



# Modern Venture Debt Structures

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## THE CONFIDENTIAL GUIDE

Q4 2021

# 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**

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**Venture Debt evolution**

**Lender market makeup**

**Diversification of structures**

**Pros / cons**

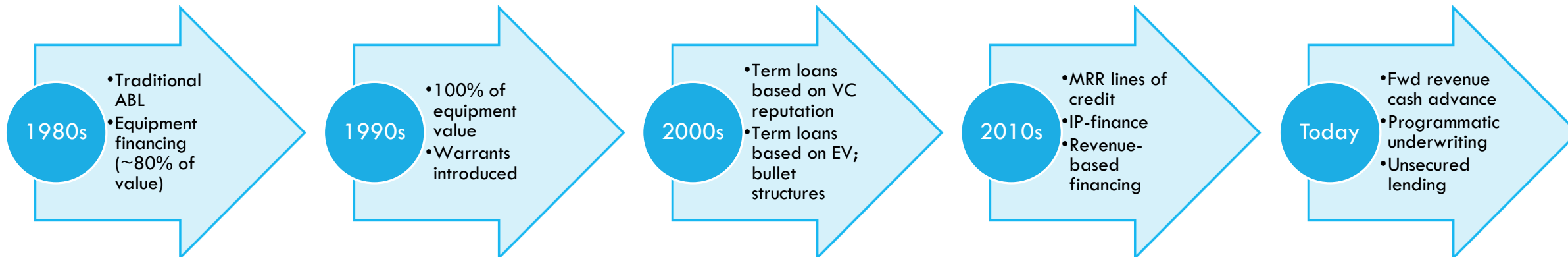
**Risk appetite spectrum**

**Market terms**

# Venture Debt – Evolution

Started with equipment finance...

...SAAS + E-Commerce eat WORLD



## Glossary

**ABL:** asset-based loan

**Warrant:** option to buy equity

**EV:** enterprise value

**IP:** intellectual property

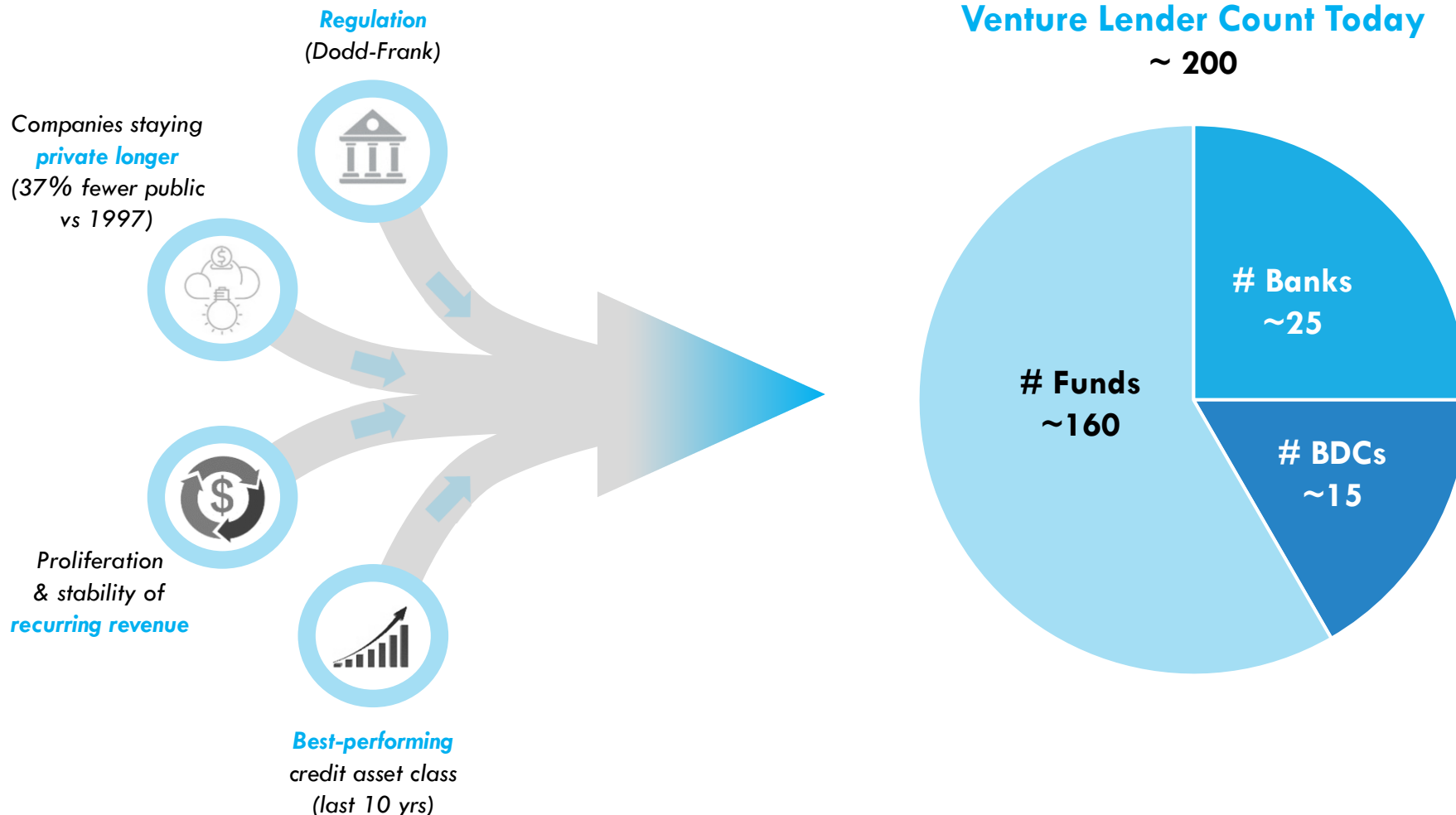
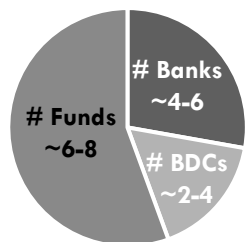
**Bullet:** term loan with no amortization (100% balloon payment at maturity)

**MRR:** monthly recurring revenue

# Driven in Part by a Swell of New Participants

More Demand, More Supply

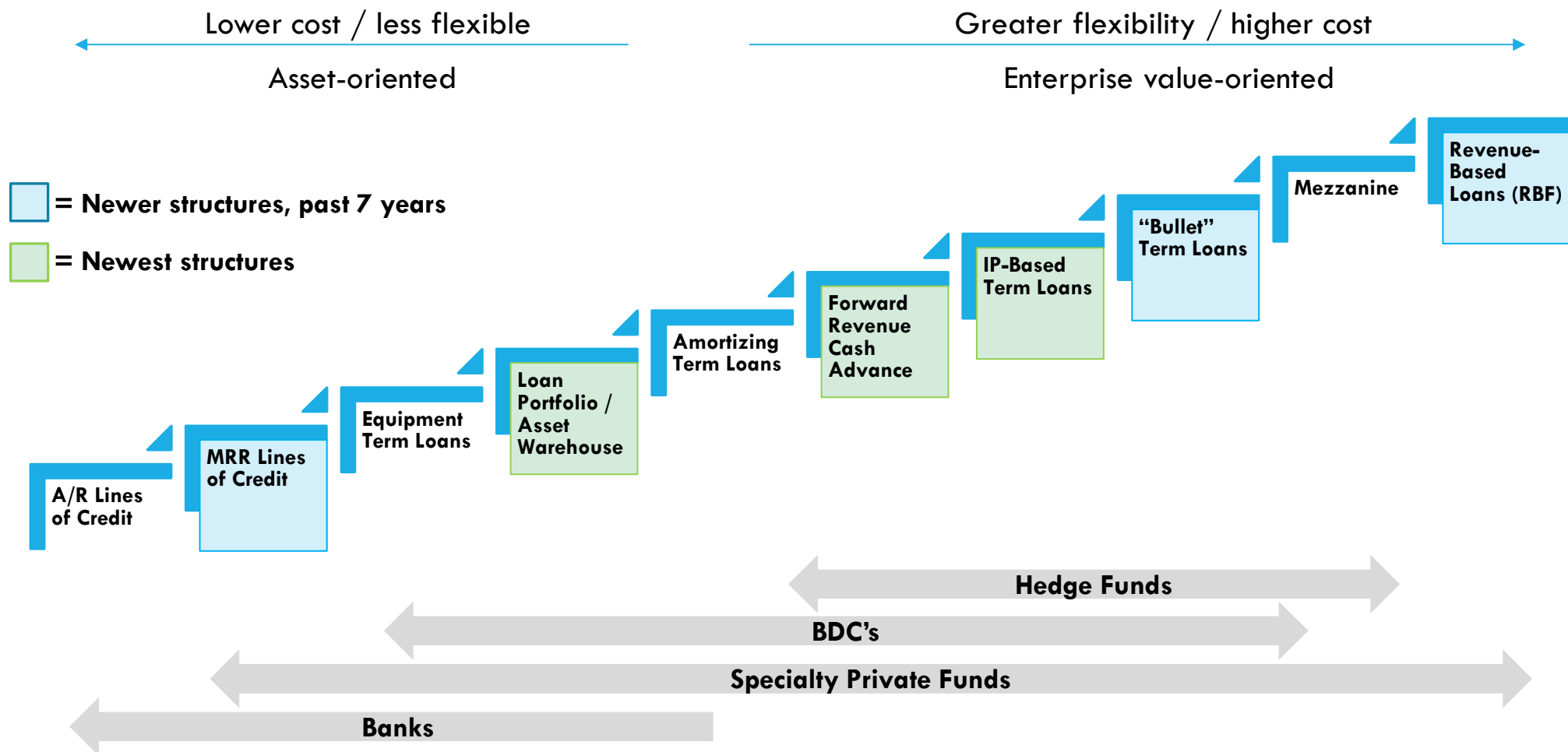
## Venture Lender Count 15 Years Ago



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	Relevance Based on Stage			Flexibility (Cost)
		Type	Early Stage	Mid-Stage	Later Stage	
Asset-Based Loans	A/R Line of Credit	Bank		✓	✓	Lower (~5%)          Higher (25%+)
	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		✓	✓	

\* Generally available to VC-backed companies only

Blue font denotes newer structures, past 7 years

Green font denotes newest structures

# Yet the Optimal Solution is Situation-Specific

	Best Used To...	Watch Out For...
<b>Bank Loans / MRR Loans</b>	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
<b>Equipment Loan / Lease</b>	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
<b>Non-Bank Venture Debt</b>	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
<b>Contract Purchase / Fwd Revenue Cash Advance</b>	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, <u>each</u> draw
<b>Patent-Based Financing</b>	Achieve greater usable capital by leveraging material patent portfolio	Few options; slower underwriting; may inhibit licensing flexibility; loan amendments can be more complex / restrictive
<b>Mezzanine (ie NYC crowd)</b>	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
<b>Revenue Based Financing</b>	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

Runway extenders  
Prefer high liquidity,  
path to profitability,  
or...

Underwrite to  
tangible assets /  
strong recurring  
revenue streams

Most conservative  
leverage

**Banks, Senior  
ABL Funds**

## Yield / Fixed Return

Covenant-lite or no-  
covenant

More flexible  
repayment  
schedules

Limited equity  
upside

Conservative  
leverage based on  
assets and/or EV

**BDCs, Select SaaS Funds,  
Revenue Cash Advance  
Providers, Some RBF Funds**

## Equity in Disguise

No covenants but  
sometimes rapid  
amort

Dilutive warrants /  
co-invest rights

Well-funded  
startups

Portfolio approach

OK w/ early stage

**Smaller venture debt funds,  
Some RBF Funds**

## Loan to Own

Shorter maturity  
“Hail Mary”

Distressed or pre-  
distressed

Comfortable  
monetizing IP or  
software contracts

**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
<b>Typical Participants</b>	Banks, private funds	Banks, private funds, hedge funds	Private funds, hedge funds
<b>Availability / Sizing</b>	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
<b>Interest Rate</b>	3-8% floating	5-14% floating	8-15% fixed Some or all can be PIK
<b>Term</b>	1-3 yrs	2-5 yrs	3-5 yrs
<b>I/O Period</b>	n/a	12-60 mos	3+ yrs
<b>Warrant Coverage</b>	Typically none	0-15%	0-15%
<b>Collateral</b>	1 <sup>st</sup> lien on assets; negative/double-negative pledge on IP	1 <sup>st</sup> or 2 <sup>nd</sup> lien on assets; negative/double-negative pledge on IP	2 <sup>nd</sup> lien on assets or unsecured
<b>Commitment fee</b>	Up to 1%	Up to 2%	Up to 2%
<b>Liquidity/Financial Covenants</b>	Minimum liquidity / performance to plan	Sometimes NONE; minimum liquidity / performance to plan	Sometimes NONE; Debt service / min EBITDA / performance to plan
<b>All-in Targeted IRR</b>	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
<b>Typical Participants</b>	Banks / Private Funds	Private funds	Private funds
<b>Availability / Sizing</b>	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)
<b>Interest Rate</b>	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)
<b>Term</b>	2-4 years	2-3 yrs	3-10 yrs
<b>I/O Period</b>	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
<b>Warrant Coverage</b>	Situation dependent on risk; sometimes none	None	0-15%
<b>Collateral</b>	1 <sup>st</sup> lien on specific assets; may include HoldCo guaranty	Typically unsecured / no UCC filing	1 <sup>st</sup> lien on assets or unsecured
<b>Commitment fee</b>	Up to 2%	None	Up to 2%
<b>Liquidity/Financial Covenants</b>	Situation dependent, sometimes none	None	None
<b>All-in Targeted IRR</b>	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**













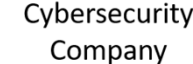











### Client profile

\$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

# Recent Clients – Later Stage

 HR SaaS	 E-comm Meals	 Education + Fintech	 Data Mining SaaS	 Cybersecurity	 Fintech SaaS	 Ag-Tech	 Tech / Logistics
 Data Analytics	 E-comm Mktplace	 Imaging Services	 Data Migration AI	 Enterprise SaaS	 Healthcare IT	 Data Analytics AI	 Ag-Tech
 E-Commerce	 Gaming	 Energy Tech	 Fintech SaaS	 HR SaaS	 Marketing Tech	 Education Tech	 Energy Tech

# Recent Clients – Early / Mid Stage

 Medical Devices	 Enterprise SaaS	 CPG / E-Comm	 Marketplace	 Enterprise SaaS	 E-Commerce	 E-Commerce	 Marketing Tech
 SMB SaaS	 Fintech SaaS	 Enterprise SaaS	 Fintech SaaS	 Healthcare IT	 Education Tech	 Fintech SaaS	 Location Data SaaS
 HR SaaS	 Education Tech	 Energy Tech	 Enterprise SaaS	 Enterprise SaaS	 Enterprise SaaS	 Industrial Tech	 Enterprise SaaS

# Some of Our Clients' Equity Backers

**FOUNDER**

**a16z**  
ANDREESSEN HOROWITZ

AUGUSTCAPITAL

**BainCapital**  
VENTURES

**BV**  
Battery Ventures

**BESSEMER**  
VENTURE PARTNERS

**CORRELATION**  
VENTURES

**CHARLES RIVER**  
VENTURES

**FULCRUM**  
EQUITY PARTNERS

generation\_\_\_\_

Google  
ventures

**GREYCROFT**

**ignition**

**intel**  
Capital

**JAVELIN**  
VENTURE PARTNERS

**Kapor**  
CAPITAL

**KPCB**

**LHV**  
LERER HIPPEAU

**matrix**  
PARTNERS

**M**  
Menlo

**MERITECH**  
CAPITAL PARTNERS

Morgan Stanley

**NEA**

**OVp**  
VENTURE PARTNERS

**Prelude**

**S2G VENTURES**  
SEED 2 GROWTH

**SECTION 32**

**SEQUOIA**

**SHASTA**  
VENTURES

**SIERRA**  
VENTURES

**SJF**  
VENTURES

**STORM VENTURES**

**tao**  
capital partners

**TVC**  
CAPITAL

**USVP**

**venrock**

**Y** Combinator

**PUBLIC**