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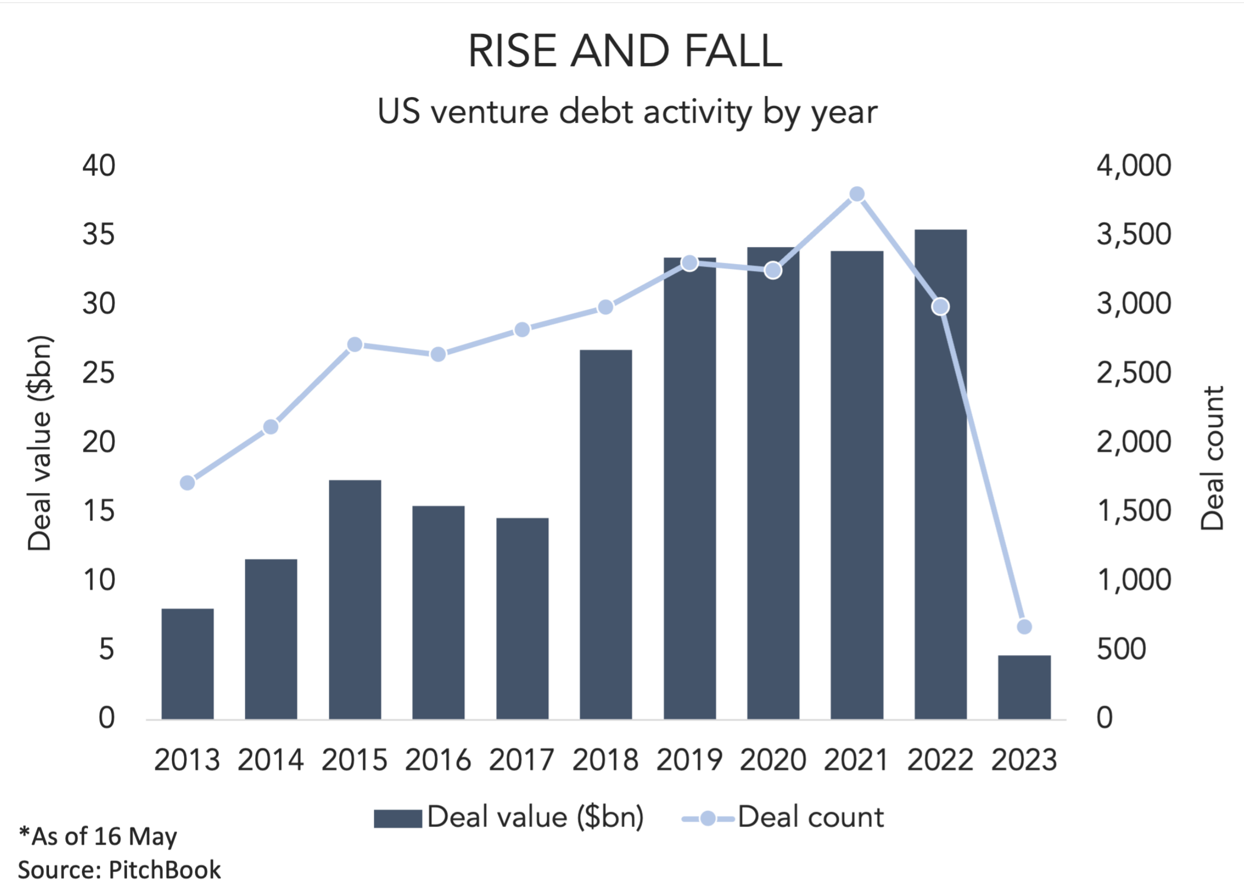
Filling the void in venture lending

Private Debt Investor | July 5, 2023



Lending to growth and venture-backed firms has been challenging in early 2023, but there are signs of change.

The regional banking crisis precipitated by the turmoil that started with Silicon Valley Bank in March must be seen in a larger context – as an accelerant of a mega-trend towards non-bank lenders that many say began with the global financial crisis.

But SVB’s bankruptcy had less to do with bad loans and more with its position in the venture ecosystem. “SVB was literally the commercial banker to the venture and growth world,” a market source told *Private Debt Investor*. “They didn’t take credit risk. They were a victim or party to this overall implosion of the venture growth space.”

That space is being constrained by a moribund market for mergers and acquisitions and initial public offerings, which are inhibiting funds’ exits, alongside a collapse in valuations and funding for technology and biotech companies, to say nothing of increased recessionary pressures. This in turn has resulted in down rounds and restructurings for growth companies. All of which affects venture lending.

Another overarching issue is the malaise in the large-bank syndication market, which has steered direct lenders away from riskier venture debt toward less risky leveraged buyout deals. In all, this has created a vacuum for mid-market venture lenders to fill. Consequently, many venture lenders say they are now the busiest they have ever been.

Noah Shipman – a partner at Vancouver-based Vistara Growth, which invests in growth debt and equity to both sponsored and non-sponsored companies – says the firm has a record number of term sheets outstanding, and did its largest deal ever in April, soon after the drama at SVB unfolded.

Although Thoma Bravo doesn't compete with those like SVB that were lending to early-stage companies, the software and tech-enabled private equity firm's credit team has seen "a pretty meaningful pickup in pipeline activity in the last four to six weeks" among the larger, more established firms with which it does business, Oliver Thym, a partner on the credit team, told *Private Debt Investor* in June.

We might expect the subdued venture lending numbers in the chart above for 2023 to look rather more encouraging by year end.

(Past performance is no guarantee of future results.)