Venture Debt Explained

FUSE — CAPITAL

Extend your runway. Fuel growth. Increase your valuation.

If you're a fast-growing tech company that lacks cash flow and tangible assets, the chances are you struggle to raise debt from conventional lenders. Especially in the amount you need.

Challenges you need to overcome include:

- How to find a debt provider capable of servicing recurring revenue streams
- How to fill the funding gap between milestones such as equity rounds
- How to finance your growth without diluting equity or giving away personal guarantees

Fuse Capital helps you solve these challenges by brokering venture debt finance facilities that specifically cater to the needs of tech/digital businesses of the future.

You can use venture debt to replace, top-up and complement existing finance facilities. **In particular, the transaction is ideal for:**

- Extending your cash runway
- Fuelling growth strategies
- Enhancing liquidity and improving working capital
- Funding your way to profitability

But that's not all. You can also use venture debt as a financial cushion to protect your company from potential delays, a strategic pivot, or if it needs more cash than initially planned.

Key features of Venture Debt

You retain ownership
Supplementing equity rounds and scaling your business with non-dilutive venture debt preserves ownership. You don't have to share your future profits. You have one obligation - to pay off your loan within an agreed term.

You retain control
Venture debt lenders do not take a board seat.

Less expensive and time-consuming than equity
It can take six-eighteen months to obtain equity investment. It takes a maximum of three months to secure venture debt finance. Better still, your cost of capital doesn't scale with your company, unlike equity investment.

Helps you to attract future investors
Having the ability to raise debt endorses your viability and shows a competent capital mix.

Venture Debt vs Conventional Lending

Because tech startups have few assets on the balance sheet and tend to be cash-intensive, venture debt lenders look at credit differently.

Unlike conventional bank debt, venture debt lenders secure their loans against recurring revenue streams and intangible assets. Consequently, you can expect flexible structures and less restrictive terms.

What's more, venture debt lenders do not restrict your use of funds.

Typical venture debt transaction terms:

Your turnover is more than £2m
Typical term: 36-60 months
Amount: £2m-£50m
Loss-making or profitable
Timescales: 1-3 months

How Venture Debt finance works in practice

The Company: Rezatec
The Sector: SpaceTech
The Need: Extend cash runway and boost valuation

Selling a brand new, innovative product into international markets is challenging and expensive for an early stage high growth tech company.

Amongst other things, Rezatec needed to cover the cost of ongoing operations, hiring new staff and legal work.

When Rezatec found that the growth stages it needed to pass through on-route to profitability demanded more than traditional bank lending could offer, they sought help from Fuse Capital.

CEO Patrick Newton says: "When running an early stage, yet high growth tech business, it's a given that you'll encounter swings and roundabouts along the way. Venture debt terms, which are covenant-light, and include warrants to incentivise the lender, is the right solution for companies like ours."

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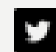 @fusegrowth