Interest grows in venture debt

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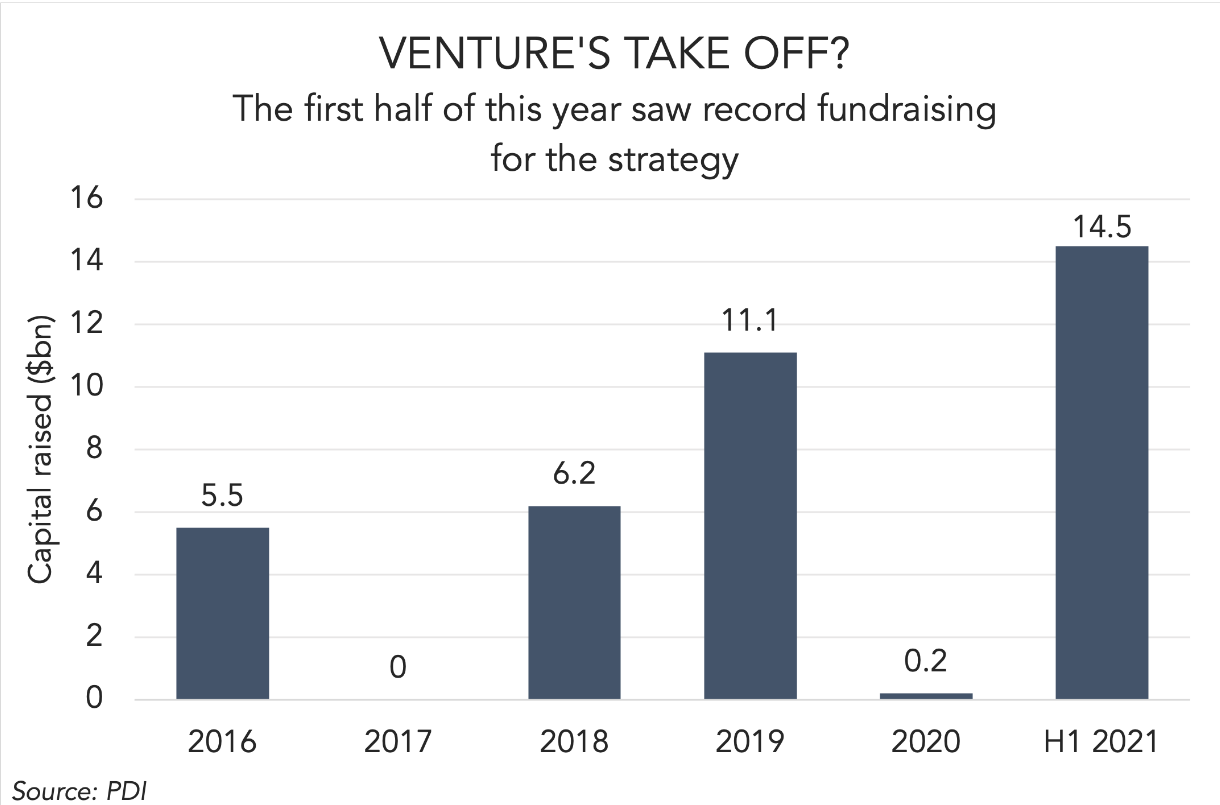

It's still a relatively unknown corner of the private debt universe, but venture lending is attracting more support.

Venture debt is a small but growing part of the private debt landscape looking to fund small but very high-growth companies to help them reach their next stage in development.

In the equity world, the role of venture capital is well established, providing funding for companies ranging from start-ups through to those that are profitable and delivering risky but potentially lucrative returns to investors.

In debt, entrepreneurs are still getting to grips with the new array of financing options now being offered by alternative lenders. But recent research shows use of debt among early-stage firms is high.

Venture lender Runway Growth Capital surveyed entrepreneurs on their experiences as part of its *Venture Debt Review 2020* and found that more than 80 percent have used the product to fund their business. Furthermore, a majority said they feel venture debt has become more attractive in the past 12 months.

The amount of venture debt being issued has grown steadily too, with $25 billion of transactions in the US in 2019 according to data from PitchBook, compared to $135 billion of venture capital activity in total.

David Spreng, chairman, CEO and CIO of Runway, told us: “We’re seeing a continuation of a long progression to accepting venture debt and the pandemic has accelerated that process. We increasingly see mainstream business publications taking an interest in venture debt.

“We’ve also seen institutions such as the European Investment Bank say that debt is an important part of the venture ecosystem.”

However, not everyone in the venture debt world is convinced that its profile is high enough.

Mark Helwani, founder and CIO of specialist venture lender i80 Group, said he is doubtful that a majority of entrepreneurs have used venture debt.

“That said, things are getting better,” he added. “Four years ago, no one had heard about us. When we speak to the largest VCs in the market, they’re often amazed to hear this kind of product exists and want to know more about how to integrate it into their portfolio companies.”

Helwani said venture debt is well understood by most VCs today, but often is looked at as simply a supplement to equity funding rounds, which can prevent the asset class from reaching its full potential within the venture capital ecosystem.

(Past performance is no guarantee of future results.)