



**THE VENTURE DEBT
CONFERENCE**
MARCH 31, 2023



**Horizon
Technology
Finance**

*A LIFE SCIENCES & TECHNOLOGY
VENTURE LENDING PARTNER*

Venture Debt Underwriting Models (in a post-SVB world)

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Horizon Technology Finance

A LIFE SCIENCES & TECHNOLOGY VENTURE LENDING PARTNER

1. Introduction to Horizon

2. Investor Dependent vs. Financial Dependent Underwritings

3. Venture Lending in Today's World



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Horizon Overview

Key markets

Life Science, Technology,
Healthcare IT,
Sustainability

Manage public BDC
(NASDAQ: HRZN)
and private funds

Nationwide platform
32 employees
across 6 offices

\$3 billion in fundings
to 315 companies
since inception

Monroe Capital to
acquire Horizon
investment adviser

Deeply experienced,
cycle-tested
management and
investment team



Venture Debt in the News

“Venture debt...involves betting big on fledgling startups.” ❌

Business Insider, March 14, 2023

“...operate outside the guardrails of traditional lending...so-called “shadow bankers”.” ❌

Business Insider, March 15, 2023

“...venture debt as an alternative when they can’t raise another round of capital.” ❌/✅

Wall Street Journal, March 18, 2023

“...expected that such capital will be less available and more expensive.” ?

CNBC, March 19, 2023

“The markets will reopen. These are attractive companies, and they’re solving big problems.” ✅✅

Medtech Dive, March 20, 2023





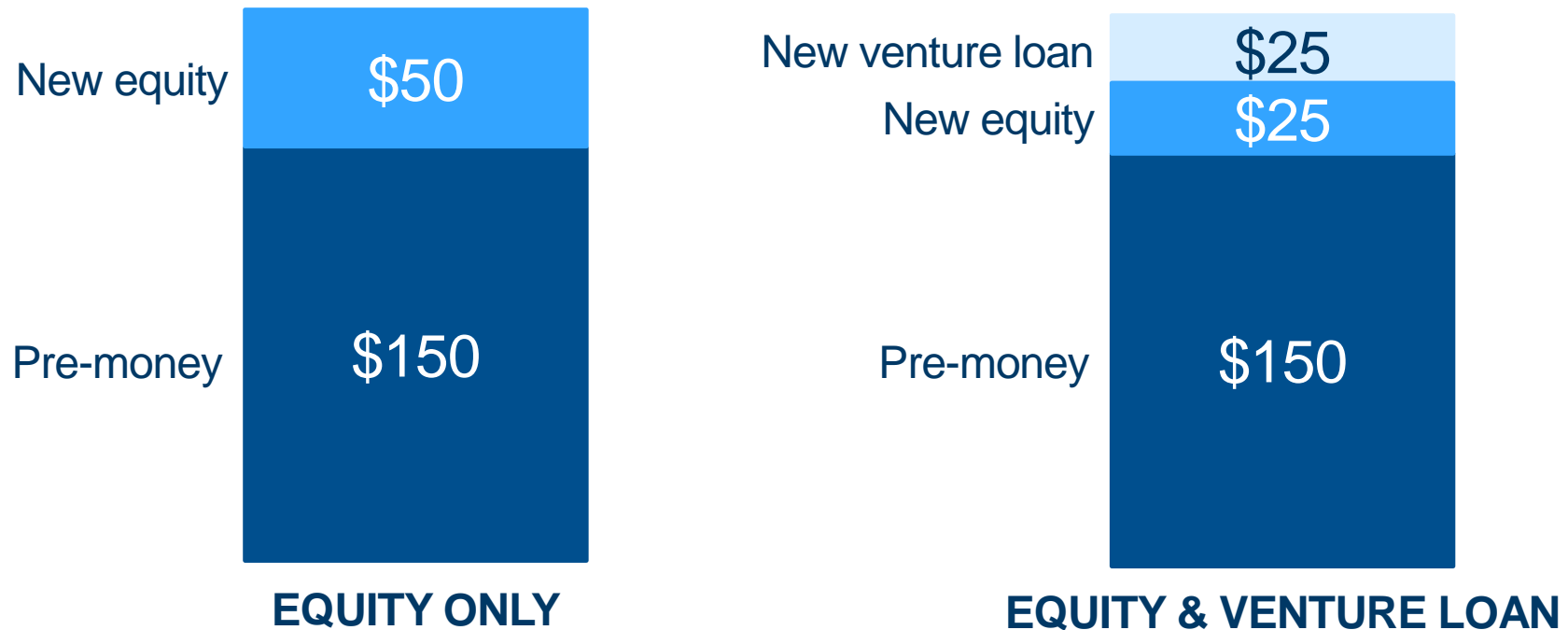
Proven Investment Criteria

General Considerations	Investor Dependent	Financial Dependent
<p>Loan to Value</p> <p>Size of loan provides sufficient cushion to enterprise value to encourage continued equity support in off-plan scenarios.</p>	<p>Investor support</p> <p>Supported by one or more experienced VC or PE investors. Syndicate makes sense. Alignment on future capital needs.</p>	<p>Performance & plan</p> <p>Operating plan projects continued value creating performance. Historical metrics support plan.</p>
<p>Timeline & milestones</p> <p>Value-creating milestones must be achievable within stressed cash runway models. No binary risk.</p>	<p>Equity history</p> <p>Total raised, valuation history, new leads or inside rounds, fund level dynamics.</p>	<p>Liquidity & cash resources</p> <p>Amount and sources of liquidity, monthly burn and cash runway, path to profitability.</p>
<p>Management</p> <p>Leadership has in-market experience and success at development stage companies.</p>	<p>Market opportunity</p> <p>Addressing large market opportunity with competitive advantages and protected IP.</p>	<p>Exit strategy</p> <p>Rational expectations around exit timing, source, valuation comparables.</p>





Venture Lending Creates Value and Mitigates Risk

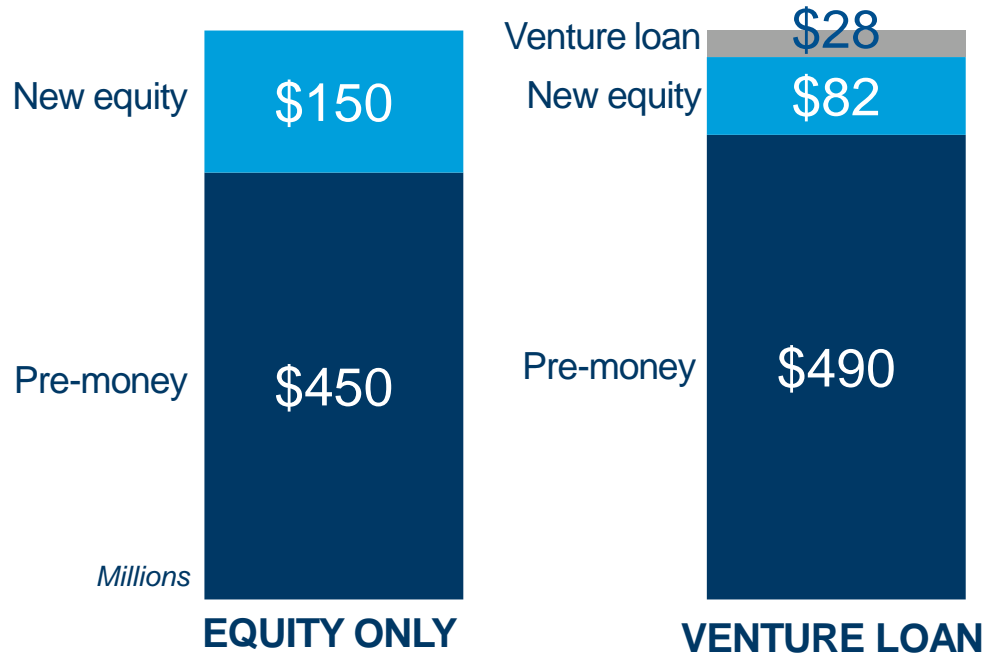


- \$150 million pre-money valuation
- \$50 million of capital to get to exit event
- Compare: 100% equity vs. 50/50 split of new equity and venture loan



Venture Lending Mitigates Risk and Creates Value

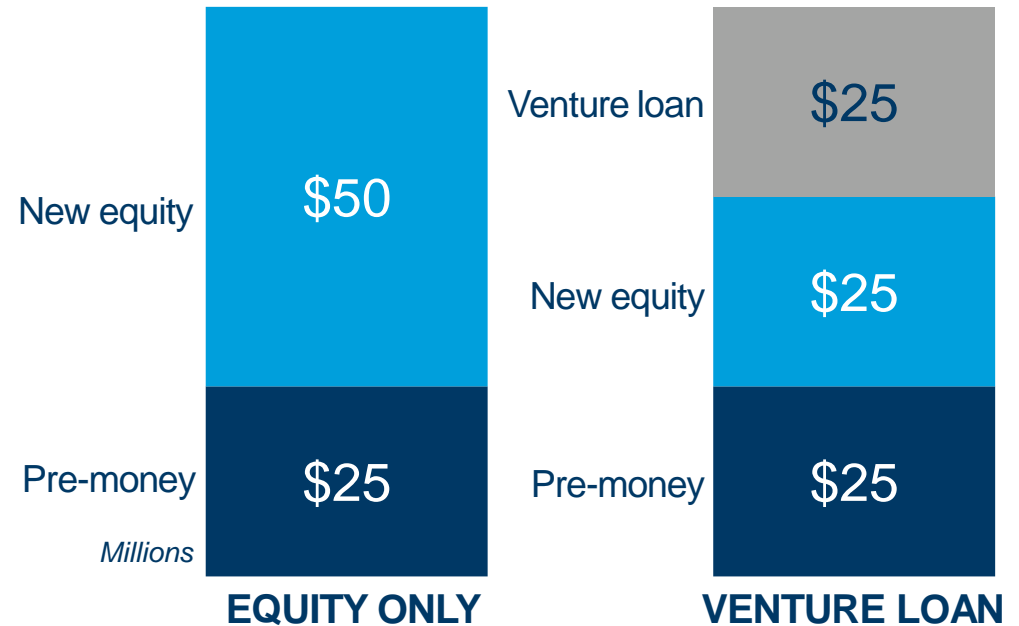
Upside Case 3x growth in exit value



Returns

Valuation	--	Principal & warrant gain
New equity	3x	3.3x
Pre-money	3x	3.3x

Downside Case 50% decrease in exit value



Returns

Valuation	--	Principal recovery
New equity	Return of capital	Return of capital
Pre-money	\$25M recovery	\$25M recovery



Proven Investment Criteria

Investor Dependent

Investor support

Supported by one or more experienced VC or PE investors. Syndicate makes sense. Alignment on future capital needs.

Equity history

Total raised, valuation history, new leads or inside rounds, fund level dynamics.

Market opportunity

Addressing large market opportunity with competitive advantages and protected IP.





Case Study: Investor Dependent Underwriting

Company: early clinical-stage biotech (Phase I and pre-clinical)

Seeking \$20 million refinance plus additional \$10 million working capital

General Considerations

Loan to Value

\$500 million recent valuation
Potentially inflated valuation

Refi = <5% LTV
Total request: 5% LTV

Timeline & milestones

Multiple shots on goal
Several near-term milestones within 12-18 months

Management

VCs replaced founding CEO with development stage
experienced CFO with several successful startup exits

Investor Dependent

Investor support

Three top tier life science VCs who often invest together
Expect to do several more private rounds prior to IPO

Equity history

\$240M raised in four rounds
New leads at increasing PPS
Potentially inflated valuation

Market opportunity

Large market, \$B+ drug potential
Already signed one early stage big pharma partnership



Proven Investment Criteria

		Financial Dependent
Team & track record Experienced management team with track record of successful exits. Strong relationships with industry and financial partners.	Market opportunity Large, growing market with high barriers to entry. Clear competitive advantage and strong network.	Performance & plan Operating plan projects continued value creating performance. Historical metrics support plan.
Product & technology Differentiated product with strong IP protection. Scalable technology and clear path to profitability.	Supply chain Stable supply chain with strong relationships. Efficient operations and clear path to profitability.	Liquidity & cash resources Amount and sources of liquidity, monthly burn and cash runway, path to profitability.
Management Experienced management team with track record of successful exits. Strong relationships with industry and financial partners.	Market opportunity Large, growing market with high barriers to entry. Clear competitive advantage and strong network.	Exit strategy Rational expectations around exit timing, source, valuation <u>comparables</u> .





Case Study: Financial Dependent Underwriting

Company: growth stage manufacturer of environmentally-friendly packaging insulation material. Seeking \$40 million to expand production lines and additional runway.

Seeking \$40 million to expand production lines and additional runway.

General Considerations	Financial Dependent
<p>Loan to Value</p> <p>\$200 million recent valuation supported by financial metrics Venture loan to be subordinate to \$15 million bank line 25%-30% LTV</p>	<p>Performance & plan</p> <p>Strong growth history at improving margins New term projections supported by pipeline Some customer concentration risk</p>
<p>Timeline & milestones</p> <p>Increase capacity to support strong customer demand Key milestones are financial-continued growth, lower burn</p>	<p>Liquidity & cash resources</p> <p>Variable burn depending on CapEx requirements Operational burn heading to CF+</p>
<p>Management</p> <p>Founding team (CEO, COO, CTO) remain Each had previous success in industry</p>	<p>Exit strategy</p> <p>Get to \$100M+, profitable, growing May seek large growth round prior to exit</p>



Venture Lending in 2023 and Beyond

What hasn't changed

- Fundamentals of venture lending underwriting models remain intact
- Significant capital availability across the venture ecosystem
- Who you partner with for capital is just as important as the terms of that capital

What is changing

- Risk/Reward of inexpensive bank debt not as attractive to lenders or borrowers
- Venture loan pricing and warrant coverage
- Re-evaluation of factors needed to take a subordinated position to a tech bank

Key takeaways

1. Venture lenders will continue to provide valuable financing to dynamic companies innovating disruptive technologies
2. Borrowers and VCs should partner with an experienced lender, particularly during times of dislocation in the market





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