Modern Venture Debt Structures

THE CONFIDENTIAL GUIDE

Q4 2021

SPINTA CAPITAL

SAN FRANCISCO | SILICON VALLEY

Disclaimer

WARNING. The content within this document may prove overwhelming to some, or even bore one to drive their van off a cliff.

That is why we launched Spinta, a crack unit of former lenders, investors and execs established in 2016. These men promptly created a maximum value debt advisory firm, operating within the San Francisco underground. Today, highly wanted by management teams and boards, they survive as soldiers of fortune.

If you have a financing problem, if no one else can help, and if you can find them, maybe you can hire….THE SPINTA-TEAM

Contents

Venture Debt – Evolution

Started with equipment finance…

…SAAS + E-Commerce eat WORLD

1980s
- Traditional ABL
- Equipment financing (~80% of value)

1990s
- 100% of equipment value
- Warrants introduced

2000s
- Term loans based on VC reputation
- Term loans based on EV; bullet structures

2010s
- MRR lines of credit
- IP-finance
- Revenue-based financing

Today
- Fwd revenue cash advance
- Programmatic underwriting
- Unsecured lending

Glossary

ABL: asset-based loan

Warrant: option to buy equity

EV: enterprise value

IP: intellectual property

Bullet: term loan with no amortization (100% balloon payment at maturity)

MRR: monthly recurring revenue

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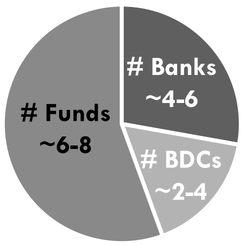
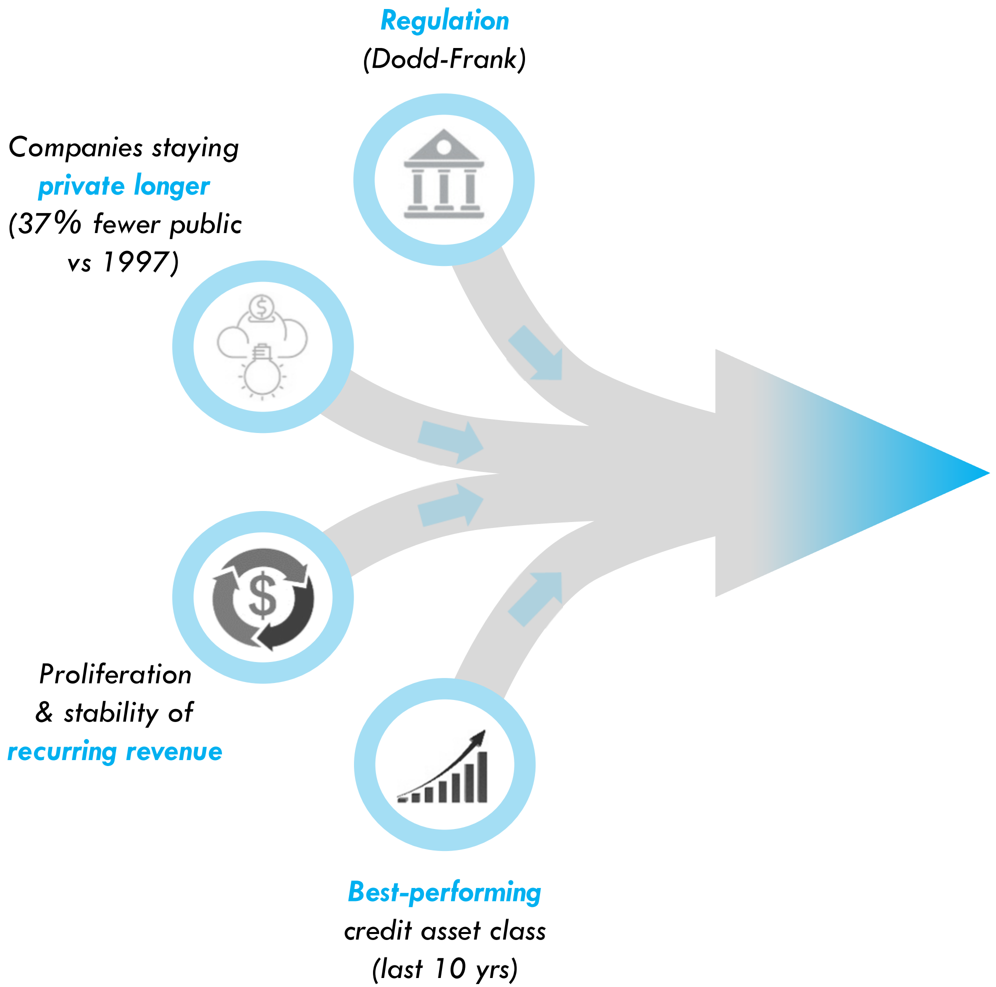
Driven in Part by a Swell of New Participants

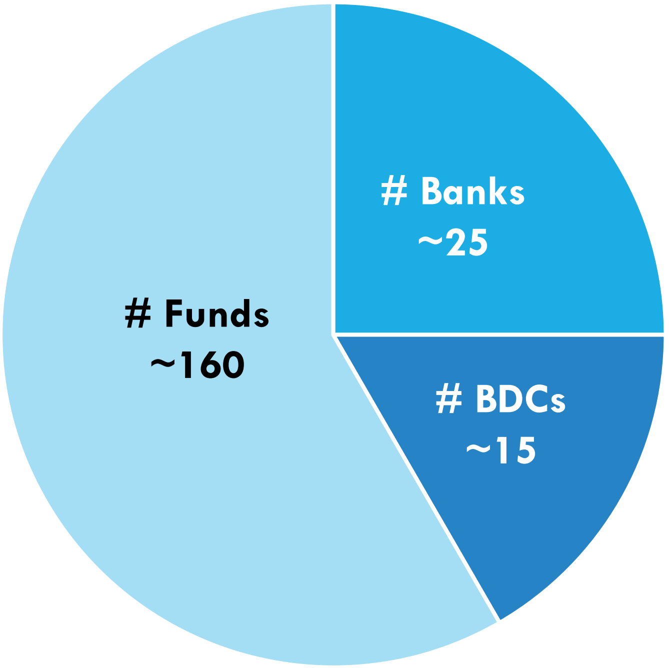
More Demand, More Supply

Venture Lender Count 15 Years Ago





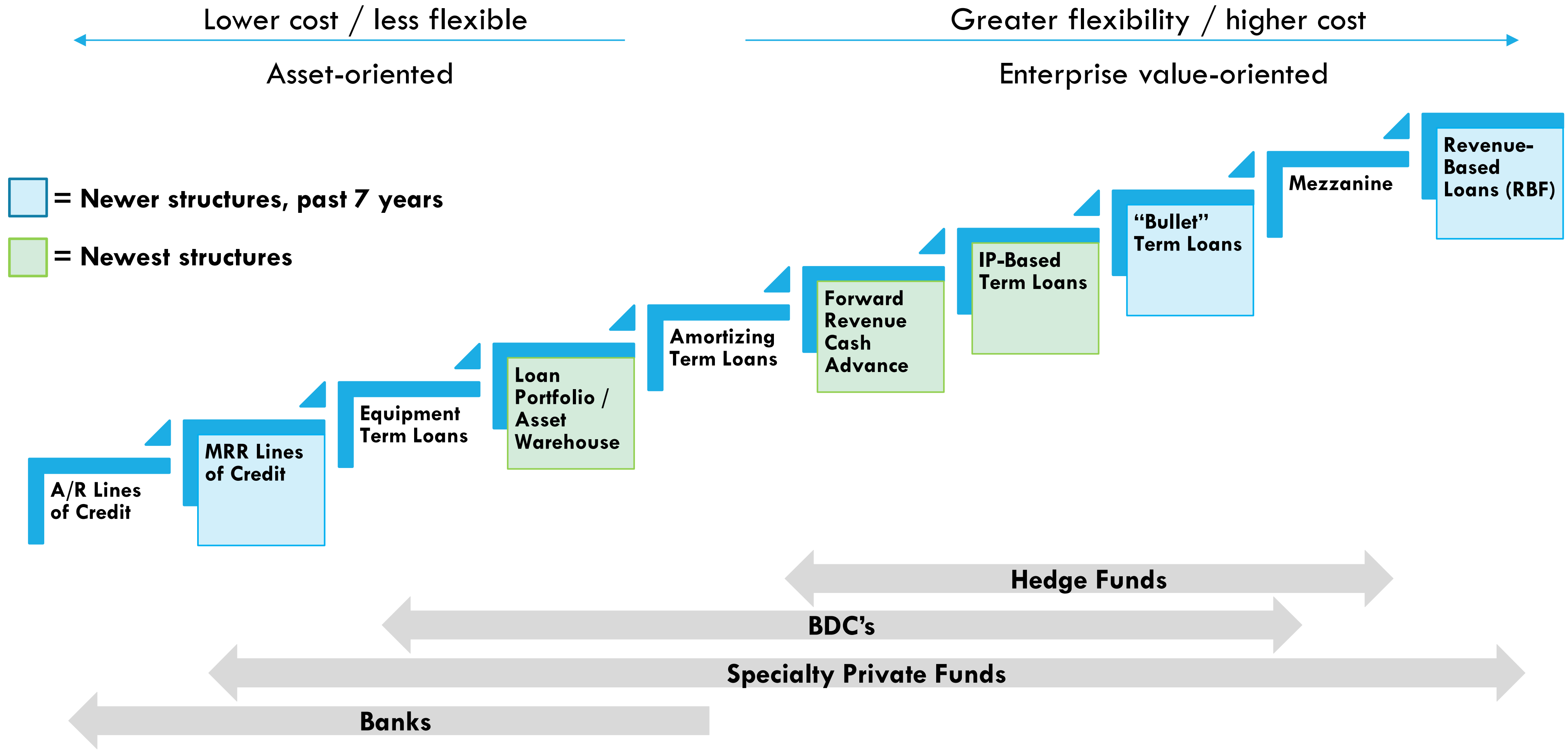
Venture Lender Count Today
~ 200



Lender count reflects those with **pre-profit tech / consumer growth company focus**; excludes those focused solely on (a) life sciences or (b) asset-oriented solutions

Structures Have Diversified

New financing approaches aligned with specific use cases, business models



The Menu Broadens with Scale

		Lender Type	Relevance Based on Stage: Early Stage	Mid-Stage	Later Stage	Flexibility (Cost)
Asset-Based Loans	A/R Line of Credit	Bank		✔	✔	Lower (~5%)
	Equipment Loan	Non-Bank	*	✔	✔	
	MRR Line of Credit	Both		*	✔	
	Loan Portfolio / Asset Warehouse	Both	*	✔	✔	
	Patent-based Financing	Both	✔	✔	✔	
Growth Capital Loans	Amortizing Term Loan	Both	*	✔	✔	
	Bullet Term Loan	Non-Bank		*	✔	
	Mezzanine	Non-Bank			✔	
	Contract Purchase / Fwd Revenue Cash Advance	Non-Bank		✔	✔	
	Revenue-Based Financing "RBF"	Non-Bank		✔	✔	Higher (25%+)

* Generally available to VC-backed companies only
Blue font denotes newer structures, past 7 years
Green font denotes newest structures

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Yet the Optimal Solution is Situation-Specific

	Best Used To…	Watch Out For…
Bank Loans / MRR Loans	Minimize capital cost, create flexible balance sheet liquidity, extend runway post-equity raise	"Usable" capital is generally limited, particularly when amortization and/or covenants are factored into analysis
Equipment Loan / Lease	Finance purchase of long-term equipment / fixed assets	Generally rapid amortization; usable capital limited to OLV of fixed assets; higher debt service vs enterprise value loans
Non-Bank Venture Debt	Achieve interim capital in lieu of (or to reduce size of) equity raise	Short "I/O" periods for earlier stage companies, prepay fees can be onerous
Contract Purchase / Fwd Revenue Cash Advance	Secure capital quickly; semi-automated underwriting for subscription / recurring revenue companies	Most lenders have limited track record; short or no "I/O" periods; may involve new underwriting, each draw
Patent-Based Financing	Achieve greater usable capital by leveraging material patent portfolio	Few options; slower underwriting; may inhibit licensing flexibility; loan amendments can be more complex / restrictive
Mezzanine (ie NYC crowd)	Maximize usable capital, particularly for later stage capital efficient companies	Higher transaction costs, documentation and closing process can be more cumbersome; multi-faceted covenant packages
Revenue Based Financing	Alternative to raising institutional VC, particularly for capital-efficient founder-controlled businesses	Short or no "I/O" period, high minimum return thresholds result in high "prepay" economics

Different Lenders Solving for Different Outcomes

Principal Preservation	Yield / Fixed Return	Equity in Disguise	Loan to Own
Runway extenders	Covenant-lite or no-covenant	No covenants but sometimes rapid amort	Shorter maturity
Prefer high liquidity, path to profitability, or…	More flexible repayment schedules	Dilutive warrants / co-invest rights	"Hail Mary"
Underwrite to tangible assets / strong recurring revenue streams	Limited equity upside	Well-funded startups	Distressed or pre-distressed
Most conservative leverage	Conservative leverage based on assets and/or EV	Portfolio approach	Comfortable monetizing IP or software contracts
		OK w/ early stage	
Banks, Senior ABL Funds	**BDCs, Select SaaS Funds, Revenue Cash Advance Providers, Some RBF Funds**	**Smaller venture debt funds, Some RBF Funds**	**Select distressed credit funds**

Pricing, Structure, Covenants Vary Widely

	Working Capital / MRR Lines of Credit	Growth Capital Term Loan (includes IP-based)	Mezzanine / Sub Debt
Typical Participants	Banks, private funds	Banks, private funds, hedge funds	Private funds, hedge funds
Availability / Sizing	Up to 90% of A/R Up to 50-75% of inventory Up to 50% select PO's 4-10x MRR	Situation specific Up to 50% of equity round 6-18x MRR % of patent valuation	Situation specific Based on enterprise value, or Up to 5x forward EBITDA
Interest Rate	3-8% floating	5-14% floating	8-15% fixed Some or all can be PIK
Term	1-3 yrs	2-5 yrs	3-5 yrs
I/O Period	n/a	12-60 mos	3+ yrs
Warrant Coverage	Typically none	0-15%	0-15%
Collateral	1st lien on assets; negative/double-negative pledge on IP	1st or 2nd lien on assets; negative/double-negative pledge on IP	2nd lien on assets or unsecured
Commitment fee	Up to 1%	Up to 2%	Up to 2%
Liquidity/Financial Covenants	Minimum liquidity / performance to plan	Sometimes NONE; minimum liquidity / performance to plan	Sometimes NONE; Debt service / min EBITDA / performance to plan
All-in Targeted IRR	4-9%	6-20%	11-25%

Glossary

MRR: monthly recurring revenue
A/R: accounts receivable
PO: purchase order
Liquidity: cash + capacity to borrow under a line of credit
EBITDA: earnings before interest, taxes, depreciation & amortization (estimates earnings less impact from debt)
ARR: annual recurring revenue

Newer Participants May Offer Speed, Flexibility

	Asset Term Loans / Portfolio Warehouse	Revenue Cash Advance / Contract Purchase	Revenue-Based Financing
Typical Participants	Banks / Private Funds	Private funds	Private funds
Availability / Sizing	Borrowing base tied to assets such as B2C or B2B loan portfolios, equity investment portfolios, other esoteric assets	Best suited for contractually recurring revenue or programmatic CAC financing for e-commerce financing (25 – 60% ARR)	Best suited for recurring revenue or services (25 – 50% ARR)
Interest Rate	3-15%	N/A – generally a finance charge or discount; typical discount of 8-20%	N/A – fixed % of revenue until return of capital threshold is met (often 1.3x - 2x)
Term	2-4 years	2-3 yrs	3-10 yrs
I/O Period	N/A – typically structured as revolving credit facilities or off BS SPVs; non-banks typically require a draw period of 12-24 mos following by an "amortization period" of 12-36 mos	Often no I/O period with amortization fixed over 12-24 months, or mirroring underlying payment timing of specific contracts	N/A
Warrant Coverage	Situation dependent on risk; sometimes none	None	0-15%
Collateral	1st lien on specific assets; may include HoldCo guaranty	Typically unsecured / no UCC filing	1st lien on assets or unsecured
Commitment fee	Up to 2%	None	Up to 2%
Liquidity/Financial Covenants	Situation dependent, sometimes none	None	None
All-in Targeted IRR	5% - 20%	15-25%	20-30%

About Us

Credit Solutions for the Innovation Economy

We arrange institutional growth debt for later stage innovative companies

> **Silicon Valley's "debt capital markets desk"**

> **Goal of delivering optimally structured solutions with the best lender partners**

> **$2.5 billion of debt financing experience across ~100 transactions**

Client profile

$10 - $500m rev / emerging growth

Pre-profit thru profitable

Backed by VCs, PE firms, founders

Use Cases

Growth / working capital

Finance assets

Replace existing lender

Stalled valuation or business pivot

LBO / recap / dividend