TaylorWessing

Venture Debt

A quick introduction to venture debt financing

30 January 2024 | Felipe Villena

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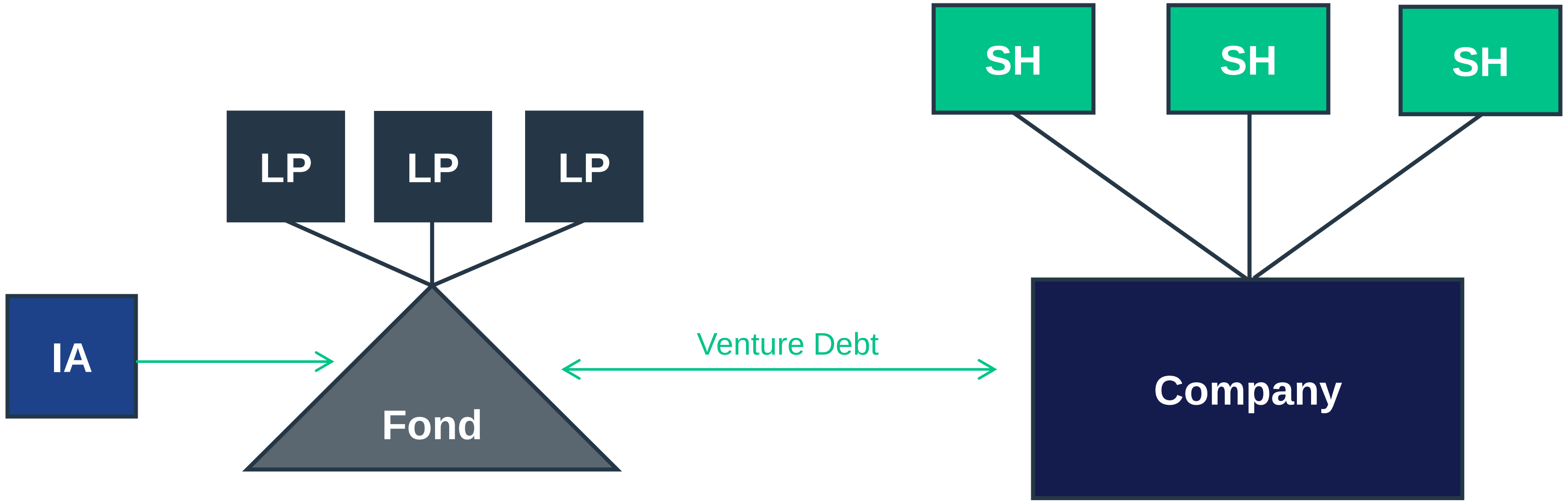
1. What is Venture Debt and how does it work?

- Debt financing, typically in the form of a senior secured loan (non-convertible) to finance working capital requirement or specific investments
- Loan terms are usually 18 to 36 month
- Interest in the amount of 10 – 20% p.a, often with interest only periods of 6 to 12 month
- Contrary to bank financing, venture loans are rather light on covenants allowing for a flexible use of the funds
- Collateral package, generally including IP and receivables
- In addition, venture debt lender will be granted an equity kicker in the form of a warrant

IA = Investment Advisor
LP = Limited Partners
SH = Shareholder



2. What are the benefits of Venture Debt?

Company

- Valuation neutral funding
- Flexible source of finance to growth (e.g. engineering, sales or marketing) or other needs
- Financing costs are tax deductible

Founders

- Extends cash runway at a low cost of capital
- Non-dilutive funding (except for warrant)
- Maintain control

Shareholders

- Growth without further equity financing and dilution
- Internal-rate-of-return (IRR) enhancement
- Maintain control

3. What are the potential risks of Venture Debt?

Company

- Requires a robust business model
- In contrast to equity, debt entails a default risk
- Relatively high interest rates

Founders

- Repayment of debt may hinder future growth
- Complexity for next financing round
- Dilution from warrant

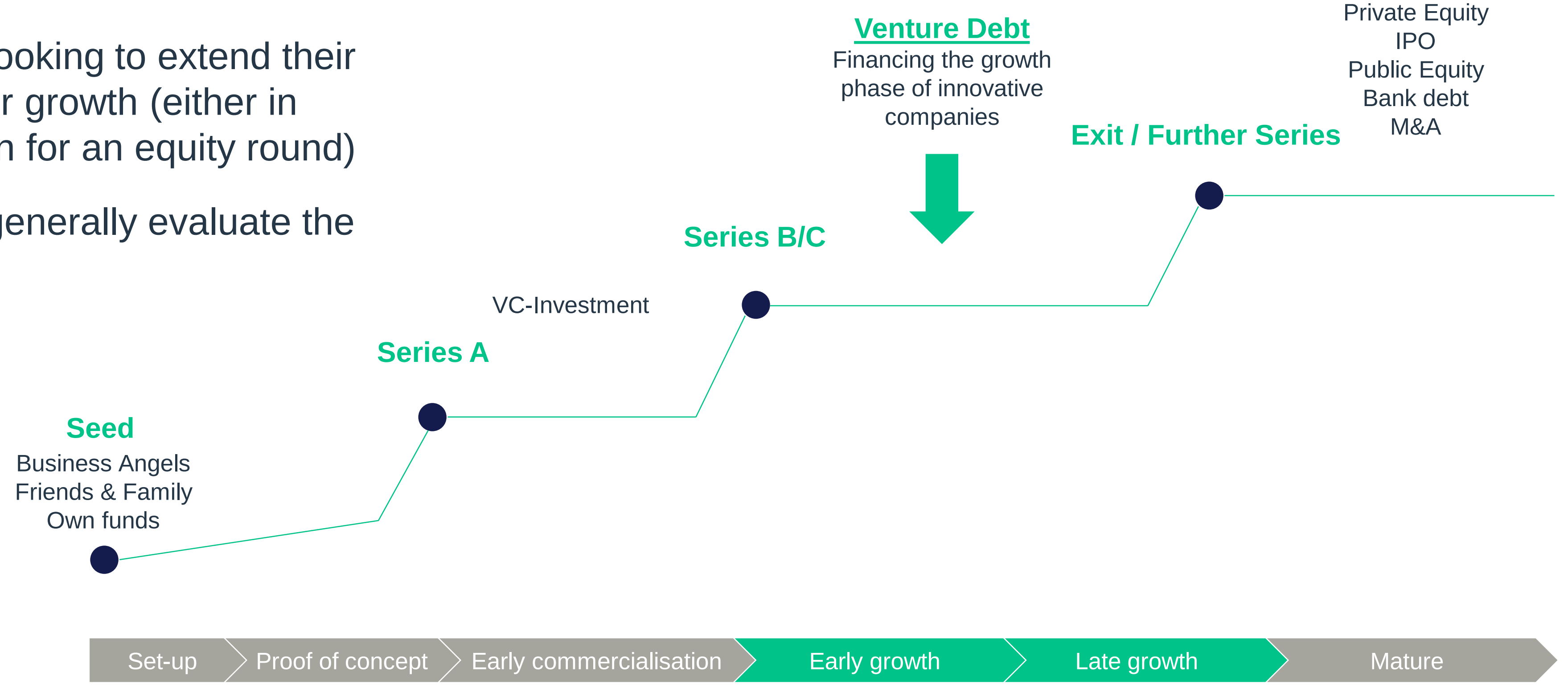
Shareholders

- Debt has to be repaid prior to any payments to equity holders
- Less flexibility in a restructuring scenario
- Dilution from warrant

4. When is the right time to take on Venture Debt?

“You need to have raised venture capital to raise venture debt”

- Growth stage companies looking to extend their cash runway to fund further growth (either in addition to or in preparation for an equity round)
- Venture Debt lenders will generally evaluate the following KPI’s:
  - Revenue generation
  - Product-market fit
  - Stable margins
  - Revenue growth



5. Key takeaways

Venture Debt is an alternative to equity financing (especially when equity is scarce)

Venture Debt is intended for early-/ later stage companies that are typically revenue generating, have a product-market fit, stable margins and revenue growth

Control remains with the funders due to the non-dilutive nature of Venture Debt

Lenders will structure Venture Debt differently. It's important to understand the ramifications of the individual elements

Your contact at TaylorWessing – Felipe Villena

Felipe Villena focuses on domestic and cross-border M&A transactions as well as venture and growth capital deals. He is an advisor to financial and strategic investors, technology companies and management teams throughout the investment and exit process. Felipe is a member of Taylor Wessing's energy transition and infrastructure team and has built up an extensive track record in the renewables energy, clean tech and transport sectors.

In addition to his law studies, he holds a bachelor's degree in economics, specialising in finance and accounting, from the Johannes Gutenberg University in Mainz. He completed his legal traineeship at the Oberlandesgericht Koblenz, with stages in Frankfurt and Tokyo. After being admitted to the bar, he started his legal career at Freshfields Bruckhaus Deringer in 2017 and joined Taylor Wessing in 2021.

Languages

- German, English, Spanish

Recent Work:

- Advising Claret Capital Partners with all corporate law aspects of their German venture debt portfolio.
- Advising a European venture debt player in their bid for the German debt portfolio of Silicon Valley Bank.
- Advising Sparta Capital Management on the financing of Sunvigo GmbH.
- Advising Uniper Renewables GmbH on the acquisition of various solar project portfolios.
- Advising B Capital Partners AG on the acquisition of a leading German smart metering provider.
- Advising Impax Asset Management Group on the financing of Bullfinch Asset AG.
- Advising FRV-X on the acquisition of a stake in ecoligo GmbH.

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