CAPITAL ADVISORS GROUP

CAPITAL ADVISORS GROUP'S

DEBT MARKET UPDATE

Q1 2026

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COMMENTARY – Q1 2026

Selectivity Defines the Market

With 2026 under way, the venture debt market continues a now familiar trend: rising deal value alongside declining transaction volume. This divergence appears to be reflective of a continued concentration of capital into fewer, larger deals—a trend toward selectivity that emerged in the second half of 2025.

In the **technology sector**, total deal value increased to approximately **$19.3 billion**, up nearly **100% quarter-over-quarter**, marking a strong rebound from Q4 2025. At the same time, transaction count declined materially to **115 deals**, down roughly **51% from Q4 2025**, indicating that growth is being driven by larger, more targeted financings rather than broader-based activity. Lenders appear to be increasingly deploying capital to scaled, high-quality borrowers, particularly those positioned to navigate ongoing AI-driven disruption, while remaining cautious on smaller or earlier-stage opportunities.

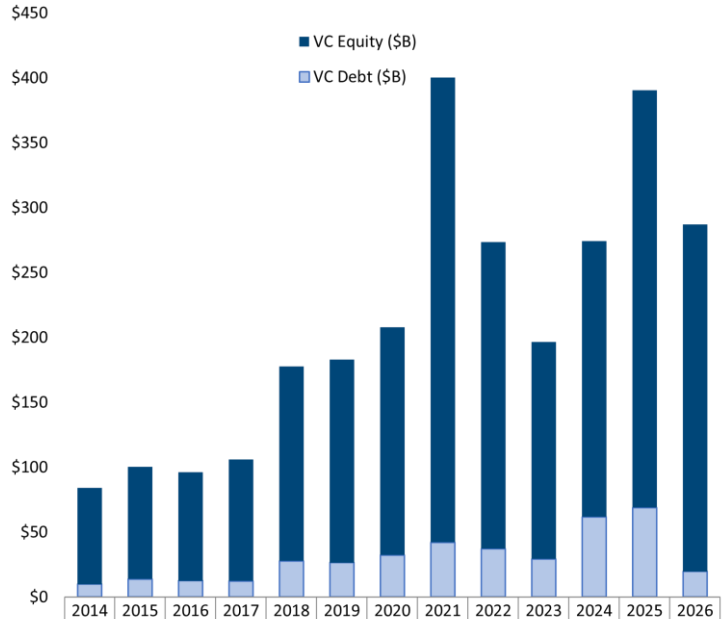
The **healthcare sector**, by contrast, experienced a significant pullback. Deal value declined to approximately **$0.4 billion**, down **80% from Q4**, with just **18 transactions** completed, a **55% quarter-over-quarter** decrease. This slowdown reflects weaker healthcare equity markets. However, early signs of an improving IPO market could, if sustained, support a rebound in equity financing and, in turn, improve conditions for venture debt deployment in coming quarters.

Overall, venture debt volume rose to approximately **$19.7 billion in Q1**, a **54% increase from Q4**, despite deal count declining by **over 50%**. This continued divergence underscores a market defined by fewer but significantly larger transactions.

At the same time, tightening risk tolerance—driven by geopolitical uncertainty, including the U.S/Israel – Iran conflict, and mounting stress in private credit markets—is reshaping deployment strategies. While capital remains available, lenders are showing signs of being more disciplined, favoring later-stage companies with scale, durability, and clearer paths to profitability.

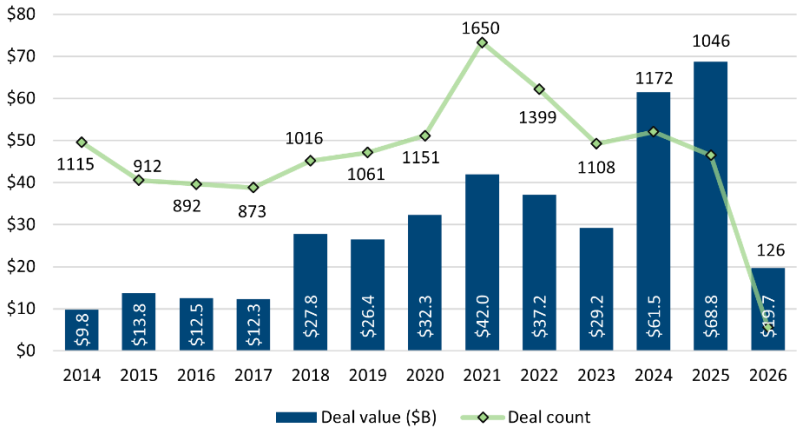
Against this backdrop, venture debt volume may prove resilient—even as overall deal activity continues to lag below historical levels.

U.S VENTURE CAPITAL AND DEBT ACTIVITY



	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
VC Equity ($B)	$74.3	$86.6	$83.7	$93.6	$149.7	$156.5	$175.5	$358.1	$236.2	$167.3	$212.6	$321.6	$267.2
VC Debt ($B)	$9.8	$13.8	$12.5	$12.3	$27.8	$26.4	$32.3	$42.0	$37.2	$29.2	$61.5	$68.8	$19.7
Debt / Equity (%)	13.1%	15.9%	14.9%	13.2%	18.5%	16.9%	18.4%	11.7%	15.7%	17.5%	28.9%	21.4%	7.4%

U.S VENTURE DEBT ACTIVITY



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HEALTHCARE

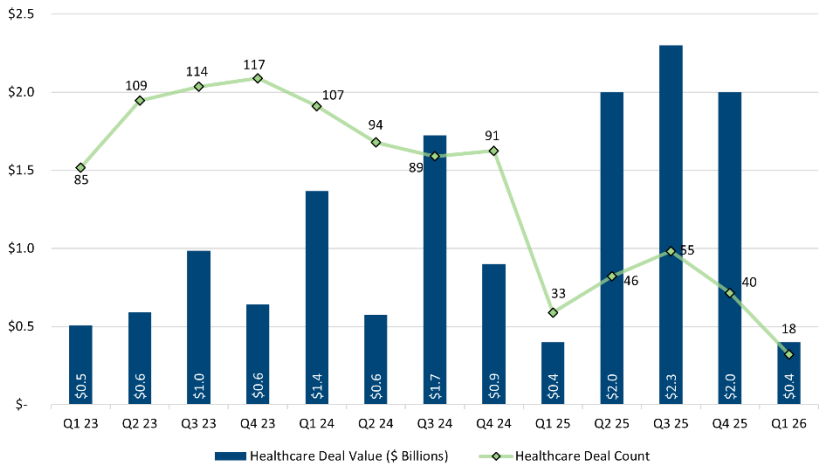
Sharp Pullback, Higher Selectivity

Healthcare venture debt activity slowed sharply in Q1 2026, with volume declining **80%** to **~$0.4 billion** (from **$2 billion in Q4 2025**) and deal count falling **55%** to **18 transactions** (**down from 40 deals in the prior quarter**). This pullback reflects a more cautious start to the year as lenders remain highly selective and focused on capital preservation amid ongoing geopolitical and private credit market uncertainty.

Despite the slowdown, a clear structural trend remains: capital concentration in fewer, high-quality healthcare companies. Lenders continue to favor scaled platforms with strong fundamentals and clearer commercialization paths.

Following a volatile 2025, the sector currently reflects a more disciplined, measured outlook, balancing selective growth opportunities against still-conservative equity markets.

U.S. HEALTHCARE VENTURE DEBT ACTIVITY



TECHNOLOGY

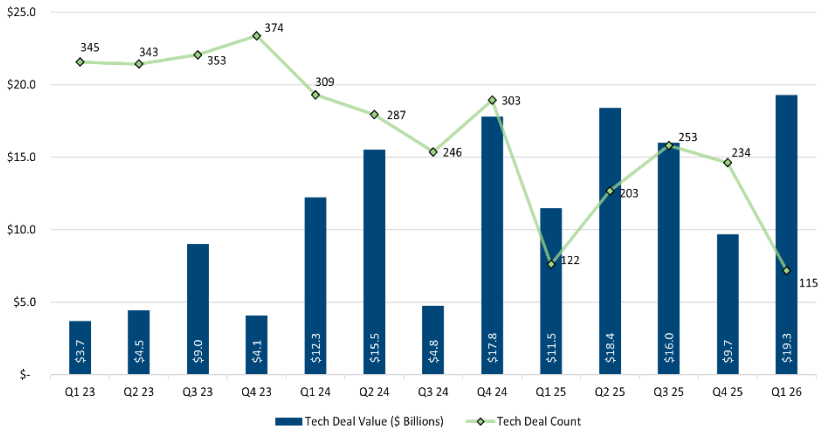
AI Drives Deal Concentration

Technology venture debt activity diverged in Q1 2026, with deal value rising **100%** to **~$19.3 billion** (from **9.7 billion in Q4 2025**), while transaction count declined by **50% to 115 deals** (**down from 234 in the prior quarter**). This mirrors the broader dynamic toward larger, more concentrated financings, as lenders prioritize scale and credit quality over breadth.

The market is also showing increasing bifurcation, with capital directed toward later-stage technology companies demonstrating AI resilience. Despite fewer transactions, strong aggregate volume signals continued demand for sizable financings from top-tier borrowers.

Ongoing AI-driven disruption across software is further concentrating capital in a smaller group of companies best positioned to navigate the transition. Well-capitalized, AI-ready platforms are attracting outsized support, while broader deal activity remains constrained amid tightening private credit conditions.

U.S. TECHNOLOGY VENTURE DEBT ACTIVITY



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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

CareAcademy™	predactiv™	scratch
Term Loan	Term Loan	Term Loan

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.

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