Capital Advisors Group's

Debt Market Update

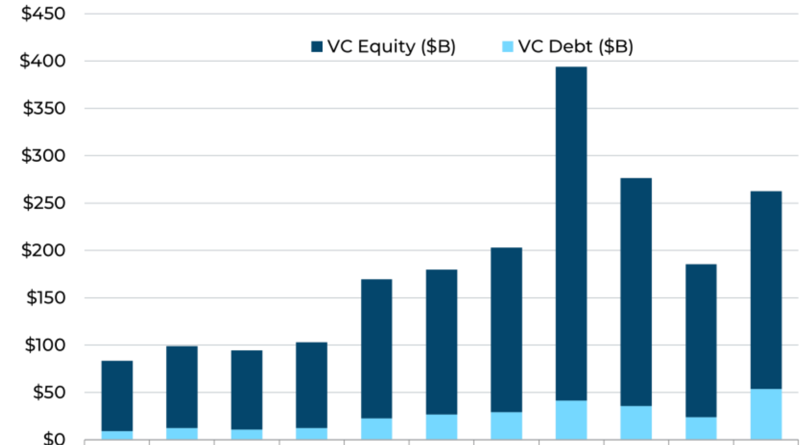
Q4 2024

Commentary – Q4 2024

As we review the overall numbers for Q4 '24, the market appears to have been healthy and robust by most measures. With more than $17B in volume, tech venture lending saw one of the best fourth quarters on record. Healthcare venture lending remains subdued given the tepid state of the equity markets, but lending volume was comparable with fourth quarter volume in each of the prior five years. However, when we look at the full year of 2024, we continue to closely monitor the growing trend of lenders appearing to move toward later stage or growth stage loans. There is a distinction between traditional, cash burning early-stage VC backed companies and later stage, more commercially viable "venture growth companies."

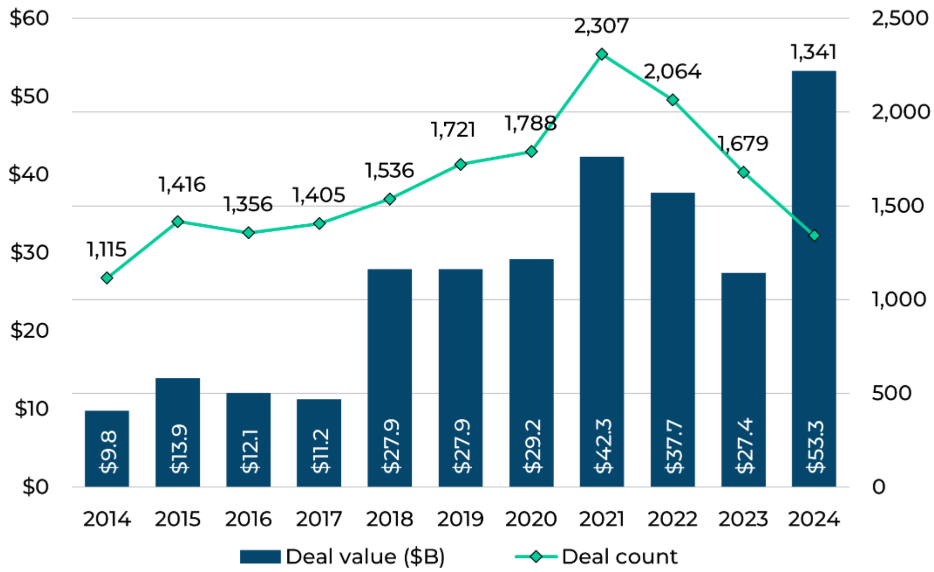
Deal volume for venture growth companies has historically been significantly larger than early-stage companies simply based on the necessary quantum of such later stage loans. But, in 2023, for the first time on record, venture growth loans outpaced all other categories, which are comprised of seed, early-stage, late stage and growth. In 2024, the trend grew exponentially. The total value of venture growth loans posted a number that was nearly double the size of the venture growth total output in any prior year on record. While there were some very large growth loans that did somewhat skew the annual growth numbers higher, the fact remains that this is a dramatic shift and speaks volumes to the current state of venture finance. We will continue to watch closely.

US Venture Capital and Debt Activity



	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
VC Equity ($B)	$74.3	$86.6	$83.6	$90.8	$146.6	$153.1	$173.7	$352.7	$240.7	$161.3	$209.0
VC Debt ($B)	$9.0	$12.3	$10.7	$12.3	$22.6	$26.7	$29.0	$41.3	$35.5	$23.9	$53.3
Debt / Equity (%)	12.1%	14.2%	12.8%	13.5%	15.4%	17.4%	16.7%	11.7%	14.8%	14.8%	25.5%

US Venture Debt Activity



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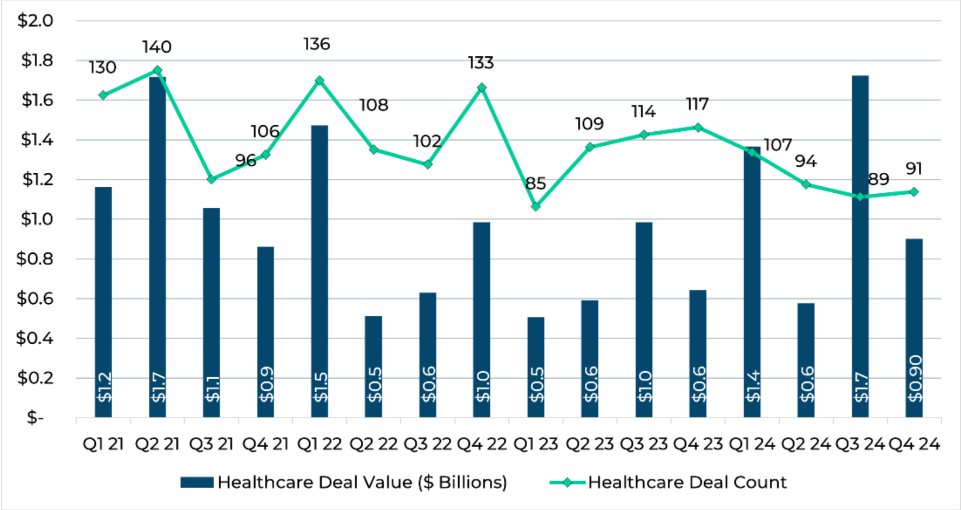
Healthcare

In reviewing Q4 '24, the healthcare debt financing market posted unremarkable numbers. With fewer than 100 transactions completed for a total under $1B, this is not an uncommon trend in the Q4 of most prior years. However, for the full year 2024, it appears the healthcare venture debt market performed well. With total deal volume of more than $4.6B, healthcare venture debt posted its strongest year in 5 years, which has only been surpassed twice in the 10 prior years. The trend we're watching is deal volume (total capital deployed) combined with deal count (transactions completed). At just under 400 total deals, deal count in 2024 reached its lowest point in 6 years. Simultaneously, deal volume rose more than 30% from the year prior. Higher average deal sizes point to fewer companies that can secure larger rounds. This is coupled with an even more pronounced trend of more capital shifting to later stage companies as lenders seek to derisk their portfolios.

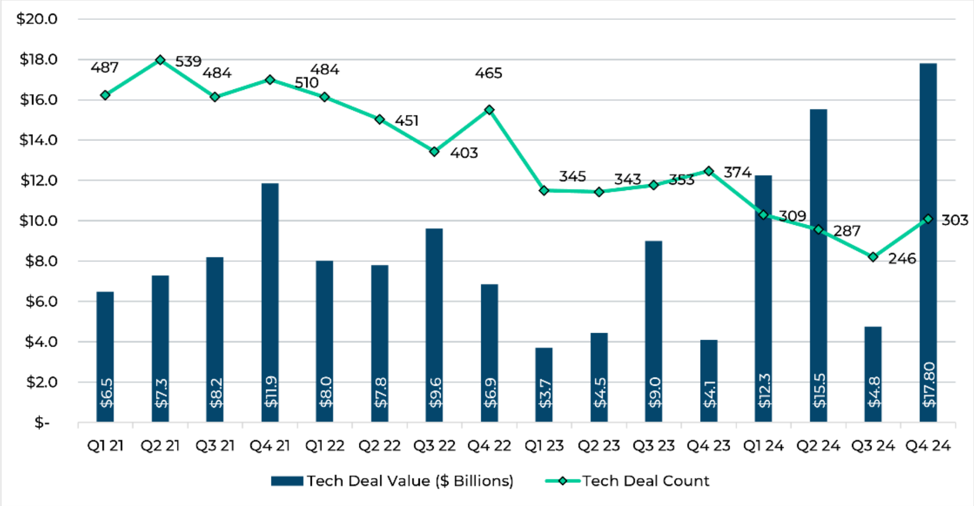
Technology

In Q4 2024, the value of venture debt deals completed in the technology sector totaled $17.8 billion. This represents a 3.3x increase year-over-year and a 2.7x increase quarter-over-quarter. Although skewed by a small number of very large debt deals, it is still indicative of the improving environment for venture debt overall. Looking at the 303 venture debt deals completed in the technology sector in Q4 2024 is perhaps more instructive. This represents a 19% decline year-over-year, but a 23% increase quarter-over-quarter. In market conversations, lenders noted that the flow of quality deals is lower than they would like as a substantial portion of venture-backed companies are struggling to raise equity. That said, competition for high quality deals is quite high given their scarcity. So, the best companies appear to be receiving favorable terms from lenders.

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

inozyme pharma	MANAGED BY Q	connectRN
Term Loan	Venture Debt	Asset-Based Revolver & Term Loan
$70,000,000	$10,000,000	$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

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