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Capital at risk. The value of investments and the income from them can fall as well as rise and are not guaranteed. Investors may not get back the amount originally invested.



Ross Ahlgren, Managing Director, BlackRock Growth Debt



Marten Vading, Managing Director, BlackRock Growth Debt

the opportunity set in growth and venture debt is that companies are staying private for longer. As a result, they need flexible financing that won't dilute existing equity. These larger private companies are seeking lenders to help fund acquisitions or to invest in increasing their EBITDA profitability, rather than chasing growth at all costs.

At the same time, there has been a slowdown in growth equity capital raises for more mature private companies. In many cases, this is because these companies raised growth-equity rounds at elevated valuations, so that taking further equity financing comes at the cost of accepting a lower overall valuation. This makes debt more appealing as these companies try to finance growth and cover financing gaps that arise when liquidity events are delayed by market volatility.

Against this backdrop, equity sponsors continue to raise and deploy capital into growth and venture companies, adding to the resiliency of potential borrowers. This benefits lenders who have transaction experience through multiple cycles, and established sponsor relationships.

The rates paid by borrowers have risen as the market changes. And many borrowers have been able to manage through inflationary pressures, especially software businesses that rely very little on raw materials or supply-chain logistics. Among these companies, we have seen a shift from 'growth at all costs' to a focus on maintaining growth efficiently, which we like to see as a lender.

What opportunities are you seeing in the space? What risks?

Marten Vading: The opportunity set for growth and venture debt investors is expanding, according to Pitchbook. But it's worth noting that the unique characteristics of this market mean that success will still vary widely, based on several factors.

Growth and venture debt

A new landscape for opportunity in private credit portfolios

It's an exciting time for growth and venture debt investors, with a wider range of high-quality opportunities emerging in recent years. Companies are staying private for longer¹, while venture capital and growth equity funds continue to invest capital, all of which creates more appetite among borrowers.

In the U.S., there were roughly \$35 billion worth of deals in the space in 2024², according to Pitchbook. It estimates the combined growth and venture debt markets in Europe at around €17 billion, a growth of more than 25 per cent from the year before, with the average deal size rising to €1.7 million in 2024.

Growth and venture debt can offer exposure to innovative companies in the tech and healthcare spaces, without many of the risks of venture capital and growth private equity. As

specialised forms of lending, they require experience measuring risk through complex lending performance indicators, and expertise in structuring loans with downside protection.

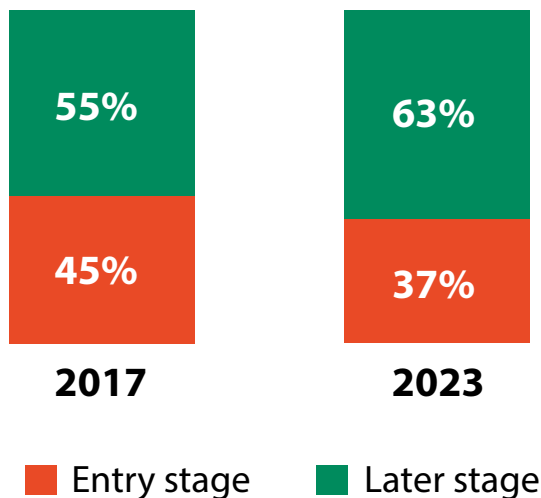
Until the 2023 disruption of the regional banking sector, a single lender controlled a significant portion of the venture debt market in the U.S. In its wake, established private debt managers have taken the lead in sourcing opportunities and receiving beneficial terms from borrowers. We spoke to a couple of our investors about growth and venture debt as an asset class, what they're watching in the space today, and where they see the biggest opportunities.

What macroeconomic forces do you see driving the expansion of growth and venture debt opportunities?

Ross Ahlgren: The first of the many structural forces driving and expanding

Shifting opportunities

European growth debt is increasingly moving to more mature companies



Source: Latest available Pitchbook Data as of Q3 2023

One is a manager's transaction experience and local presence across multiple jurisdictions, simply because companies prefer to work with lenders who can navigate the complexities of a given region. The market is also highly relationship-driven with very little intermediation and few auction processes. Relationships are vital in deal sourcing, where a high percentage of transactions come directly from

can translate to higher potential returns than traditional direct lending strategies, while maintaining comparable loss rates.

Growth and venture debt is also a way for an investor to gain exposure to the long-term trends of technology and innovation in private companies, but without the same concentrated equity risks. These investments also allow investors to participate in many different sponsor portfolios without

equity sponsors. Those relationships take a long time to develop, and they are a clear differentiator in determining success.

How should investors think about growth and venture debt as part of a private debt portfolio?

Ross Ahlgren: Within a private debt portfolio, growth and venture debt can help investors diversify away from corporate credit, towards an asset class with different characteristics and correlations. And as a specialist asset class with limited competition, the higher pricing of these loans

having to invest in their respective funds. And unlike equity, growth and venture debt can give investors the downside protection offered by senior-security, amortisation and long cash runways.

In a portfolio, the structure of growth and venture loans can provide predictable return of capital or reinvestment. Compared with other forms of private debt, they rely less on early terminations and refinancings, while their equity upside adds the potential for returns on top of interest payments.

What is the final message you'd leave investors with about growth and venture debt?

Ross Ahlgren: We believe this is a major moment for the growth and venture debt space. There's an abundance of high-quality companies actively in search of debt financing. They're turning to a relatively small pool of qualified lenders who understand the intricacies of structuring these loans. And more investors are coming to appreciate the higher spreads, stronger downside protections, and the ability to participate in the upside growth of the borrowers.

In association with

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¹ Source: Morningstar, January 21, 2025.

² Source: Pitchbook - NVCA Venture Monitor Q3 2024

³ Source: Pitchbook - 'Venture debt hits all-time high as startups diverge from VC expectations', February 18, 2025.

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