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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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

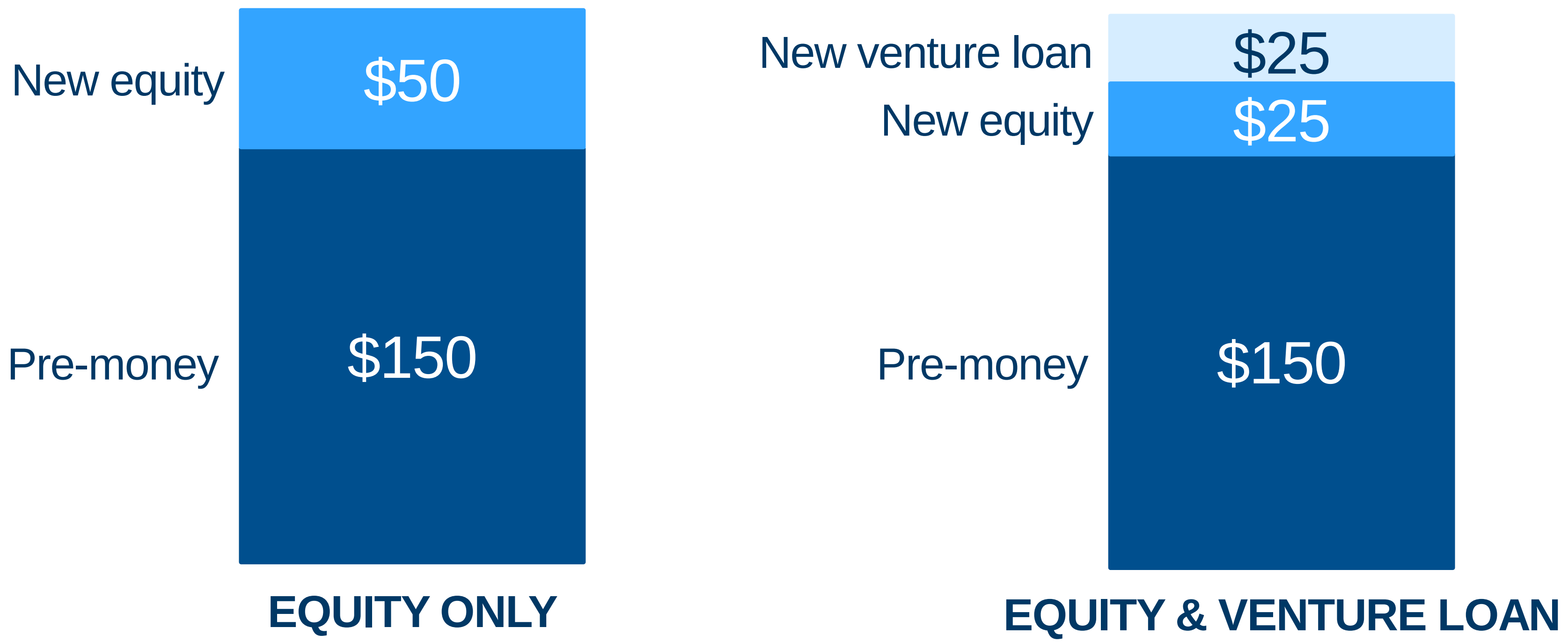
"The markets will reopen. These are attractive companies, and they're solving big problems."

Medtech Dive, March 20, 2023

Proven Investment Criteria

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

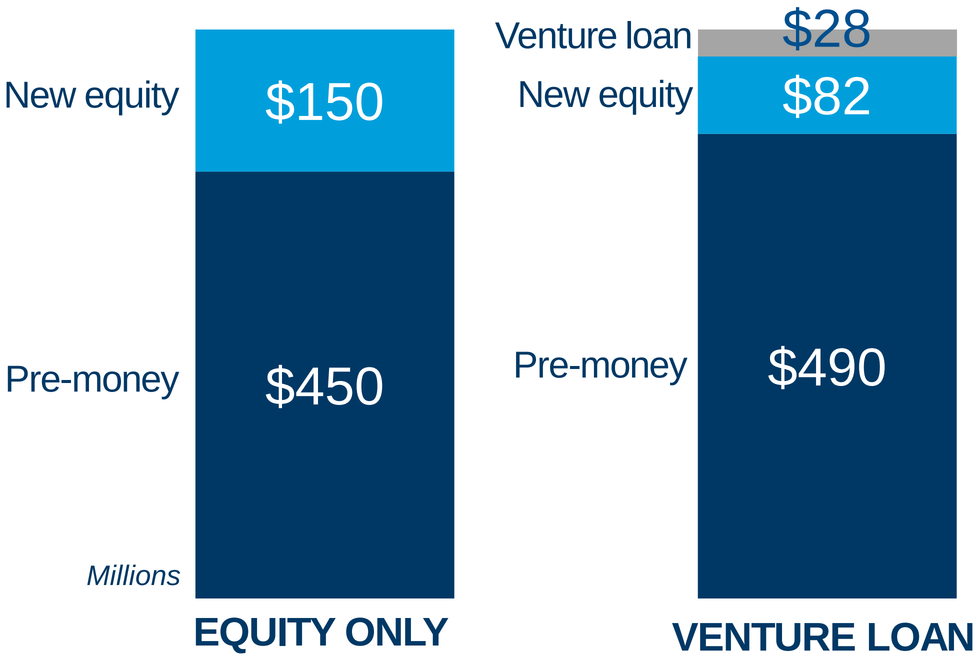
Venture Lending Creates Value and Mitigates Risk



- $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

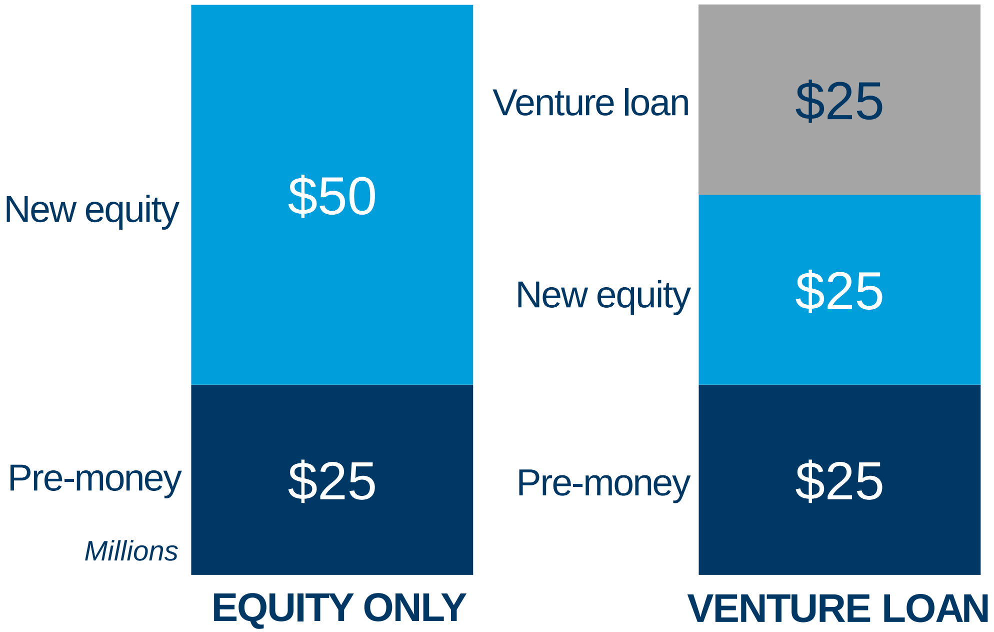
Upside Case
3x growth in exit value



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	Investor Dependent
Loan to Value $500 million recent valuation — Refi = <5% LTV Potentially inflated valuation — Total request: 5% LTV	**Investor support** Three top tier life science VCs who often invest together Expect to do several more private rounds prior to IPO
Timeline & milestones Multiple shots on goal Several near-term milestones within 12-18 months	**Equity history** $240M raised in four rounds New leads at increasing PPS Potentially inflated valuation
Management VCs replaced founding CEO with development stage experienced CFO with several successful startup exits	**Market opportunity** Large market, $B+ drug potential Already signed one early stage big pharma partnership

Proven Investment Criteria

Financial Dependent

Performance & plan

Operating plan projects continued value creating performance. Historical metrics support plan.

Liquidity & cash resources

Amount and sources of liquidity, monthly burn and cash runway, path to profitability.

Exit strategy

Rational expectations around exit timing, source, valuation comparables.

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

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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