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# Capital Advisors Group's Debt Market Update

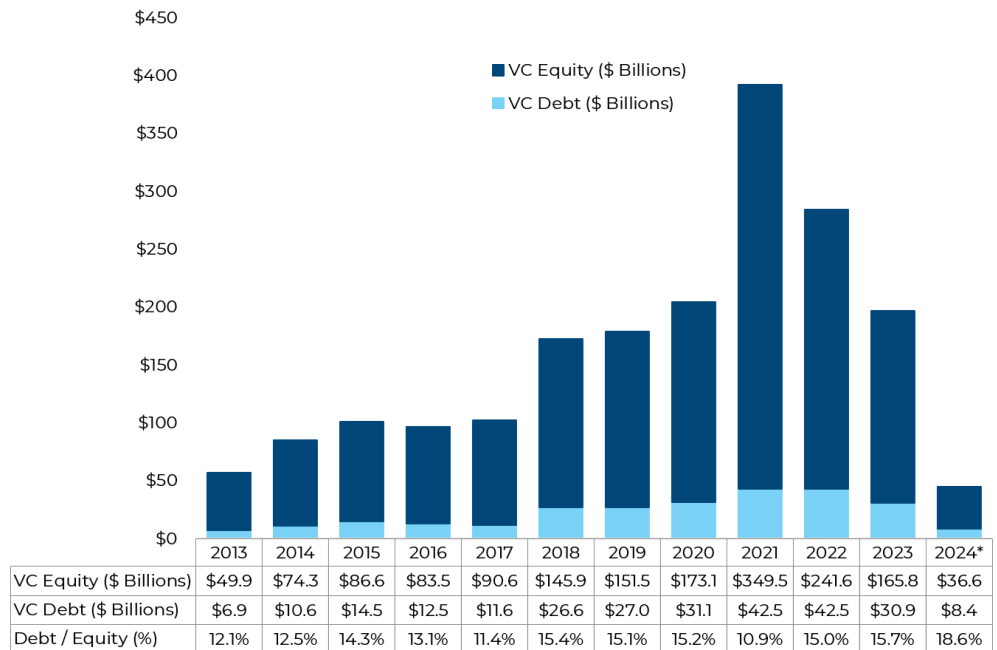
## Q1 2024

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## Commentary – Q1 2024

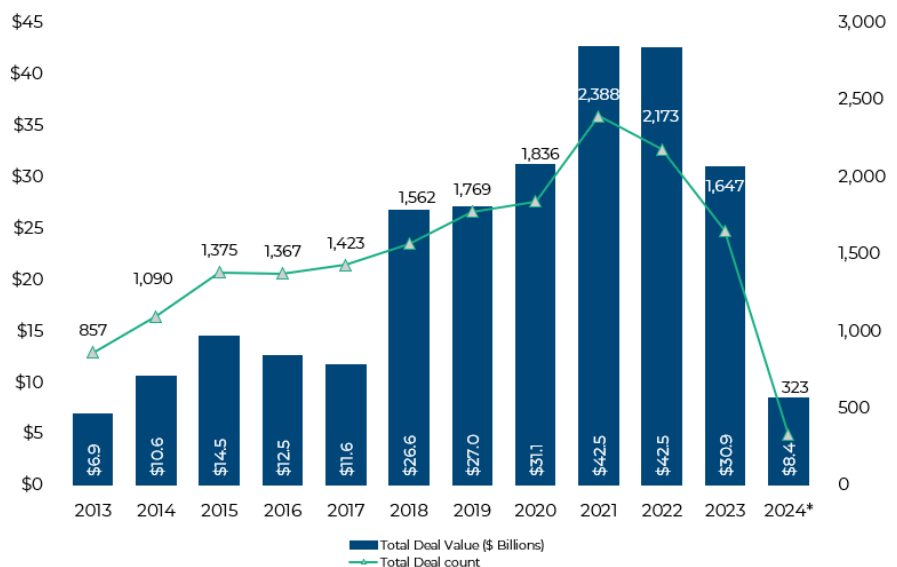
The venture debt markets have generally hovered around historical lows over the past 15 months, however, according to Pitchbook, venture debt deal value, as a percentage of total venture capital fundings, rose to 18.6% in the first quarter of 2024. Dating back to 2013, the average annual debt financings, as a percentage of total equity financings, averaged 13.7%, which demonstrates a significant increase in this number in the first quarter of 2024. In the midst of a difficult venture capital funding environment, this indicates that lenders have stepped up in some cases to support companies that would have otherwise relied on equity, were it available. Across both tech and healthcare sectors, venture debt deal count fell to historic lows (92 deals in healthcare and 269 in tech), yet both sectors saw growth in total deal volume, leading to an increase in average deal size across the industry from \$19.2 million in Q1 2023 to \$26 million in the first quarter of this year, an increase of 26%. The message here is that lenders seem to be much more selective in the deals they pursue but still likely have the dry powder to put to work for qualified borrowers. While it is a positive note that deal volume grew over the prior quarter, prospective borrowers should be aware that credit remains somewhat restrictive, leading to fewer companies that will likely qualify for debt financing over the near term.

### US Venture Capital and Debt Activity



\*As of 3/31/2024

### US Venture Debt Activity



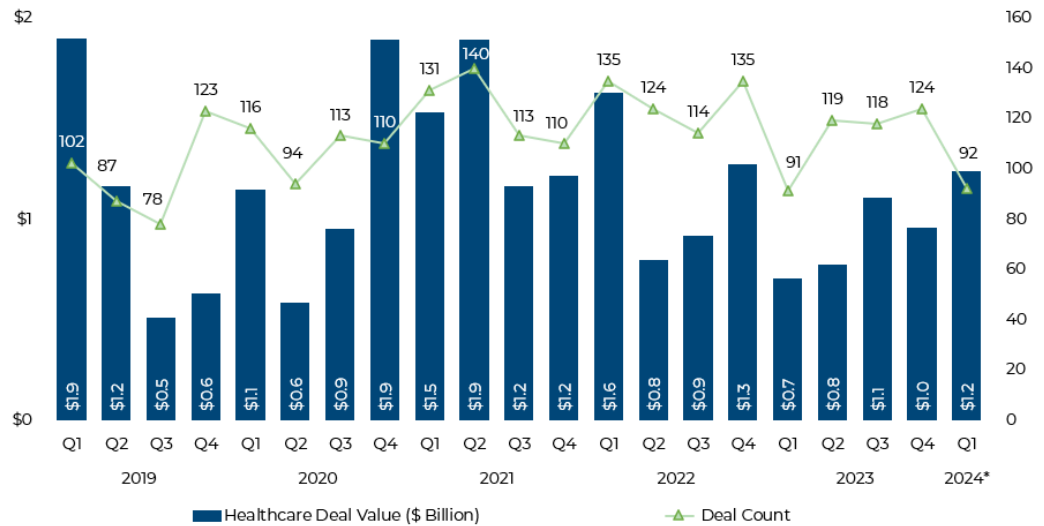
\*As of 3/31/2024

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## Healthcare

During the prior quarter, healthcare debt financing (in total deal value) rebounded 42% over the same period in 2023 to \$1.2 billion. However, deal count came in at just 92 deals during the quarter, which is the second lowest quarterly deal count in the past three years of record keeping. This highlights a stubborn equity financing environment in the healthcare sector, especially for earlier stage biotechs that have seen a drop in private financing and a slowly recovering IPO market that saw just 9 biotechs raise approximately \$1.3 billion in Q1, according to BioPharma Drive. Average US venture debt deal value totals have averaged 1.17 billion over the prior 13 quarters. On a positive note, total deal value of \$1.2 billion in Q1 '24 bested that average for the first time in 7 quarters, hinting at signs of recovery from the historical lows of 2023.

### US Healthcare Venture Debt Activity

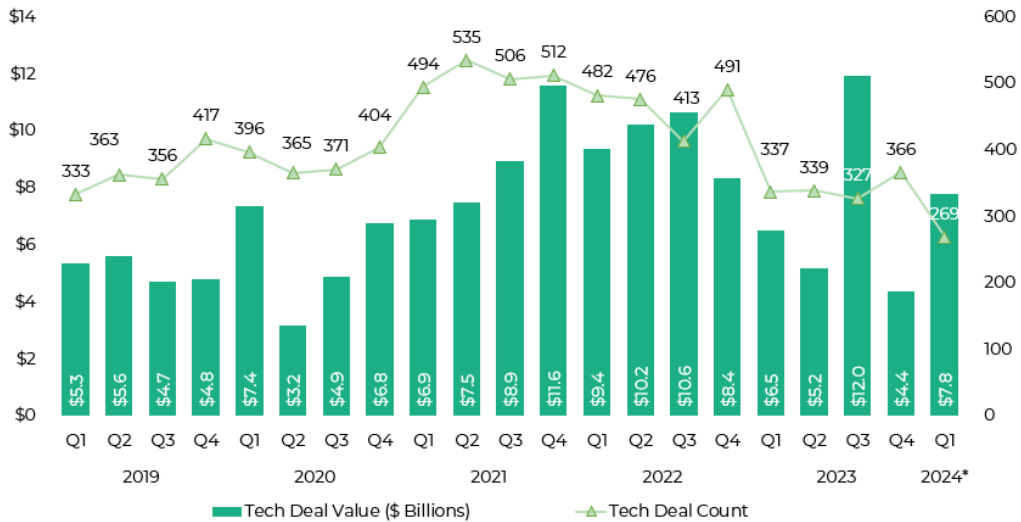


\*As of 3/31/2024

## Technology

Tech venture debt deal volume declined from the relatively low levels seen in 2023. In Q1 2024, there were 269 venture debt deals completed with tech companies. This represents a decrease of 20% compared to Q1 '23 and a decrease of 27% compared to Q4 2023. This volume is lower than it's been in any quarter in the past five years. In Q1 2024, tech companies raised a solid \$7.8 billion in venture debt. To put this in context, the value of venture debt deals averaged \$7.2 billion per quarter over the five-year period ending in 2023. So, from a deal value perspective, Q1 2024 was an above average quarter. Q1 2024 deal value increased by 19% compared to Q1 2023 and increased by 78% compared to Q4 2023. In market conversations, several lenders have noted that while conditions remain difficult, they are beginning to see more quality deal flow. In many cases, lenders are cautiously optimistic that the venture debt market will gradually improve throughout the remainder of the year.

### Technology Venture Debt Activity



\*As of 3/31/2024

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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

 Term Loan \$70,000,000	 Term Loan \$80,000,000	 Asset-Based Revolver & Term Loan \$65,000,000
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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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