Briefing produced by Callol, Coca & Asociados
Venture Capital & Finance Practice
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VENTURE DEBT

THE KEY BASIC QUESTIONS THAT YOU NEED TO KNOW AS A START UP BUSINESS LOOKING FOR THIS TYPE OF ALTERNATIVE FINANCING

What is Venture Debt?

It is an ancillary and alternative financing to Venture Capital by virtue of which, amongst others, early stage companies or high growth companies could be funded with loan or credit facilities that, under traditional banking rules, founders, entrepreneurs and other early stage investors will not have access to.

Which are the advantages in comparison with traditional financing rounds of VC investments?

Firstly, Venture Debt is less expensive that the cost of additional equity investments and therefore it could provide additional liquidity to the Company in order to meet its business plan between the several series of equity financing rounds.

On top of that, Venture Debt (usually provided on a non-convertible basis) shall not create unnecessary interference among existing shareholders.

Also, Venture Debt's providers are less involved in the management than a traditional VC investor. Thus, Venture Debt shall avoid the common conflict of interest arising when the same party acts as investor, manager and/or third party funder.

Which key commercial and legal issues you need to consider when starting a negotiation of a Venture Debt instrument?

Venture Debt is documented into a financing agreement and therefore the Company could be subject to several contractual obligations in connection with its business and ownership structure (i.e. mandatory prepayment event such as change of control, limits to additional financial debt etc…).

However, such contractual provisions are usual in any other type of corporate finance deals and Venture Debt's providers used to have a quite open-minded approach to negotiate them with the Company.

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Is Venture Debt secured financing?

Yes. Consequently, a Venture Debt's provider shall require the granting of first ranking security interest (i.e. mortgage/pledge) over key Company's assets (i.e. IP rights, receivables or bank accounts…).

Sometimes, Venture Debt could be associated with a warrant coverage package that could be exercisable by the Venture Debt providers under limited circumstances.

In summary, early in advance when you start a negotiation process of a Venture Debt instrument we encourage you to engage specialist legal counsel for advise on the drafting and negotiation of a term sheet which includes the basic terms and conditions of the deal subject to definitive contractual documentation.

*Should you require further information please do not hesitate to contact with **Mariano López** at the Venture Capital and Finance Team at Callol, Coca & Asociados (www.callolcoca.com).*

Mariano López

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LEGAL DISCLAIMER

Please note that this legal briefing should not be considered as any piece of any legal advice whatsoever and should not rely upon under any circumstances.

About Callol, Coca & Asociados

We are specialist in venture capital and project finance transactions, advising technology start ups as well as venture capital firms and other investors that finance high growth companies. We have a combination of both corporate and banking & finance specialists to cover any aspect of the deal.

Prior to establishing our firm, our lawyers have been leading partners and associates in specialist practices of large national and international law firms. Overall, we have practised in Madrid, Barcelona, Washington D.C., New York, London and Brussels.

Should you require additional information or want to check our credentials please do not hesitate to visit our website at www.callolcoca.com.