Capital Advisors Group's

Debt Market Update

Q2 2024

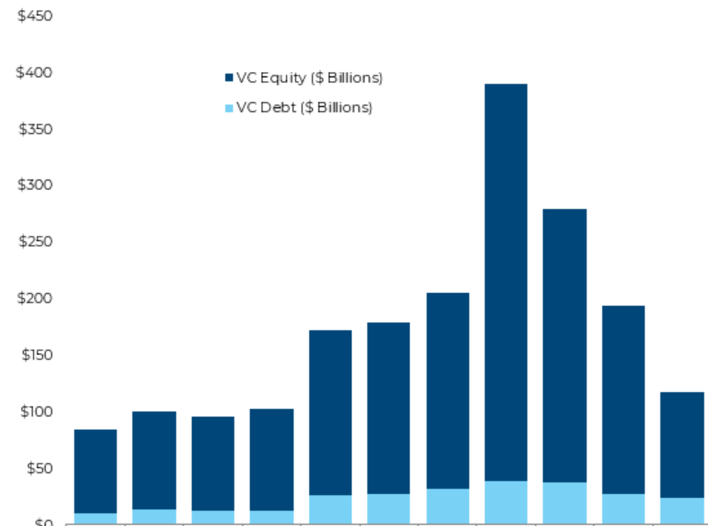
Commentary – Q2 2024

In recent times, venture debt market conditions have been challenging, and Q2 2024 was no exception. The level of activity in the venture debt market continued to decline in Q2 2024 as there were only 160 deals completed in the quarter. This represents a 25% decrease from the number of venture debt deals completed in the prior quarter, which was already at a low point, and a 35% decrease relative to the same quarter in 2023. For perspective, the high point was in Q1 2021 when a whopping 463 venture debt deals were completed.

Paradoxically, the total value of venture debt deals completed in Q2 2024 was $13.1 billion, which represents a new high watermark. However, this can be a little misleading as more than half of this total came from a single $7.5 billion debt deal in the tech sector (more on this below). When backing out this large deal, which many people would not consider to be "venture debt", we see a total deal value of $5.6 billion for the quarter. This represents a 43% decrease relative to the prior quarter, but a 14% increase year over year.

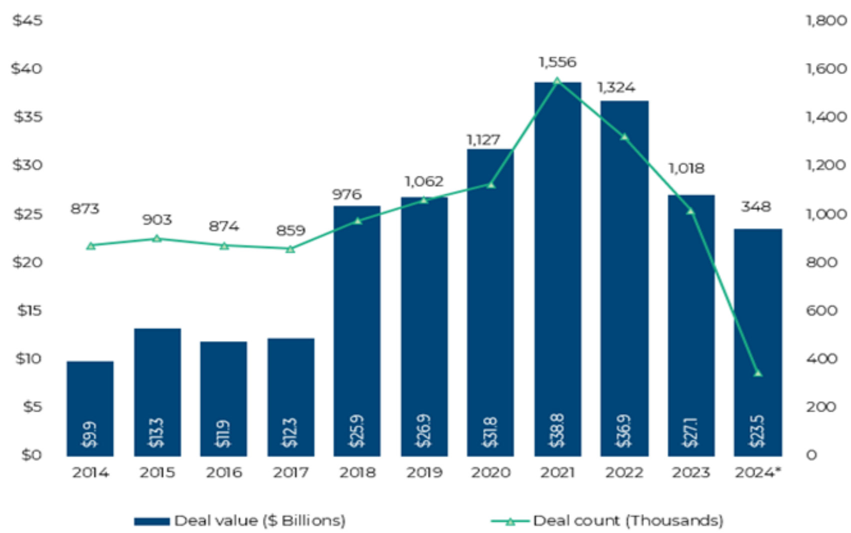
On a brighter note, the venture equity market appears to be improving. Quarterly venture capital deal count increased for the third consecutive quarter. Importantly, early-stage venture capital deal count increased as well. Given that venture debt often follows venture equity, this may be an indicator that venture debt activity will increase in the coming quarters.

US Venture Capital and Debt Activity



	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024*
VC Equity ($ Billions)	$74.1	$86.5	$83.3	$90.4	$146.3	$152.3	$173.1	$350.4	$242.6	$166.4	$93.4
VC Debt ($ Billions)	$9.9	$13.3	$11.9	$12.3	$25.9	$26.9	$31.8	$38.8	$36.9	$27.1	$23.5
Debt / Equity (%)	11.8%	13.3%	12.5%	11.9%	15.0%	15.0%	15.5%	10.0%	13.2%	14.0%	20.1%

US Venture Debt Activity



Information and data sources include PitchBook Data as of 6/30/2024 and other publicly available data from parties that Capital Advisors Group has engaged with on historical debt transactions and is suited for general informational purposes only. Capital Advisors Group makes no representation or warranty regarding the accuracy or completeness of the data. Please click here for disclosure information: Our research is for personal, non-commercial use only.

Healthcare

Are we facing headwinds or are we just stuck in the doldrums of the healthcare debt financing market? Right now, it's a bit difficult to discern. After a promising rebound in Q1 2024, the healthcare debt market retreated in Q2 by more than 65% from the prior quarter to remain flat (in total deal value) with the same period in 2023. In addition, according to PitchBook, total deals completed (just 36), is at an all-time low since the organization began collecting such data in 2021. We view these trends as reflecting the truth of a difficult equity financing environment. Fewer deals at larger amounts are typical of a "haves and have nots" scenario where those companies that have successfully raised equity from top tier investors are able to secure solid venture debt rounds. However, credit considerations have tightened and those companies on the margin that may have had difficulty raising equity from brand name investors, are simply not attractive debt financing candidates in this environment.

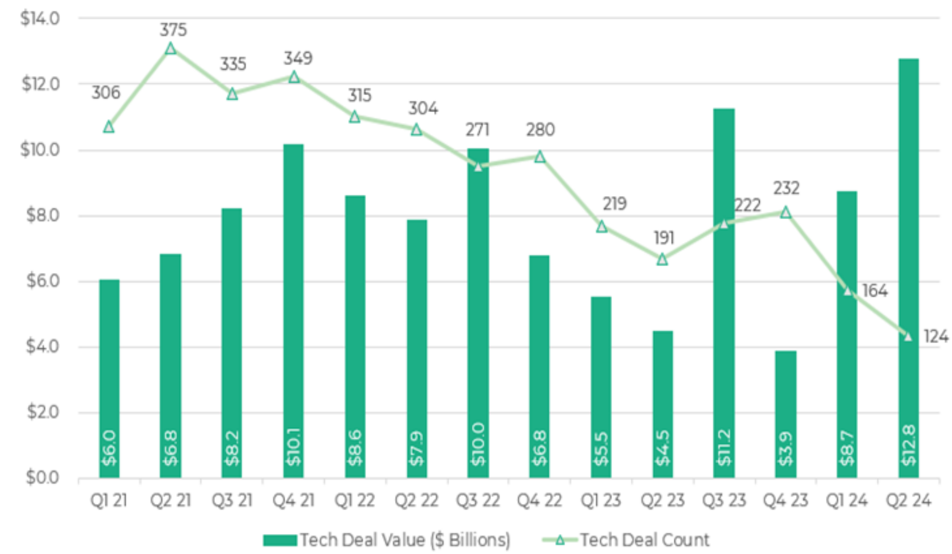
Technology

At first glance, Q2 2024 appears to be a banner quarter for venture debt within the tech sector as the value of completed deals came in at a record $12.8 billion. However, digging deeper, this total includes a $7.5 billion debt deal with a single cloud infrastructure company. While the Company is venture backed, this deal is not what we typically think of as "venture debt".

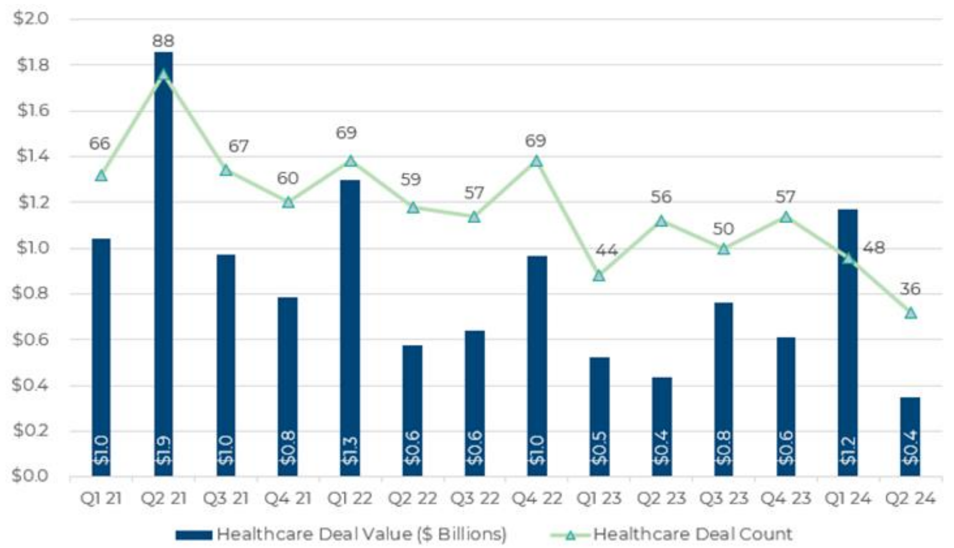
When we remove this single large deal, it brings the value of venture debt deals down to $5.3 billion across 123 different deals. Quarter over quarter, this represents a 40% decrease in value and a 25% decrease in deal volume. Q1 2024 represented the lowest volume of venture debt deals in the past five years, so a further 25% decrease in activity in Q2 represents a significant new low point over the period.

In market conversations, lenders have noted that while market conditions remain challenging, things do appear to be improving, albeit at a gradual pace.

US Healthcare Venture Debt Activity



Technology Venture Debt Activity



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

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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