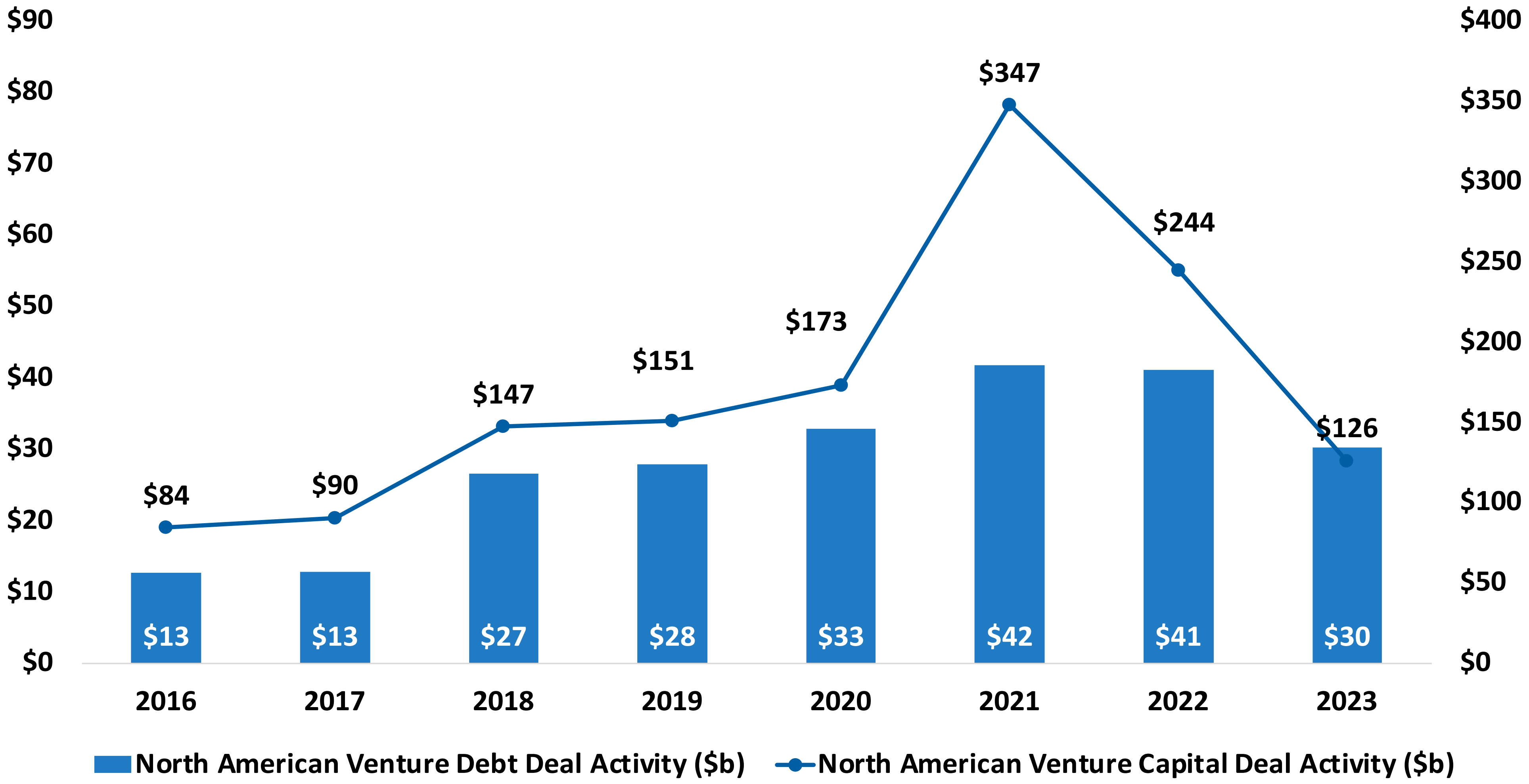
Venture Debt Conference
"State of Venture Debt"

ARMENTUM
PARTNERS

Who is Armentum Partners?

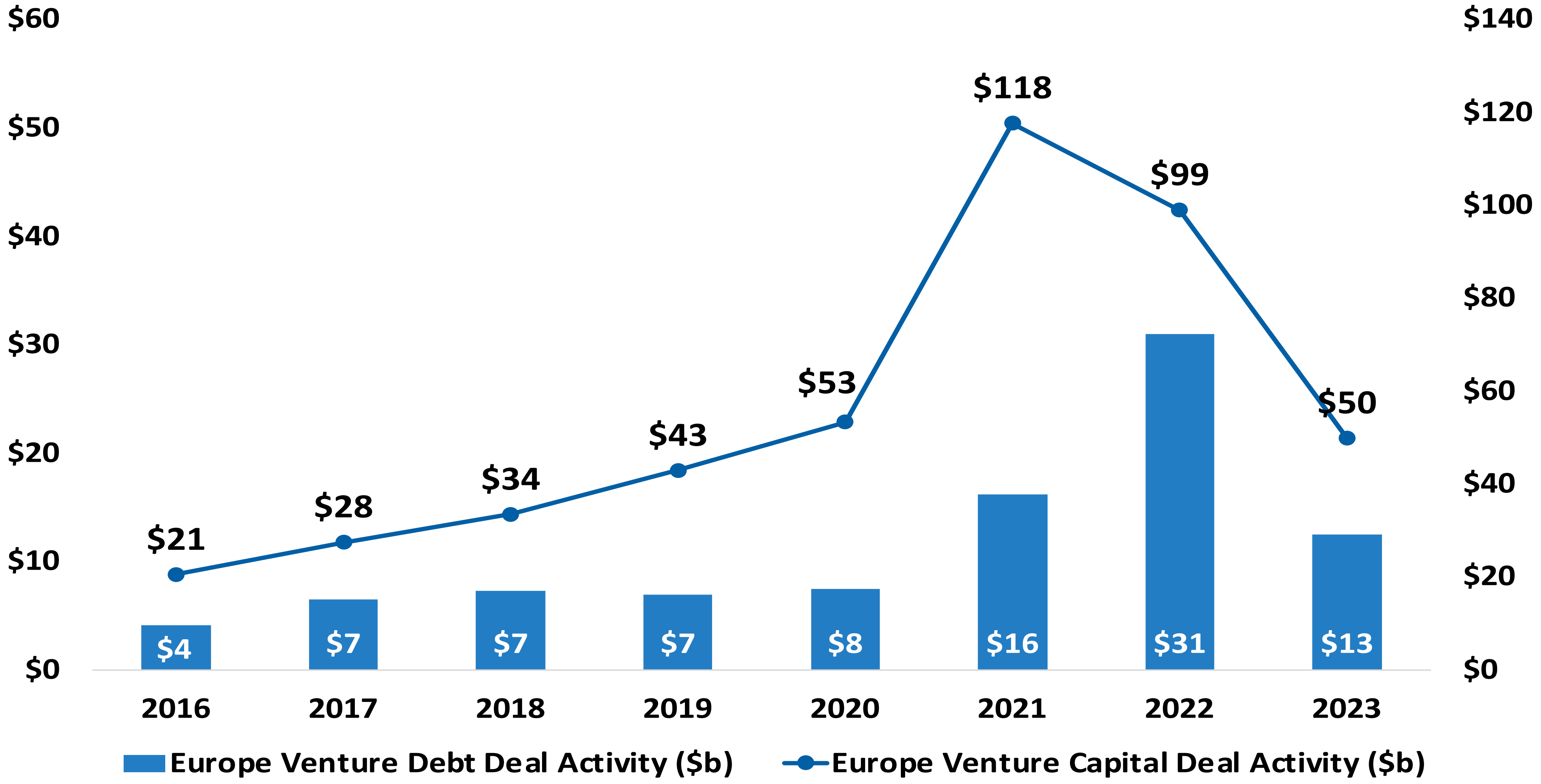
- A full-service investment bank focused on debt and non-dilutive capital raising solutions primarily for technology and healthcare companies
- Unmatched track record of transaction execution, underscored by the depth and breadth of our network across lenders, equity investors, and companies
  - Have relationships with approximately 300 lenders – banks, venture debt, later stage venture, asset managers, hedge funds, family offices, strategic lenders
  - Since inception, closed over 400 transactions with over 90 different lenders
  - Closed over $5 billion for clients in debt capital commitments since beginning of 2022
- Extensive market knowledge and credibility with lenders allows for bespoke debt financing packages that are unique to each transaction and clients' strategic objectives
- Registered Representatives of FINRA; Securities offered are through a registered SEC and FINRA member firm

Sizing The Venture Debt Market: North America



- Source: Pitchbook. Note: Includes convertible debt and bridge financing, representing < 10% overall.

Sizing The Venture Debt Market: Europe



- Source: GP Bullhound & Dealroom

Expanding Lender Landscape

- Private credit as a broad asset class continues to attract fundraising dollars, with the venture debt category following suit resulting in an ever-growing lending landscape
- Higher-yield equity investors moving down the curve by branching into enterprise value lending / venture debt along with lower-yield players moving up the curve through increased exposure to venture debt and structured ”equity”
- In addition to net new lenders, some existing lenders are expanding their strategies to include venture debt both organically and by acquisition

COATUE

AG

Boundary Street

BLACKROCK

MONROE CAPITAL

P10

Acquired

Acquired

Acquired

palatine

SOLEUS CAPITAL

SYMBIOTIC CAPITAL

Top Corner CAPITAL

CHICAGOATLANTICGROUP
STRATEGIC CAPITAL PROVIDER

WTI

Key Trends

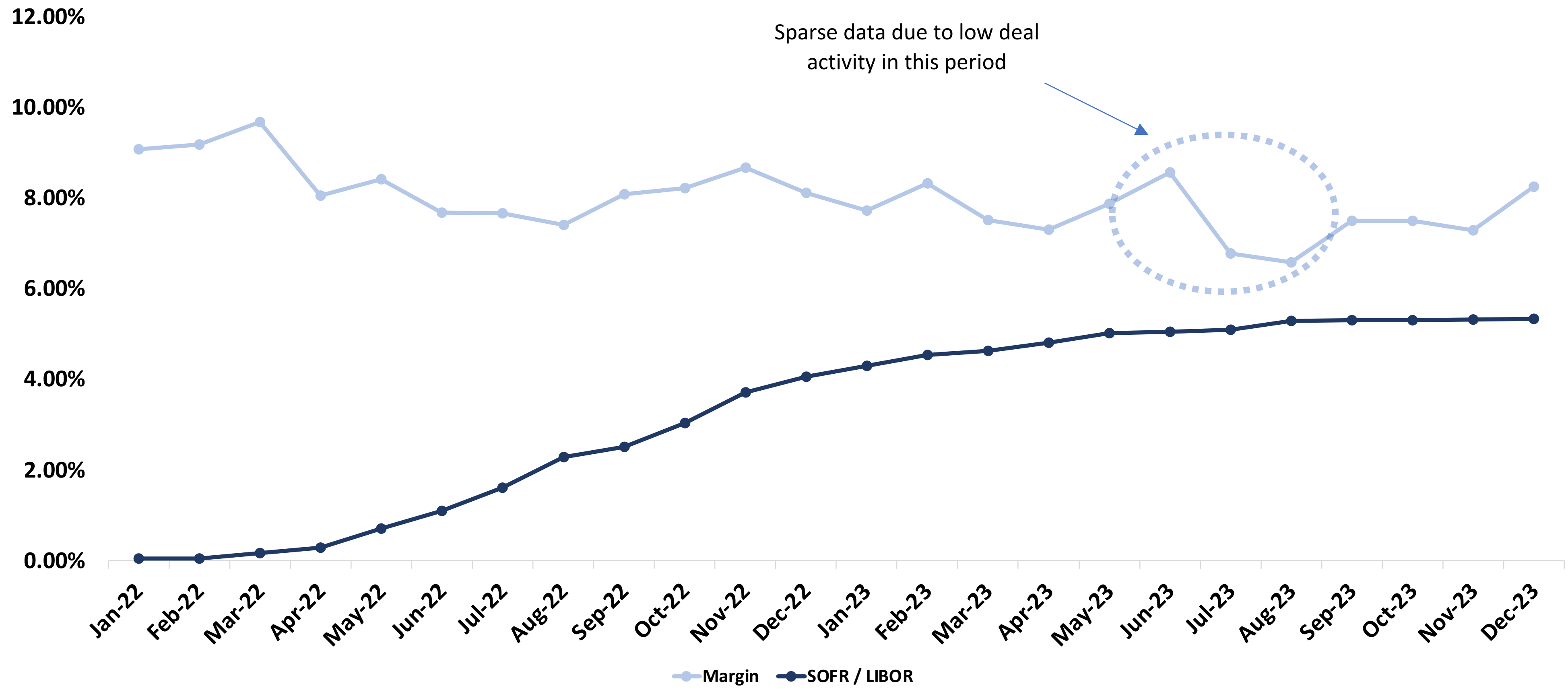
Increasing Frequency

- **Fully Financed Plans** – Lenders almost always want to ensure the debt, along with equity, if needed, enables the company to reach breakeven
- **Little reliance on Insider Round Valuations** – Lenders are heavily discounting valuations of insider rounds
- **Equity Raises** – More companies are raising debt alongside an equity raise for various use cases
- **Hold Sizes** – Many lenders' hold sizes have increased as fund sizes have increased. However, several larger funds have shown reduced hold sizes leading to more clubbed deals.
- **Base Rate Floors** – Lower SOFR / Prime floors continue to bear significance in a flat to expected declining rate environment

Decreasing Frequency

- **Leverage Levels –** Lenders have less appetite to compete via higher leverage (either via loan-to-value or Debt:ARR)
- **Deal Prioritization** – Lenders' originations pipelines grew significantly post-bank crisis, bringing "bank-risk" debt into the non-bank market, and limiting appetite for lower quality deals
- **Competing with cash flow lending –** enterprise value lending is getting more attention within firms that do both as yields converge with cash flow yields

2023 Recap: Pricing



- Source: Armentum proprietary database.
- Data includes Prime margins translated to SOFR margins
- Under 5% on Armentum Partners transactions during this period were “bank” deals

Aftermath of 2023 Banking Crisis

- The collapse of Silicon Valley Bank ("SVB"), First Republic, and Signature Bank created a lack of confidence in regional banks
  - Mixed willingness to re-engage with SVB post First Citizens acquisition, with some comfortable to re-engage, while others remain skeptical
- No other bank has managed to re-create the presence that SVB had → Numerous banks have expanded their market share and recruited post-crisis, but no one bank dominates
- Banks' historical requirement to maintain 100% of a borrower's cash deposits has eased, now permitting limited deposits with other banks
  - Understanding deposit concentration has become an increasingly important part of the non-bank lender diligence process
- Stemming from the crisis, there is more regulatory scrutiny on venture lending, which is expected to lead to banks being more conservative
- Private credit continued, virtually unbothered and minimally impacted by banking crisis

2023 Recap → 2024 Ahead: Banks

Trend	Support
Several banks benefited from the demise of SVB	• Total (bank) venture debt in 2023 ~ $9 billion, down from ~$14 billion in 2022 • SVB with ~20% market share vs. nearly 50% a year ago • Several banks (out of 20) with nearly 10% market share….market still relatively concentrated
Banks place less importance on equity syndicate	• Approximately 50% of banks cite relationship to and strength of equity syndicate (down from over 90% in 2022) • Several banks now more focused on business model and cash runway, relying less on equity investors for future investment
Banks are proactively managing what they believe will be losses in 2024 and 2025	• Most banks have not yet realized losses • There is an expectation that losses will start showing up, in earnest, late this year
HSBC showing momentum	• With a little over one quarter of originations, already competing with largest players for annual volume market share

What to Expect: Venture Investor Sentiment

View of Venture Debt

- Most venture firms had “uniform” policies / views, while a few had views that varied from partner to partner
- **Early-Stage Investors**
  - Approaching portfolio company borrowing more carefully than in the past
  - Still trying to understand who key (bank) lenders are now as there as been a lot of personnel movement (“musical chairs” as more than one investor said)
  - Many are focused more on personal contacts vs. the business card that contact now carries
- **Late-Stage Investors**
  - No change to view of or approach to borrowing
  - Spending more time understanding “new” structural features in this higher rate environment to conserve cash

Key Decision Factors

- Most venture investors offered that the venture debt market seemed tougher to navigate today than a year ago but that key decision factors have not really changed
- Lender reputation and deal terms “matching” intended use of proceeds were most important factors in assessing debt transactions
- Lender reputation was most important to most U.S. venture investors, while deal terms “matching” was most important to most European venture investors
- No single venture investor cited debt pricing as the most important determinant in selecting a lender

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