Capital Advisors Group's
Debt Market Quarterly Update

Q4 2022

Author's Note

Since compiling the data for our Q4 2022 debt market quarterly update, the market has faced unprecedented turmoil led by the collapse of Silicon Valley Bank. In order to provide consistent updates on the debt financing market, we are distributing our Q4 2022 report but also want to provide context on the current state of the market. As a consultant to early and growth stage companies seeking debt financing, Capital Advisors Group is witnessing, in real time, the debt market's reaction to the collapse of what was once its undisputed leader. We're seeing a general tightening of credit among lenders as we work through the banking crisis and expect continued conservatism among lenders in the short term. We will continue to monitor the market closely. Below you'll find highlights of our Debt Market Quarterly Update for Q4 2022 however, we expect to see significant shifts in the market throughout 2023.

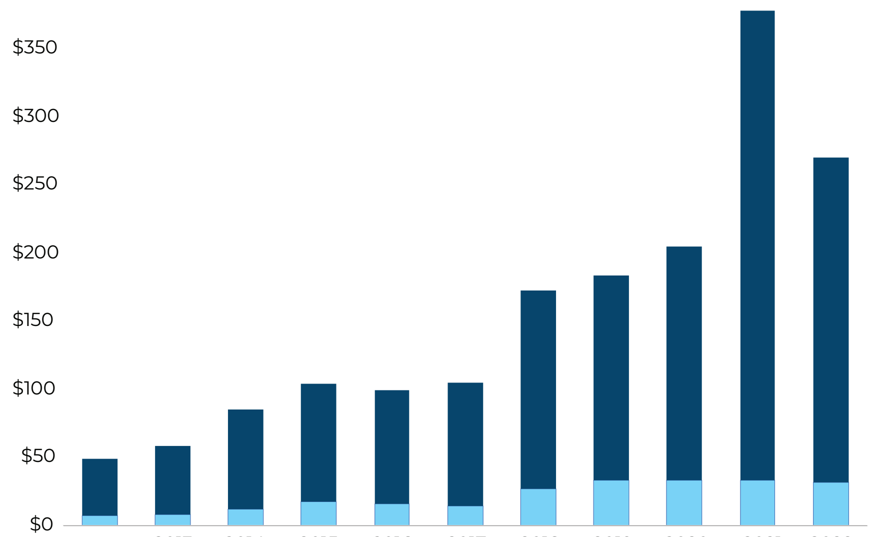
Overview

History may view 2022 as a landmark year for venture debt finance – in both positive and somewhat negative terms. On one side of the market, technology sector debt financing surpassed $20B in total deal value for the fifth consecutive year, reaching a record total of $29.2B in 2022 and setting a significant milestone for the debt financing market in this sector. The Healthcare sector, by contrast, fell to $3.9B, its lowest debt funding total in five years. This was in line with a slowing and conservative private venture capital funding market and a nearly nonexistent IPO environment, which was down more than 85% in dollars raised from the prior year, according to Reuters.

Commentary

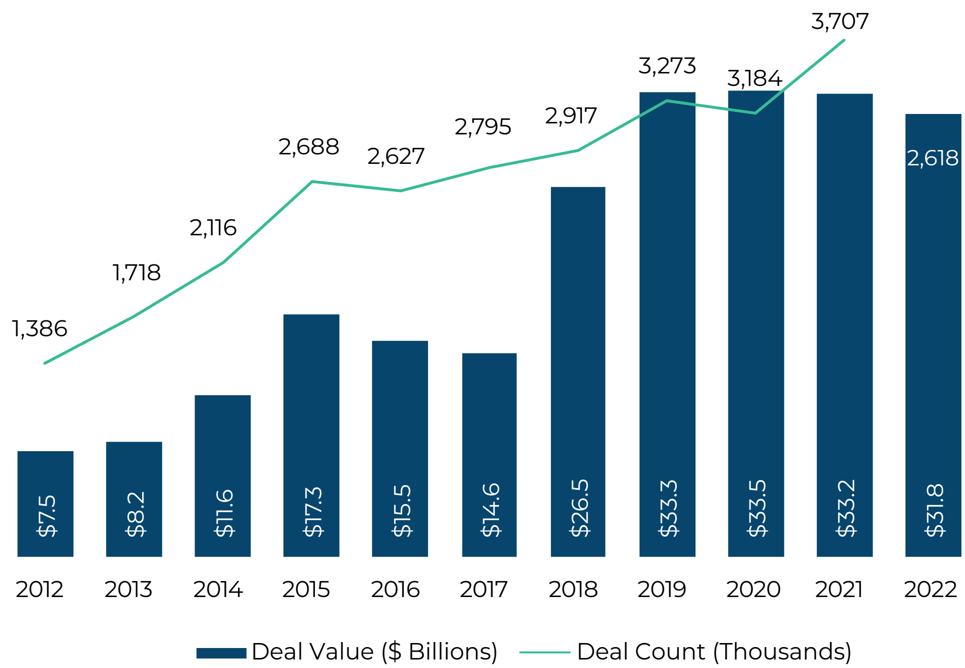
As we review debt as a percentage of the venture equity markets, the Q4 2022 debt total of $9.3B was approximately 29% of the $32.2B (according to EY) equity financing total. This was a sharp increase from Q4 2021 when the debt financing totals were just 12% of the total quarterly equity amidst an all-time record equity financing year. However, while total debt financing in the quarter dropped just 13% from Q4 2021 to Q4 2022, equity financing drastically fell more than 63%, thus demonstrating that debt financing has been a popular alternative to dwindling equity dollars. According to Pitchbook, the average deal size across all sectors increased to $16.1M, a 34% jump from 2021. Again, however, the quarterly sector breakdowns tell a tale of divergent markets.

US Venture Capital and Debt Activity



	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
VC Equity ($Billions)	$41.7	$50.1	$73.7	$86.4	$84.1	$90.1	$145.8	$150.0	$171.2	$344.7	$238.3
VC Debt ($Billions)	$7.5	$8.2	$11.6	$17.3	$15.5	$14.6	$26.5	$33.3	$33.5	$33.2	$31.8
Debt / Equity (%)	**15.2%**	**14.0%**	**13.6%**	**16.7%**	**15.6%**	**13.9%**	**15.4%**	**18.2%**	**16.4%**	**8.8%**	**11.8%**

US Venture Debt Activity



Sector Activity – A Tale of Diverging Markets

Healthcare

Not surprisingly, in 2022, the healthcare sector's venture debt deal flow fell significantly, coming in at just $3.9B according to Pitchbook. This was nearly 38% lower than 2021 value totals and more than 46% less than the market's 2020 peak in terms of total dollars. From the same quarterly period in 2021, deal value fell 25% to $0.9B from $1.2B, yet deal numbers increased slightly, by nearly 10%, signaling a decrease in average deal size. We continue to see tighter credit and greater conservatism among lenders in the space and expect this trend to continue until the equity markets, most notably the public equity market, begin to recover.

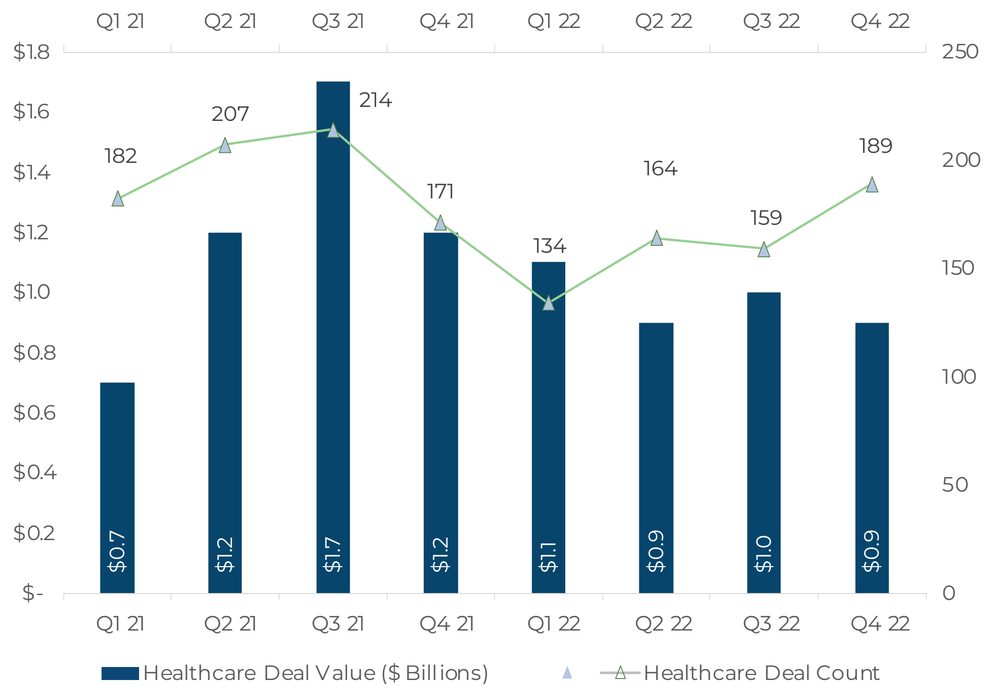
Technology

While the tech sector experienced a record-high dollar-value of debt financing in 2022, market conditions in the fourth quarter were challenging. Venture debt deal volume was down 8% in Q4 2022 relative to the same quarter in 2021, and the dollar value of debt raised declined by 12%.

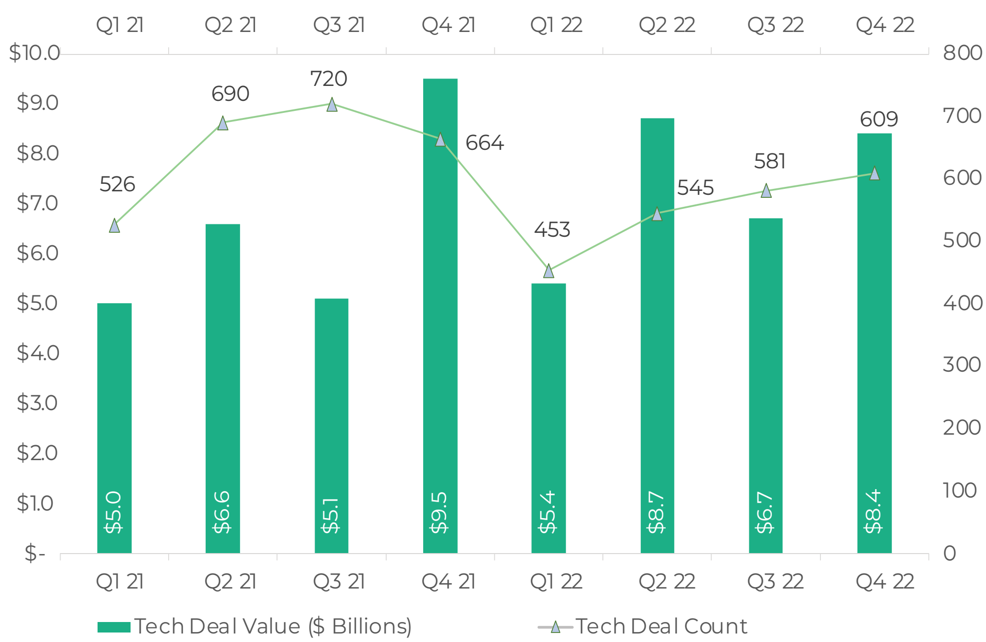
On the surface, this might appear to be a relatively modest decline in the level of activity. However, the backdrop is that with headwinds and valuation challenges in the equity markets, there were far more companies seeking debt in late 2022 than there were in late 2021. Market conversations with lenders confirm that most saw a significant uptick in inbound interest from potential borrowers throughout the year.

The combination of higher inbound interest from companies seeking debt and less certainty about market conditions led lenders to be more selective in choosing which deals to pursue. Having said that, with 609 tech companies borrowing $8.4 billion in venture debt in Q4 2022, deals are still getting done.

US Healthcare Venture Debt Activity



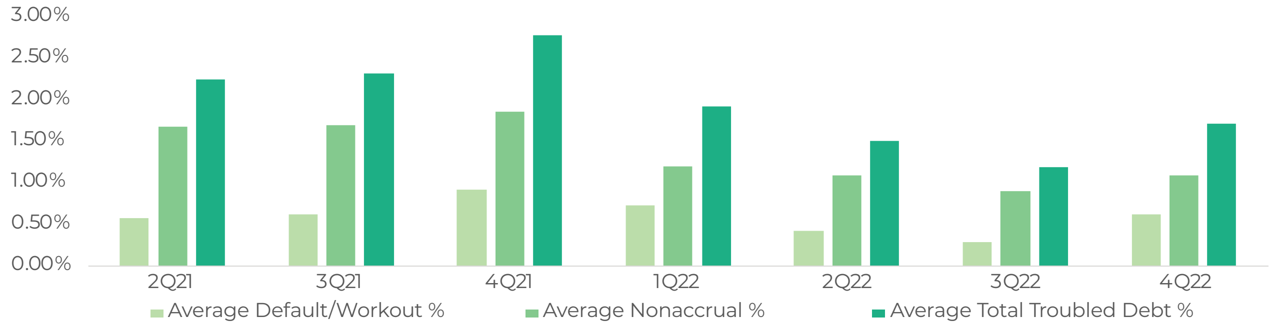
US Technology Venture Debt Activity



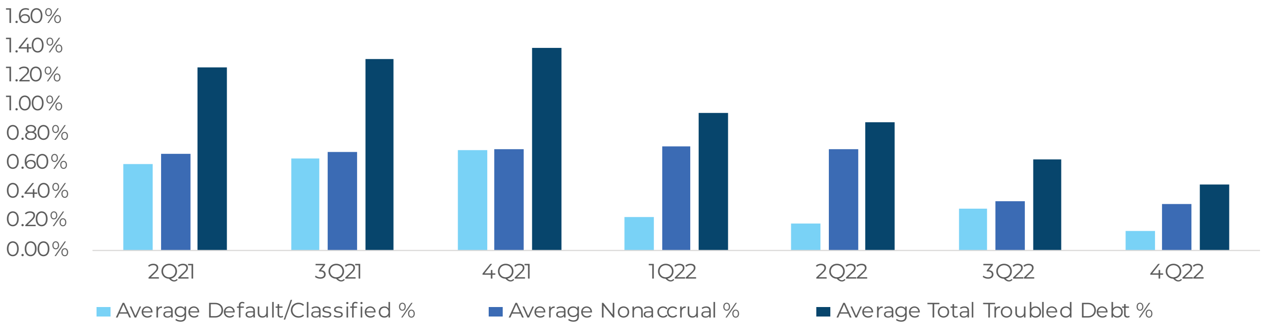
CAG Market Health Index

Capital Advisors Group has developed a market health index of publicly available market information to provide a broad assessment of the health of the debt finance industry. Historically, default rates remained well below the 10-year trailing US speculative grade debt average default rate of 3.4%*.

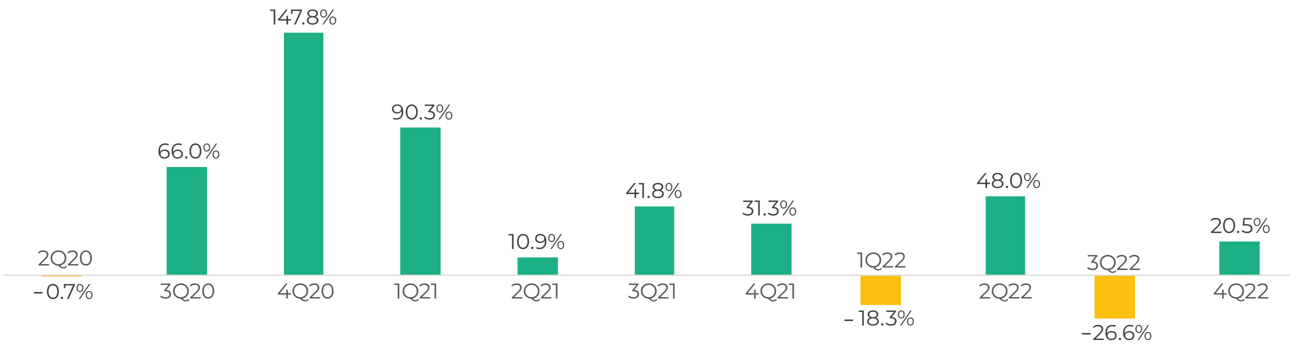
Impaired Debt (BDCs)



Impaired Debt (Banks)



Average Net Investment +/- Percentage over Prior Quarter



*Moody's research data.

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.

Consultation → Data Preparation → Lender Sourcing → Negotiation → Bid Selection

1 Week | 2 – 6 Weeks | 1 Week

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

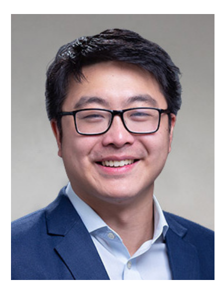
Recently completed debt deals. For our clients' confidentiality, only those clients who have authorized us to use their name and financing information in our marketing materials are listed. Clients listed do not necessarily endorse or approve of the debt advisory services provided by Capital Advisors 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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