Guide to Financing Growth

Silicon Valley Bank

Silicon Valley Bank Financial Group

23,000+
Technology and Life Science clients

1,500+
Venture Capital and Private Equity clients

$81B
Average total client funds

$18B
Average loan balance

Investment Grade Ratings*	MOODY'S	S&P	DBRS
SVB FINANCIAL GROUP	A3	BBB	A (low)
SILICON VALLEY BANK	A2	BBB+	A

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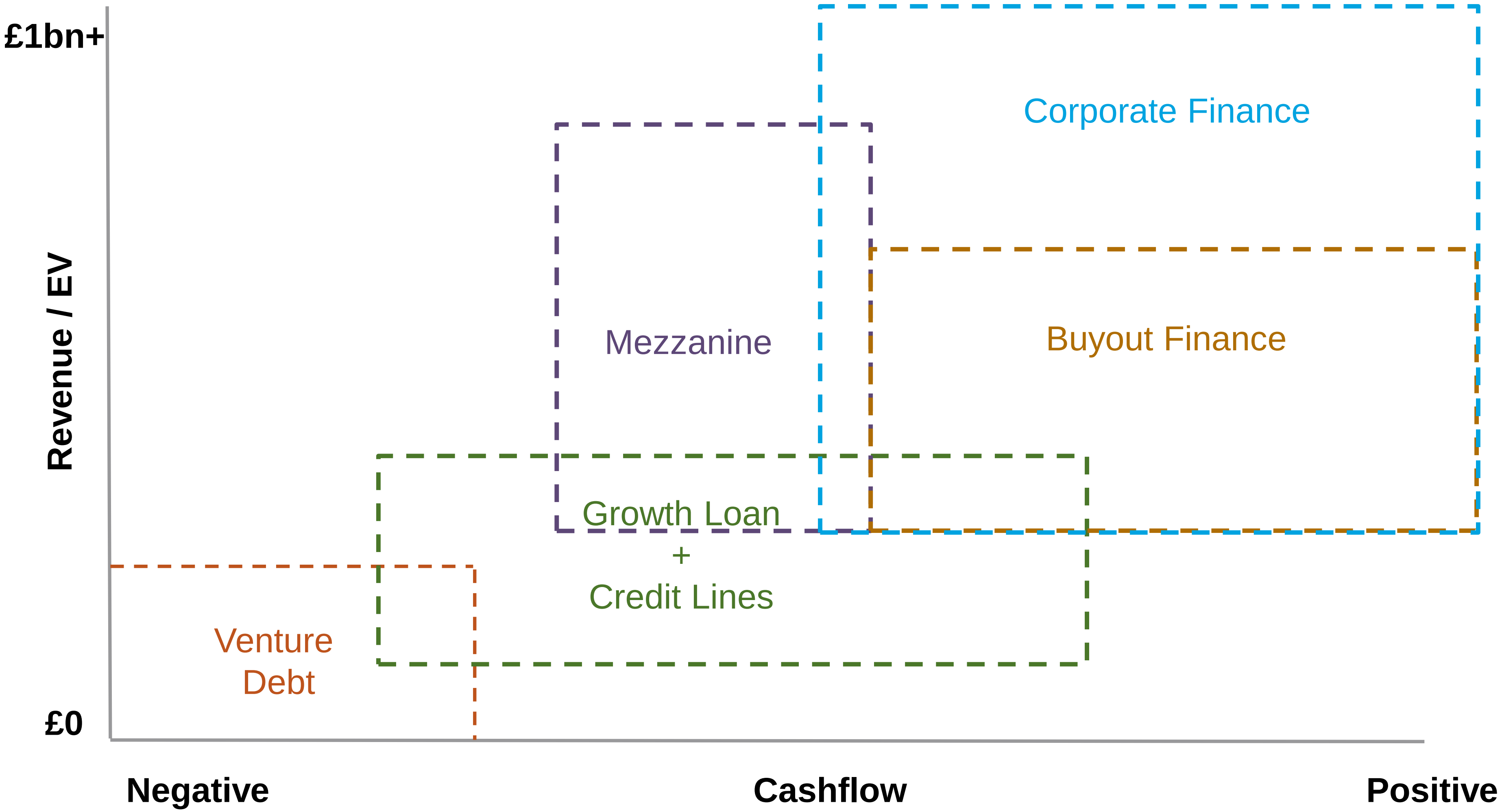
*Ratings as of Q2 2016

Our Banking Services

We offer banking services in the UK, US and China including;

- FX, Treasury, Cards, Cash Management
- Dedicated Relationship Manager in UK or US
- Telephone banking 08.30am-1.30am GMT / 5.30pm PST

SVB Scalable Debt Finance for All Stages of Growth



Three Key Elements of Debt Finance

1. Structure
(Covenants)

2. Collateral
(Receivables or Deferred Revenue)

3. Price

- No structure and no collateral (Venture Debt or Mezzanine) = High price
- Some structure and/or collateral (AR Line or Growth Loan) = Mid price
- High structure and/or collateral (Revolving Line or Buyout) = Low price

Venture Debt Loan (With Warrants)

Business Profile

- Startup, typically Series A, B & C
- Fast growth but loss making
- “Venture” risk as still refining model
- Likely to require additional equity investment

Debt purpose:

- Complement to equity
- Extend cash runway
- Fund capex, R&D

Benefits

- Flexible as no covenants and no restriction on use of debt proceeds
- Less expensive than equity
- Saves dilution for founders or execs
- Preserves dry powder for funds

When not to use:

- Instead of equity
- For short term bridge to round without certainty of funding
- For more mature businesses with stable revenue streams and assets (as other facilities more cost efficient)

Terms

- Typical debt/equity ratio <35% to avoid overleveraging too early
- No covenants
- Highest price senior debt; pricing includes interest, arrangement fee, warrants, early repayment fee and/or backend/success fee

Repayment schedule:

- Draw period (months)
- Interest-only period (months)
- Monthly repayments of principal + interest over 33-36 months
- Senior secured over all assets

Growth Loan (With Covenants)

Business Profile

- £5m+ revenues
- Likely Series B+
- High growth with established revenues
- Can drive to breakeven if needed
- May or may not require additional equity

Debt purpose:

- Growth capital
- Liquidity buffer
- Expedite growth/hiring
- Geographic expansion

Benefits

- Less expensive than venture debt
- Increased structure (covenants) reduces price
- Can be used in combination with working capital credit facility

When not to use:

- Volatile or early stage businesses without sustainable model
- If company won't support covenants

Terms

- 1-2 covenants = P&L and/or balance sheet test(s)
- Pricing includes arrangement fee, interest, early repayment fee and/or backend/success fee (sometimes warrants)

Repayment schedule:

- Draw period (months)
- Interest-only period (months)
- Monthly repayments of principal and interest over 33-36 months
- Senior secured over all assets

Accounts Receivable Credit Line

Business Profile

- £5m+ revenues
- Likely Series B+
- May or may not require additional equity
- Some leverageable balance sheet assets
- On path to breakeven (or can drive to breakeven if needed)

Debt purpose:

- Working capital
- Liquidity

Benefits

- Committed line of credit based on receivables so usually lower cost than term loans
- No repayments of principal debt and frees up cash for investment
- Scalable solution as availability increases as business grows

When to use:

- For growthstage businesses with Balance Sheet assets
- For short term financing to cover cash swings

When not to use:

- When long term capital required
- To support losses

Terms

- Facility is revolving with credit availability based on formula linked to AR (e.g. 80% advance on US & Europe debtors)
- 0-2 covenants = P&L and/or balance sheet test(s)
- Typically no warrants
- Pricing includes arrangement fee, interest, early repayment fee, non-utilisation fee
- Senior secured over all assets

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SaaS Credit Line

Business Profile

- £500k+ MRR and growing
- SaaS businesses
- Series B+
- >60% Annual Recurring Revenues and low churn
- May or may not require additional equity

Debt purpose:

- Finance CAC
- Working capital
- Liquidity

Benefits

- Committed line of credit that helps cover cash burn for SaaS
- No repayments of debt principal
- Scalable financing as availability increases as business grows
- Frees up cash for investment
- Not tied to balance sheet assets

When not to use:

- Where risks in delivery of service or high churn
- Not suitable to finance runway extension

Terms

- Facility is revolving with credit availability based on formula e.g. 2x to 4x MRR
- Usually a covenant and/or warrants
- Pricing includes arrangement fee, interest, early repayment fee, non-utilisation fee
- Senior secured over all assets

Revolving Credit Line

Business Profile

- £15m+ run-rate revenues
- Medium to large businesses in steady or growing market
- Sustainable business model, long term customers, good margins
- Core business is profitable and cashflowing (or is able to be)
- Privately owned or publicly listed
- No additional funding required

Debt purpose:

- Working capital
- Minor acquisitions
- Recapitalisations
- Increase liquidity

Benefits

- True revolving facility; highly flexible and can be drawn at will
- No limitations on borrowing availability
- Can be used for broad range of purposes e.g. to cover short term financing or seasonal cash swings
- Often paired with term loans

When not to use:

- When longer term capital is required
- For smaller businesses with unproven models or unpredictable financials

Terms

- Capital repayments at borrower’s discretion although with monthly, quarterly or bi-annual “clean down” repayment of credit line
- 1-5 year term
- 1-2 covenants = balance sheet and/or cashflow test
- Pricing includes arrangement fee, interest, non-utilisation fee, early repayment fee
- Senior secured over all assets

Other Senior Credit Lines We Offer

Fintech “settlement lines”

- Formula line based on advancing finance against incoming funds in transit
- Helps fund working capital e.g. where 2-3 days delay in payment delivery
- Can be used by finance marketplaces and money transfer businesses

Inventory line of credit

- Formula line based on 35-50% advance against finished goods (hardware)
- Verified by annual field audit (or more frequently if needed)
- Can be standalone facility, or component of larger AR facility (see slide 7)

Letters of credit (e.g. for rent, exports)

- Cash secured, or reserved under existing credit line / security package
- Used to prove funds/creditworthiness to suppliers or landlords (and preserve cash)

Bespoke lines of credit

- Finance working capital for gaming business with in-app purchases

Mezzanine Loan (Junior Debt)

Business Profile

- £15m+ revenues
- Stable trajectory and EV
- 30%+ YoY growth
- Series C+ or growth equity backed
- Breakeven < 24 months
- Exit in 2-4 Years

Debt purpose:

- Growth capital
- Acquisitions
- Recapitalisation
- Increase balance sheet liquidity

Benefits

Flexible growth capital;

- Limited structure
- Junior debt that sits between senior debt and equity
- Costs comparative with venture debt but cheaper than equity

When to use:

- Businesses nearing an exit (IPO or M&A)

When not to use:

- For earlier stage businesses with product risk or business model risk
- Where EV is unstable and exit strategy not defined

Terms/Structure

- Typically drawn at close but may be tranched (based on milestones)
- Low capital repayments, largely back-ended or 'bullet' at maturity
- 2-5 year term
- Covenants = none or 'cov lite'
- Pricing includes arrangement fee, interest, early repayment fee and warrants
- Security = junior/second ranking

Cashflow Term Loan

Business Profile

- £25m+ run-rate revenues
- Medium to large businesses in steady or growing market
- Sustainable business model, long term customers, good margins
- Business is profitable and cash flowing
- Privately owned or Publicly listed

Debt purpose:

- Acquisitions
- Recapitalisations

Benefits

- Traditional financing structure and lower cost of capital for more mature businesses
- Can be used for a multitude of corporate purposes, e.g. acquisitions, share buy-backs etc.
- Complement to Revolving Credit Line

When not to use:

- For new/smaller businesses with unpredictable financials

Terms/Structure

- Typically leverage <2.5x EBITDA
- Regular capital repayments but with up to 50% bullet
- Up to 5 year term
- Covenants = EBITDA Leverage and Cash Flow Cover
- Pricing includes arrangement fee, interest, early repayment fee
- Senior secured over all assets

Buyout Finance (Private Equity Backed)

Business Profile

- £10m+ run-rate revenues
- Medium to large businesses in steady or growing market
- Sustainable business model, long term customers, good margins
- Strong history of profitability and cash flows
- Growth-Equity or PE backed

Debt purpose:

- Buyouts
- Acquisitions
- Recapitalisations

Benefits

- Used in support of a bid from a financial 'Sponsor' (PE firm)
- Standardised 'LMA' docs provide easy way to syndicate and scale facilities over time (e.g. for M&A)

When not to use:

- Without ‘Sponsor’ backing
- For new/smaller businesses with unpredictable financials

Terms/Structure

- Debt <50% of total capitalisation
- Low capital repayments, largely back-ended or 'bullet‘ at maturity
- 5-7 year term
- Covenants = EBITDA Leverage and Cash Flow Cover
- Pricing includes arrangement fee, interest, early repayment fee
- Senior secured over all assets

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