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Venture debt sets new records

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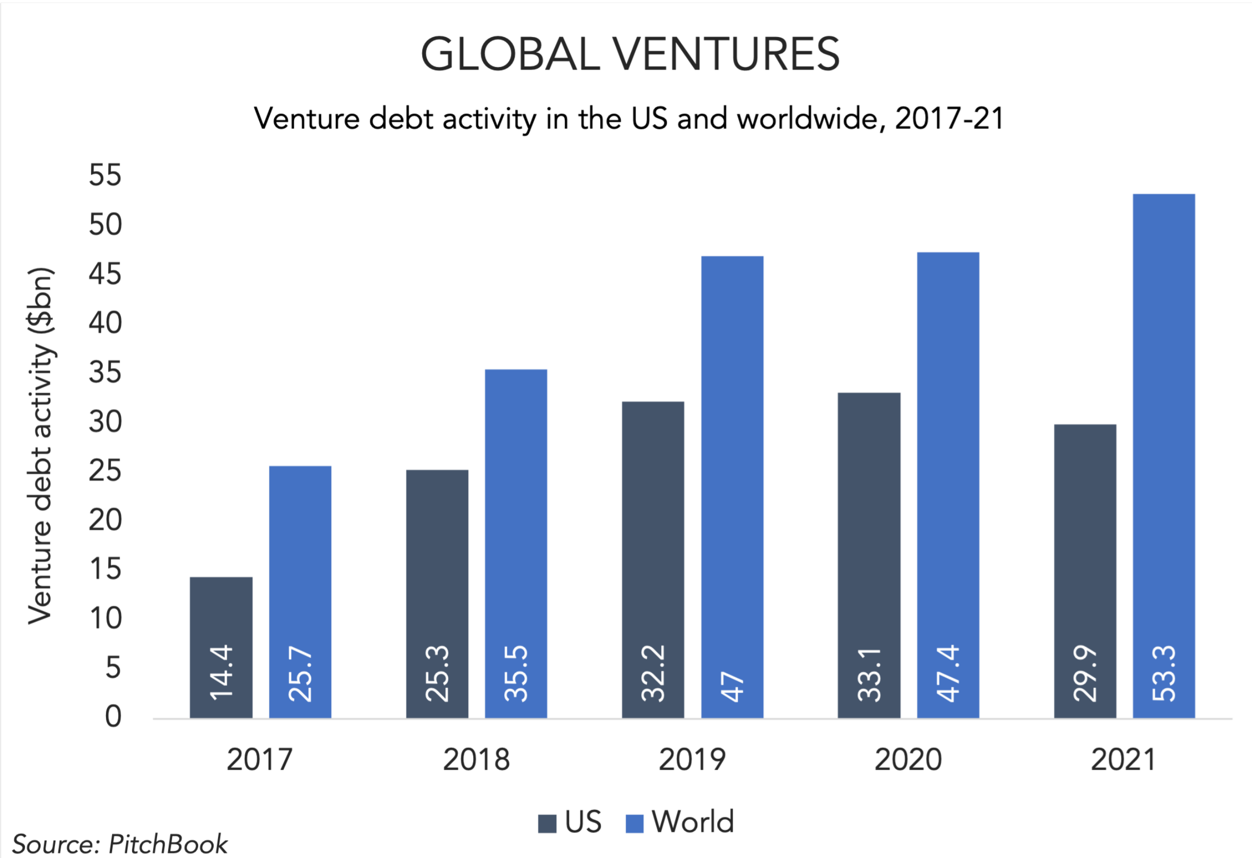

It's a form of financing that's taken a while to gain traction, especially outside of the US. But there are clear signs this is changing.

Venture debt, long the province of the US and once viewed as a mere backstop along the way to growth for startups, is lately being seen as a catalyst for their growth. Moreover, the asset class has taken off on a global scale and is continuing to thrive.

Venture capital-backed companies around the world are thinking twice about accepting yet another large and dilutive equity round. Instead, seed to late-stage companies are eyeing lines of venture debt, seeing them as a viable option for growth and not one with a negative connotation.

Globally, venture debt fundraising jumped 11 percent in 2021 to a record $53.3 billion, from $47.5 billion in 2020, according to financial research firm PitchBook. The sterling global performance came even as activity declined nine percent in the US, to $29.9 billion last year, from a record $33.1 billion in 2020. Both markets have more than doubled since 2017.

Moreover, returns in venture lending are more than rivaling those of direct lending, as per due diligence, research and investment firm Cliffwater, whose venture-backed loan index achieved a 12.03 percent return since inception, outpacing the 9.51 percent of its middle market loan index over the same period.

Venture debt has begun to reflect trends in the broader venture market, says PitchBook senior analyst Kyle Stanford.

One reason for its strong growth "is that the equity backers now see venture debt, taken on in the right way, as a catalyst for continued growth," Stanford explained in an interview with *Private Debt Investor*. That's a departure from the past, when low-revenue companies tended to avoid venture debt for fear that they might default.

Yet now, venture debt's use in conjunction with equity ensures that companies will have enough capital to reach the next fundraise. "Venture debt is going to be attractive for companies at all stages as an insurance policy in getting to their milestone in raising capital," Stanford added. Moreover, he said "lenders want to use it to participate in the upside of the company."

(Past performance is no guarantee of future results.)