INTRODUCTION TO GROWTH LENDING

- **CRAIG NETTERFIELD**
  - Managing Partner, Columbia Lake Partners
  - craig@clpgrowth.com
  - @cnetterfield
  - @clpgrowth

- **MAURIZIO PETITBON**
  - Partner, Kreos Capital
  - maurizio@kreoscapital.com
  - @kreoscapital

- **CHRIS CHURCH**
  - Associate, Kreos Capital
  - chris@kreoscapital.com

FORMS OF DEBT

- **TERM DEBT**
  - Borrow a fixed amount
  - Equal principal and interest payments through the term
  - Growth lenders will allow funding of cash burn = Financing Growth

- **WORKING CAPITAL**
  - Borrow a floating amount from a Bank
  - Typically a percentage of accounts receivable
  - Not used to fund cash burn

TRADITIONAL APPROACH TO CAPITAL STRUCTURE

- **EQUITY FIRST**
  - Fund growth of company with equity (or profits)
  - Very costly for the founders
  - Time consuming
  - May force decision of growth vs. profitability
  - What happens if you need more time to reach that next value-increasing milestone?
- **DEBT WHEN YOU'RE PROFITABLE**
  - Banks will provide a working capital facility to profitable companies with a track record

NEW APPROACH TO CAPITAL STRUCTURE

- **GROWTH DEBT APPROACH:**

  Growing start-ups with venture backing can borrow even when burning cash

  - Less dilutive for founders and existing equity investors
  - Faster than bringing on a new equity investor (no valuation set).
  - Provides cash runway to help reach next milestone (revenue, major contract etc.)
  - No financial covenants or board seats
  - Take the cash and use it like equity

SUMMARY OF FINANCE OPTIONS

	BANK DEBT	GROWTH DEBT	EQUITY
Company Stage	Profitable	Series A/B	Any
Quantity	Lowest	Larger	Largest
Pricing	Lowest	Mid	Highest
Restrictions	Most	Light	Least
Duration	1-2 years	3-4 years	Long

STRUCTURE OF A GROWTH LOAN

Growth Debt Facility

Loan

- Security
  - Secured on assets of business. Don't need specific asset cover
  - Potential to carve working capital for bank financing
- Term – 3-4 years
- Repayments – Amortising – Loan capital paid down over time in fixed monthly payments. Therefore no refinancing risk
  - Interest only period where suitable
- Interest rate – low double digit %
- Fees – Small transaction fees – 1-3%
- Availability period – May be drawn over pre-agreed time. Normally no commitment fees
- Tranches - financing may be offered in stages conditioned upon the achievement of milestones

Warrant

Warrants help align interests with lender sharing in upside with shareholders

- Term – Normally exercised on company exit
- Amount – low double digit % proportion of the loan commitment. Typically resulting in 0.5-2.0% of cap table
- Exercise price – Last round or current price. Lender doesn't set valuation
- Parity of rights with investors

WHO SHOULD CONSIDER GROWTH DEBT?

Size and scale of business

- **Minimum stage –** VC backed, Series A/ B complete

- **Minimum size –** e.g. Revenues £1+

Stage of growth:

- **Who intend to use the funds for:**
  - Technology and product defined – Now want to accelerate growth
  - Fund a clear use/purpose with a payback plan (ROI)
  - To extend runway and to reach additional milestones for value inflexion point
  - Don’t want (or need) a new equity investor
  - To finance acquisitions
  - Allowing equity investors want to save reserves for next round

WHO SHOULD **NOT** CONSIDER GROWTH DEBT?

Size and scale of business

- **Too early stage –** Not VC backed, pre Series A
- **Have not reached minimum scale** – pre-revenue

Stage of growth:

- **Situations to avoid:**
  - Product/proposition discovery definition phase
  - Last resort financing as equity is unavailable
  - Low growth or turnarounds
  - When repayments cause create a burden on the company. Overleveraging hurts long term prospects
  - Short term bridge to round – only 1-3 months of cash in the business
  - To replace equity – Debt should be a complement
  - To fund a pivot of business model

CLP PORTFOLIO CASE STUDY

showpad

Product	Sales enablement software designed for mobile Sold as SaaS app
Stage at investment	Equity sponsors Hummingbird Ventures and Dawn Capital Revenues growing 100% YoY But - burning cash
Use of debt	Growth loan used to extend the cash runway, hit a higher annual recurring revenue number before next fundraising
Outcome	CLP's loan extended runway by 5-6 months without significant dilution Showpad had time to reach its revenue milestone with additional time/leverage to negotiate with new investors The Company raised a $50MM Series C Round in May'16 from new investors at a higher than expected valuation

KREOS PORTFOLIO CASE STUDY

Pharming

Product Ruconest, a drug for genetic condition Hereditary Angioedema which causes sudden inflammation in patients

Stage at investment Publicly listed on the Amsterdam Nasdaq
Kreos was lead investor in $40.0m senior loan and cornerstone investor in $12.5m convertible bond as part of $100.0m financing which included equity raise on public market

Use of debt Growth loan used to regain rights to distribute in USA from Valeant who was struggling at the time and had to divest quickly

Outcome With purchase of distribution rights, Pharming was able to improve its margins from 30% royalty to 100% of revenues
Ruconest generates high gross margins in a growing market in which Pharming has scalable production

THANK YOU!

BASIC USE OF GROWTH DEBT