



Capital Advisors Group's Debt Market Update

Q3 2024

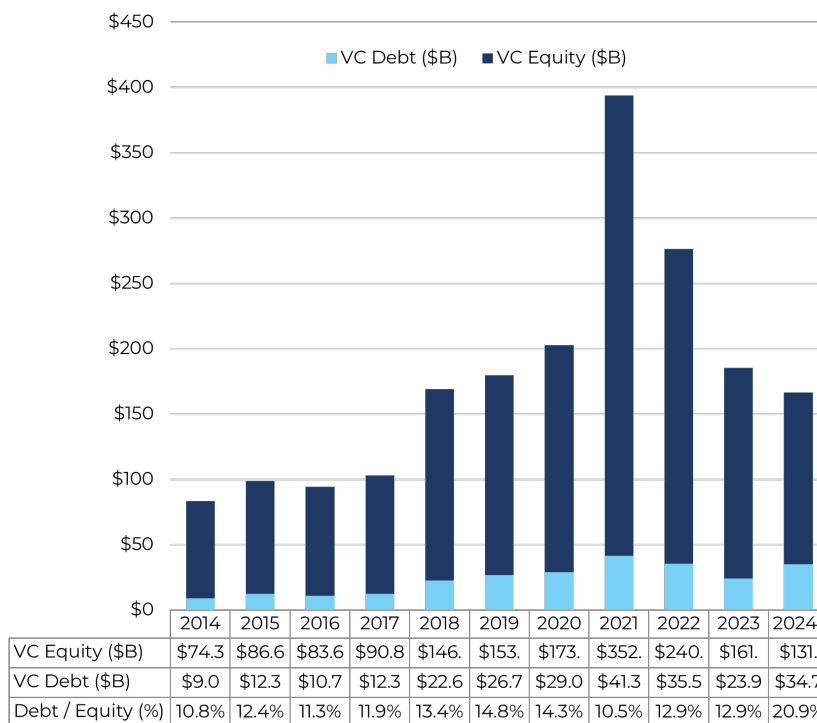
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Commentary – Q3 2024

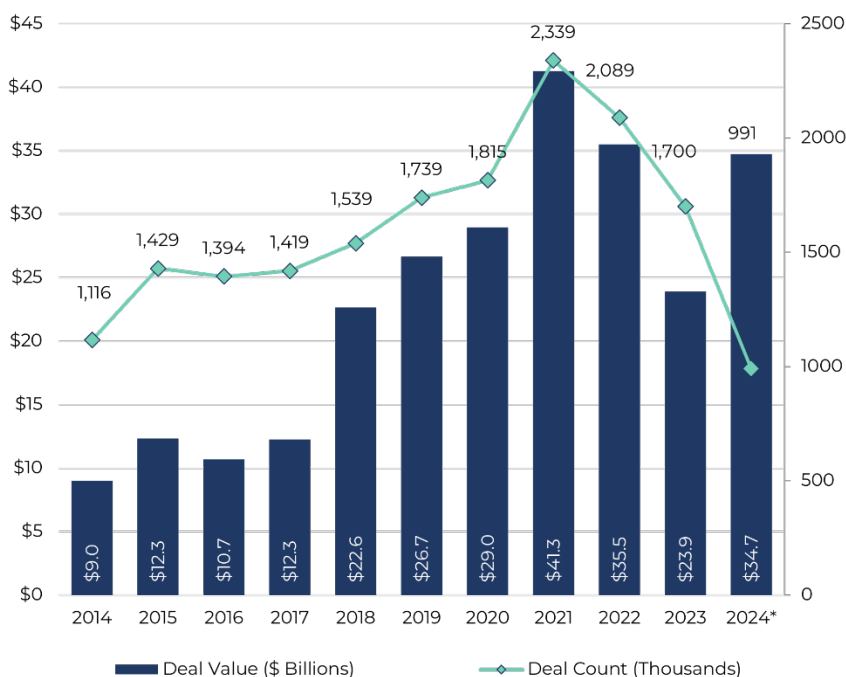
On the surface, the total volume of venture debt funding in both Q3 and 2024 year to date appears relatively healthy. In fact, the overall venture debt market is on pace to reach the highest total volume (i.e., capital deployed) in more than a decade. However, as we dig deeper, we're seeing one very significant shift in the market. First, in analyzing the year-to-date deal volume, we must look back to Q2 of this year where a single deal of \$7.5 billion was completed and currently represents nearly a quarter of all market activity. Second, the most significant development in the market this year is revealed when we review deals done by company stage. Pre-seed and seed stage deals are on pace to come in at the fewest number of annual deals (deal count) completed in 10 years. Early-stage VC is similarly on pace to total the fewest number of deals completed in 10 years. Conversely, later stage VC is on pace to eclipse the 10-year trailing average deal total by approximately 12%. And growth stage deals are on pace with the 10-year trailing average for that stage.

We're witnessing an historic shift as the debt financing market moves away from earlier stage companies toward more established, later stage funding opportunities. It was just last year when, for the first time in a decade, we saw the total deal count for pre-seed, seed and early-stage VC companies fall behind the total annual deal count for later stage VC and growth companies. And we are well on pace in 2024 for the trend to continue. We'll watch closely as the Q4 numbers are released and expect this paradigm shift to continue into 2025.

US Venture Capital and Debt Activity



US Venture Debt Activity



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Healthcare

In Q3 2024, the healthcare debt financing market rebounded to levels not seen since Q2 2021. Although generally a positive trend, there is a tectonic shift underway in the venture debt market. Of note, we're witnessing a shift in the stage of companies securing debt financing in 2024 versus 2021. Across both tech and healthcare, we saw a total of 719 "early VC" stage companies secure debt financing in 2021. Through Q3 2024, we stand at just 254 deals for companies of the same stage. If we remain on trend through Q4 2024, early VC stage companies will total the fewest deals completed in a decade. Extrapolate that trend to the healthcare sector and compare Q3 2024 data to the similar deal volume in Q2 2021, we'll find that the 2021 volume was achieved through 140 deals while the 2024 volume came via just 89 deals. Given the trend over the past three years, it would not be a stretch to assume late stage and commercial healthcare companies are now securing the lion's share of debt financing.

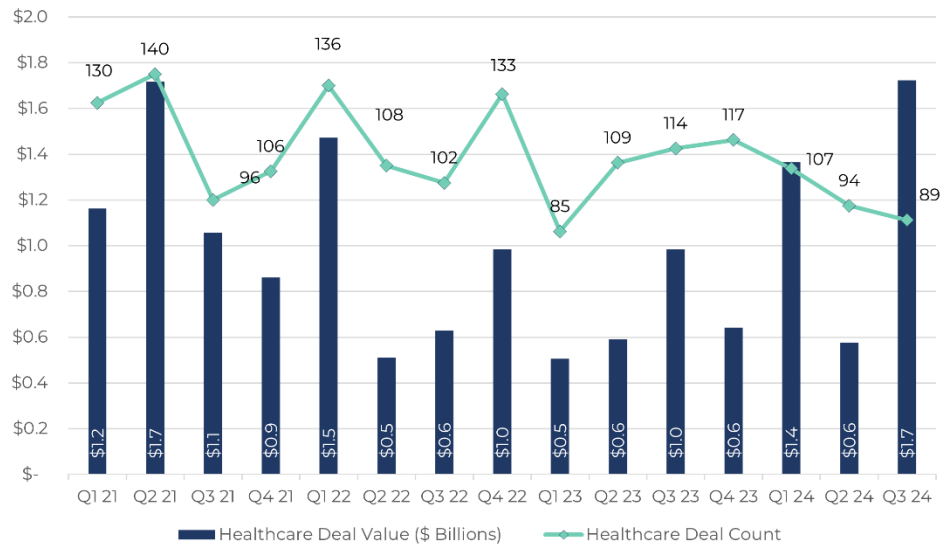
Technology

In Q3 2024, the value of venture debt deals completed in the technology sector came in at \$4.8 billion. This represents a 47% decrease year-over-year and a 69% decrease quarter-over-quarter. That said, the quarter-over-quarter decrease should be taken with a grain of salt as Q2 2024 included a very large deal that skewed the data.

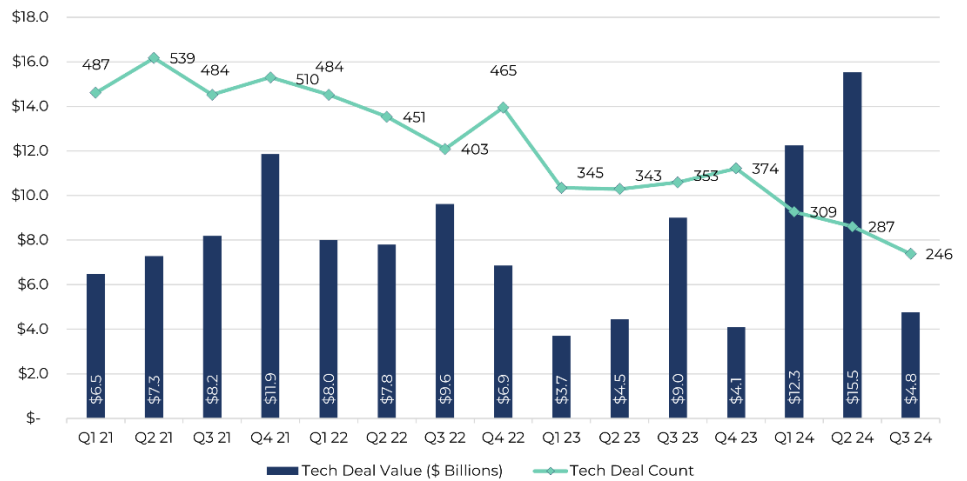
Looking at the number of completed deals paints a relatively similar picture. There were 246 venture debt deals completed in the technology sector in Q3 2024, marking the lowest deal count in any quarter in over five years. This represents a 30% decline year-over-year and a 14% decline quarter-over-quarter.

Most lenders have noted that origination and funding activity has been muted in 2024. However, there are notable exceptions both from banks and non-banks that are taking a more aggressive approach to the business and are picking up market share.

US Healthcare Venture Debt Activity



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

 Term Loan \$70,000,000	 Venture Debt \$10,000,000	 Asset-Based Revolver & Term Loan \$65,000,000
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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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