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Private Debt Intelligence – 6/20/2022

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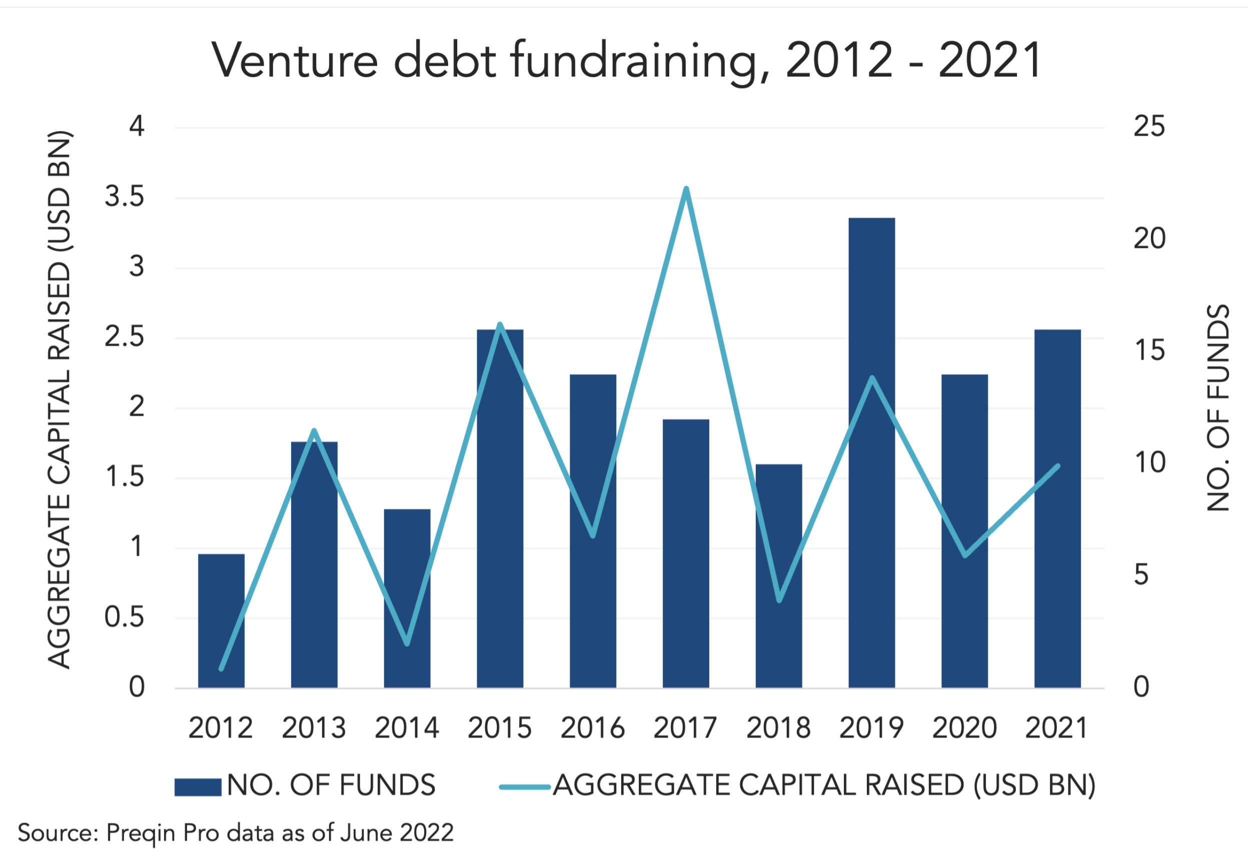
Venture debt funds ready to step in

Chart



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Venture debt is a niche product that could serves as an alternative fundraising option for high growth companies, particularly in the technology sector, that may be struggle over the next few years given the correction underway in technology stocks and venture capital.

A total of $15bn has been raised worldwide over the past 10 years by funds dedicated to venture debt. Venture capital exists because early-stage and fast-growing companies cannot raise debt finance, either because they cash-flow negative or any free cash is used to finance growth. Venture debt emerged to offer later stage companies with a demonstrable path to profitability the ability to raise debt finance with a more favorable repayment profile, an alternative to raising new equity and diluting existing shareholders further.

The current conditions create an environment where venture debt funds can flourish. Their challenge will be identifying whether a company needs finance to get through a difficult period or take advantage of an opportunity, or whether its business model or product are fundamentally flawed.

(Past performance is no guarantee of future results.)

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