have been available in prior years. According to Pitchbook, deal value and deal count in life sciences specifically dropped to pre-pandemic levels which played a role in reduced output in the debt market.

We expect this trend to continue until venture and IPO markets recover. As we look ahead to 2024, sentiment is growing that the IPO market will recover in healthcare, which may prompt additional venture equity activity, and thus spur the debt markets to respond in kind.

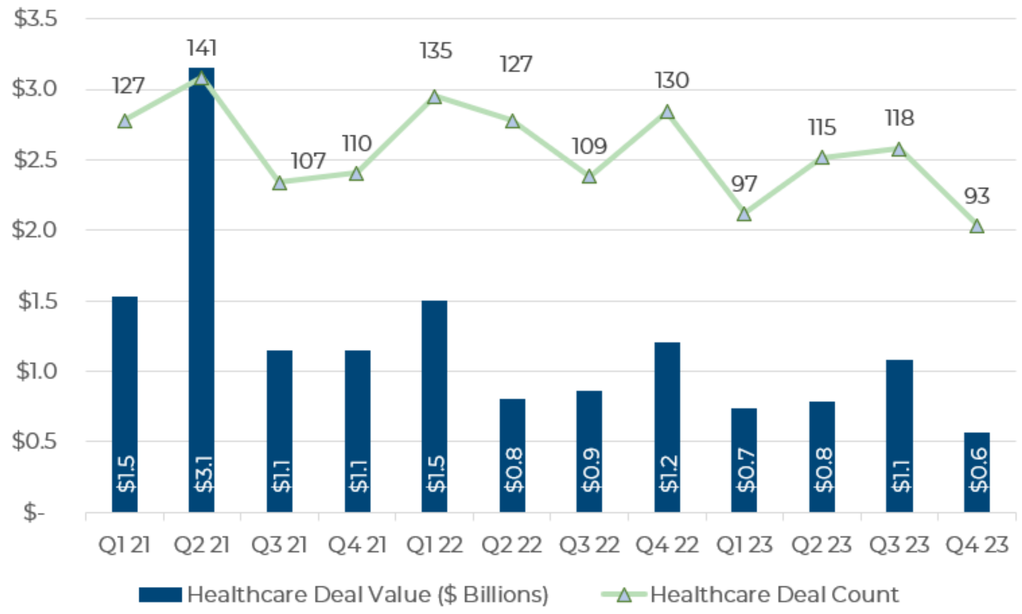
Technology

In the tech sector, venture debt deal volume declined for the second year in a row. The number of deals completed in 2023 was down 33% relative to 2022. The dollar value for tech sector venture debt deals completed in 2023 was down as well, 27% year-over-year.

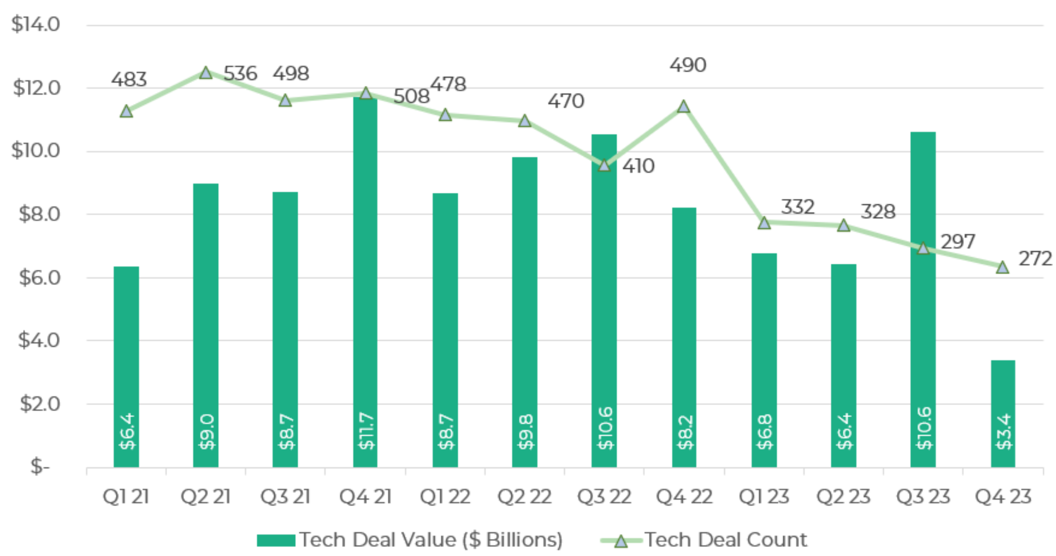
Interestingly, deal size increased on average from $20.2M in 2022 to $22.1M in 2023. This ~10% increase in average deal size is all the more surprising against a backdrop where venture equity investors are deploying less capital and valuations are facing headwinds.

In light of the challenges that tech companies had in raising both venture equity and venture debt, many have started to turn towards other forms of capital. For example, asset-based lenders who made loans against accounts receivable, inventory, equipment, and other assets reported a sharp uptick in demand.

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

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