IS YOUR BUSINESS READY FOR VENTURE DEBT?

In recent years, early- and growth-stage companies have increasingly looked to specialty debt solutions to leverage newly raised investment capital. Entrepreneurs, management teams, and early-stage investors must have credible plans on how these tailored debt solutions will benefit the overall enterprise moving forward. Below, we will discuss whether debt is right for you at this time and how it can enable your company to grow and succeed through a less-dilutive financial instrument.

To assess whether venture debt may be right for your business, consider the following questions:

Have you raised equity or convertible notes in excess of $1 million?

- ✓ Venture debt may be the right fit for you.
- ✗ If not, equity may be your solution for fundraising at this time.

Do you have commercial traction with your company's product(s)?

- ✓ Venture debt may allow you to scale without dilution.

Do you need 6 to 12 months of additional runway to hit one or more operational milestones?

- ✓ Venture debt offers longer terms to provide that extra runway.

Do you need capital to become cash flow positive?

- ✓ Venture debt is the perfect way for your company to become self-sustaining.

"As a fast-growing, privately owned startup in the Boston area, we were looking for funding opportunities that enabled access to liquidity for hiring but also allowed us to retain ownership and control of our company. MassDevelopment's Emerging Technology Fund (ETF) was the perfect mechanism for us to do so. Working with the ETF team has been wonderful, and because we were already focused on hiring in the incredible Massachusetts tech ecosystem, the focus of the ETF on Massachusetts worked well with our existing strategy."

— **Dr. Christopher Bouton**
Founder and CEO of Vyasa Analytics

Read interview with Dr. Bouton

The cost of venture debt to you and your growing company

Venture debt gives emerging-growth companies the cash without unnecessary dilution. The table below shows typical ranges for terms and costs from the private sector and the ETF, a venture debt program offered by the Commonwealth of Massachusetts.

Venture Debt Cost Comparison

Private Sector Venture Debt

Term	**2 to 4 years**
Interest-Only Period	**6 months to 1 year**
Covenants	**None to heavy**
Commitment Fee	**1% to 3%**
Interest Rate	**8% to 15%**
Cash Success Fee	**2% to 5%**
Warrant Coverage	**5% to 15% of loan amount**
Pre-Payment Penalties	✓

Emerging Technology Fund

Term	**5 to 7 years**
Interest-Only Period	**2 to 3 years**
Covenants	**Minimum liquidity**
Commitment Fee	**1%**
Interest Rate	**Fixed @ Prime + 225 or 325**
Cash Success Fee	✗
Warrant Coverage	**One year's interest**
Pre-Payment Penalties	✗

"While early-stage technology companies require equity capital to provide initial working capital needs, layering additional equity to scale the company is not always the right solution for every business. Longer-term, flexible debt solutions that leverage private equity for companies with initial revenue traction are proving successful for capital-efficient companies. Investors and CEOs alike are realizing that prudent, covenant-lite debt structures that align with realistic business models can provide a path to sustainable growth."

— **James Kenney**
Vice President and Program Manager of the Emerging Technology Fund

A creative financing solution from the Emerging Technology Fund

Venture debt is available from the Emerging Technology Fund (ETF), a program administered by MassDevelopment. The ETF helps growing emerging technology companies find the capital they need. It works with companies located in or relocating to Massachusetts that have strong management teams, demonstrated technical developments, proven product traction, and the ability to raise financing.

The ETF offers term loans to emerging technology companies to hire talent, purchase machinery and equipment, improve or build out their facilities, and purchase raw materials.

Recent success stories

Here are some recent examples of companies moving forward with the help of venture debt packages through the ETF:

Acacia Communications

Problem: Acacia Communications needed financing for leasehold improvement and equipment purchases to help fund substantial projected growth.

Solution: The ETF provided a $3 million 7-year term loan in conjunction with Acacia's Series A equity raise.

Result: Acacia Communications went public on NASDAQ and is now a $2 billion publicly traded company.

Vyasa Analytics

Problem: Vyasa Analytics, a life sciences-focused, deep-learning startup, recently exited stealth mode and was looking to augment founder-injected equity to rapidly build out its team.

Solution: The ETF provided a $1.8 million 6-year term loan to jump-start the hiring process.

Result: Vyasa has been rapidly growing both its top line and its employee base to support strategic relationships with numerous Fortune 1000 life science companies.

Zylotech

Problem: Zylotech was looking to scale its team to support a go-to-market strategy for its artificial intelligence-powered customer analytics platform.

Solution: The ETF provided a $500,000 5-year term loan to allow Zylotech to scale its team.

Result: Zylotech is thriving here in Massachusetts and recently raised a $5.5 million venture round led by Glasswing Ventures.

A smart option for early-stage companies

Venture debt through the ETF offers long terms and low rates to grow your company in Massachusetts.
To learn more, visit the Emerging Technology Fund at massdevelopment.com/etf.

MassDevelopment