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# Q4 2023 Public BDC Venture Lender Earnings

## Returns in a higher-for-longer environment

PitchBook is a Morningstar company providing the most comprehensive, most accurate, and hard-to-find data for professionals doing business in the private markets.

## Key takeaways

- Public BDC lenders continue to drive strong returns on the back of the high interest rate environment. Hercules, Trinity, and Horizon Capital noted record returns for net investment income and total investment income for 2023. Several of the lenders were able to provide investors with supplemental dividends as the normal dividend levels led to extra income to be distributed.

- The venture market's continued slow environment has been a boon for BDC pipelines. While it has increased the number of companies looking for debt, lenders have been prudent in choosing the highest-quality investments. Trinity Capital noted that more mature and developed companies were looking for debt in Q4 than sought it in prior quarters. VC availability remains low overall, and the number of private companies remains high, creating the need for nonequity capital sources to extend runway. The poor exit environment also increases the need for companies to extend runway without further dilution.

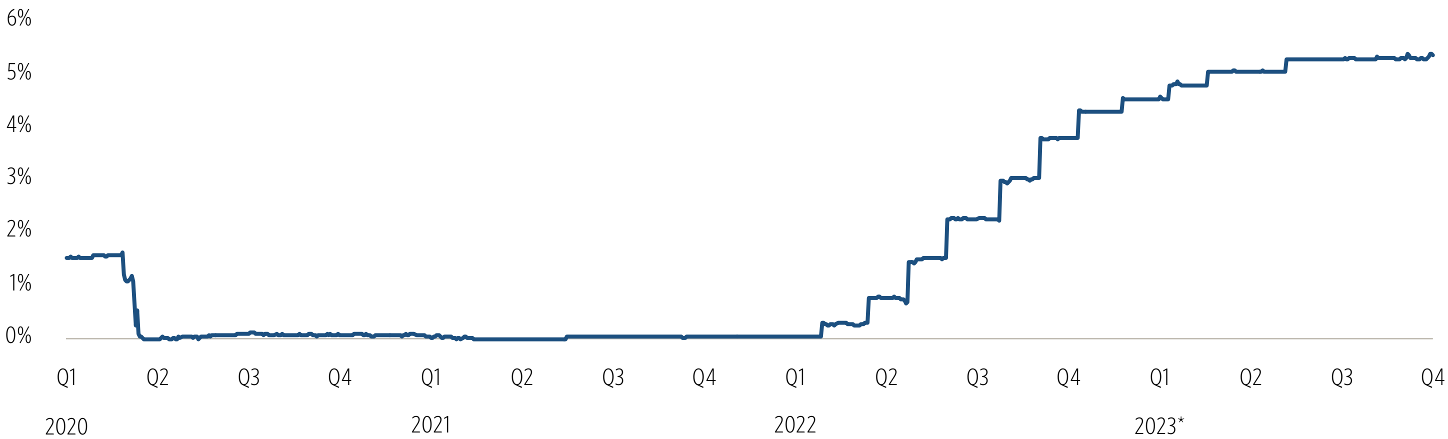
- One year after Silicon Valley Bank's collapse, the venture debt market, especially at the later stages where public BDCs operate, has continued to be strong. Late-stage loans saw minimal decline, and 2023 was the second most active year by count.

## Q4 earnings themes

*Higher for longer*

Expectations for rates to remain higher for longer than the market anticipated has been a broad narrative for markets, whether public, private, equity, or debt. Within venture debt, the floating rates of a large portion of the loans provide increasing margins and returns for these lenders. Increasing rates has already led to record returns for the five public business-development company (BDC) venture lenders—Hercules Capital, Horizon Technology, Runway Growth Capital, Trinity Capital, and TriplePoint Venture Growth—several of which promoted the "record" returns of 2023, particularly in Q4. The Secured Overnight Financing Rate (SOFR), which has become the main reference rate used for venture lending, grew from essentially 0.0% to 5.4% by the end of 2023. Its rise has taken loan coupon rates with it for both new and existing portfolio companies.

### SOFR by quarter




Source: PitchBook • Geography: US • *As of December 31, 2023

For these BDCs, a "soft landing" for the US economy is the best-case scenario, keeping companies growing, rates high, and the venture market moving back toward the mean. The ability for companies to continue growth is, of course, essential to BDC lender portfolios, but the uncertainty in the market has driven higher amounts of nondilutive capital into VC. Several of the BDCs have dealt with company bankruptcies in recent quarters, and a significant deterioration of the economy that sends company revenues lower would add to that struggle. TriplePoint held an unrealized loss of nearly $50 million on its debt investments at the end of 2023, an increase of nearly $37 million over 2022.

Though the higher-for-longer mantra would seem to be a negative for the venture lending market because of those floating rates, in fact, debt addition to capitalization tables, and the non- or low-dilutive properties of debt compared to further equity financing continue to be a benefit in this market. Each of the BDCs noted the sluggish venture landscape as well as challenges that portfolio companies would face if new capital is needed. Though debt is not a full replacement option for equity financing, the low capital availability in VC will continue to add to the pipeline of companies looking for loans. We have noted the rise in down rounds over the past few quarters, and we expect that trend to continue in the near future.

However, the high returns recorded in 2023 go beyond the simple rise of reference rates. Net interest margins for BDCs have risen significantly in recent years, too. The five public BDCs use credit lines and loans of their own from banks to fund transactions, as well as bond financing and at-the-market security sales to keep their borrowing/funding costs low and increase their margins. The net asset values (NAVs) of these BDCs continue to grow, and security sales at premiums to these NAVs provide lower-cost financing options that keep liquidity high and allow these lenders to be nimble in adding new borrowers to their portfolios. In this market, unfunded commitments can weigh on the ability for lenders to capitalize on opportunities that may present themselves.

Several of the lenders noted the movement of their portfolio toward first-lien and secured loans, putting them first in line to recoup any potential losses from portfolio companies going out of business. While we expect bankruptcies to increase broadly across the venture market, equity investors will bear the brunt of any losses. Bankruptcy or default does not mean the entire loan balance can be recouped, but proactive measures can benefit the long-term health of the BDC portfolios. Trinity Capital noted that it forgave a loan balance of a struggling company that exited bankruptcy in return for equity shares. Those shares will likely be sold right away in order to return capital to investors, as the firm will not rely on current strategy to dictate how long to hold equity in its portfolio.

For BDC investors, the high returns these lenders have achieved over the past few quarters have translated into large distributions through surplus dividends. Each of the lenders met its respective dividend level in Q4, with a few of them providing investors with extra—sometimes large—dividends on top of what was expected.

Barring a complete collapse of the global economy, continued high returns from these lenders should be expected for some time. While rate cuts would marginally cut into the total investment incomes, we expect companies to continue staying private for longer even when the market turns and exits regain momentum. The slow venture market is poised to continue for the foreseeable future as well, at least until the exit market begins to provide an increase in opportunities and returns can again be realized by investors and their limited partners.

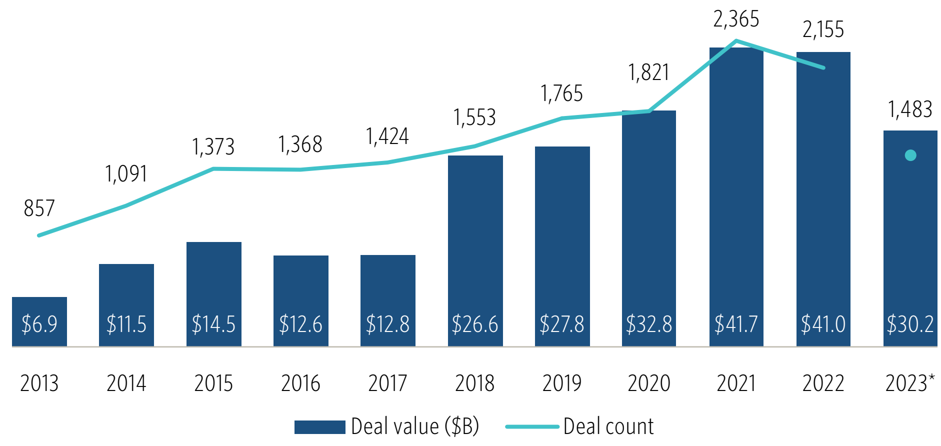
## *Strong pipelines of borrowers*

The five public BDC lenders noted strong pipelines of borrowers and listed the dynamics of the venture market that increased this supply while also making it more challenging to navigate. Our capital demand-to-supply model highlights the low equity-capital supply in the market today, which has become exacerbated by the high number of venture-backed companies that remain private. Though venture debt is not a last-money-in investment, it has been used to extend runway and add nondilutive capital for growth in an increasingly precarious market.

The healthy pipelines—which should be read as "large" rather than an increased median company health profile—enabled BDC lenders to keep their risk profile in line with their strategic goal, or, to increase the quality profile of their portfolios to guard against economic uncertainty that remains in the market. Over the past few quarters there have been higher profile bankruptcies by companies that had borrowed (Convoy, Vanmoof, to name a few), and the continued slow market adds to the risk that more companies will find the same fate.

However, the slow financing market in venture does lend to higher-quality companies turning toward debt for short-term financing than would be common in easy financing times. Again, this plays into BDC returns, as the lenders are able to set higher bars for borrowers while still charging a higher rate. When rates were low and equity financing terms were loose, relatively higher-risk companies were needed to drive yield. Low loss rates for lenders over the past decade have been aided by the loose financing market in venture as well as the high number of exit opportunities that kept companies moving through the life cycle while staying up to date on loan premiums. Though a large pipeline is a good problem to have, without prudent lending practices, quality slippage could be detrimental to returns moving forward.

## Venture debt deal activity




Source: PitchBook • Geography: US • *As of December 31, 2023

## Commitments

### New commitments ($M) of select BDCs by quarter*

| Company | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 |
|---|---|---|---|---|
| Hercules Capital | $526.0 | $541.5 | $692.7 | $413.9 |
| Horizon Technology | $187.0 | $52.7 | N/A | $64.2 |
| Runway Growth Capital | $0.0 | $0.0 | $30.0 | $189.0 |
| Trinity Capital | $43.2 | $218.5 | $228.3 | $340.7 |
| TriplePoint Venture Growth | $3.7 | $114.0 | $5.6 | $4.2 |

Source: PitchBook • Geography: US • *As of December 31, 2023

### Unfunded commitments ($M) of select BDCs by quarter*

| Company | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 |
|---|---|---|---|---|
| Hercules Capital | $562.1 | $381.1 | $400.6 | $335.3 |
| Horizon Technology | $1.5 | $1.4 | N/A | N/A |
| Runway Growth Capital | $302.7 | $234.3 | N/A | N/A |
| Trinity Capital | $338.7 | $345.2 | N/A | N/A |
| TriplePoint Venture Growth | $254.5 | $205.3 | 141.9 | $118.1 |

Source: PitchBook • Geography: US • *As of December 31, 2023

Commitments continued to be strong in Q4, largely increasing over levels from the year prior. Annual commitments in 2023 were relatively strong. As the venture market found some semblance of normalcy toward the end of the year, deal activity increased at the late and venture-growth stages. When equity activity increases, it brings with it new debt commitment opportunities. Hercules noted that in 2024 YTD, it has already signed commitments of more than $500 million and is in the due diligence process for another $500 million or more. The company expects its first 90-day to 115-day total of 2024 to come in at more than $1 billion in commitments.[1]

As noted above, unfunded commitments can weigh on the returns and the agility of BDCs when opportunities are presented. All of the public BDC lenders worked to decrease the amount of their unfunded commitments in Q4 to increase their liquidity positions. A strong equity market can also help bring down the level of these unfunded loans as premiums are paid off ahead of schedule. Prepayments increased in Q4, with some lenders noting a seasonality to this dynamic. Horizon surpassed its forecasted prepayments in Q4 but expects prepayments in 2024 to revert to normal.

We will be looking for venture debt as a whole to surpass $30 billion in the US for the fifth consecutive year in 2024. To do that, the pace of commitments from BDCs will need to remain strong, which is the expectation.

1: "Hercules Capital Reports Fourth Quarter and Full-Year 2023 Financial Results," Hercules Capital, February 15, 2024.

# Net income and interest rates

## Total investment income ($M) of select BDCs by quarter*

| Company | Q1 2022 | Q2 2022 | Q3 2022 | Q4 2022 | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 |
|---|---|---|---|---|---|---|---|---|
| Hercules Capital | $65.2 | $72.1 | $84.2 | $100.2 | $105.1 | $116.2 | $116.7 | $122.6 |
| Horizon Technology | $14.2 | $18.6 | $23.3 | $23.1 | $28.0 | $28.1 | $29.1 | $28.2 |
| Runway Growth Capital | $19.3 | $25.2 | $27.3 | $36.8 | $39.3 | $41.9 | $43.8 | $39.2 |
| Trinity Capital | $31.8 | $33.5 | $38.7 | $41.5 | $41.5 | $46.0 | $46.4 | $47.8 |
| TriplePoint Venture Growth | $27.3 | $27.4 | $29.7 | $34.9 | $33.6 | $35.2 | $35.7 | $33.0 |

Source: PitchBook • Geography: US • *As of December 31, 2023

## Investment yield of select BDCs by quarter*

| Company | Q1 2022 | Q2 2022 | Q3 2022 | Q4 2022 | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 |
|---|---|---|---|---|---|---|---|---|
| Hercules Capital | 11.5% | 11.5% | 12.9% | 14.7% | 15.1% | 16.0% | 15.5% | 15.3% |
| Horizon Technology | 12.4% | 14.2% | 15.9% | 14.5% | 16.3% | 16.3% | 17.1% | 16.8% |
| Runway Growth Capital | 12.2% | 15.1% | 14.4% | 15.5% | 15.2% | 16.7% | N/A | 16.9% |
| Trinity Capital | 16.3% | 13.8% | 15.2% | 15.5% | 15.2% | 16.2% | 16.7% | 16.7% |
| TriplePoint Venture Growth | 15.5% | 14.5% | 13.8% | 15.3% | 14.7% | 14.7% | 15.1% | $15.6% |

Source: PitchBook • Geography: US • *As of December 31, 2023

## Net investment income ($M) of select BDCs by quarter*

| Company | Q1 2022 | Q2 2022 | Q3 2022 | Q4 2022 | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 |
|---|---|---|---|---|---|---|---|---|
| Hercules Capital | $35.8 | $40.1 | $50.0 | $62.1 | $65.5 | $75.7 | $76.8 | $86.0 |
| Horizon Technology | $5.7 | $8.6 | $11.1 | $10.7 | $13.0 | $16.1 | $17.4 | $15.0 |
| Runway Growth Capital | $12.5 | $14.5 | $14.5 | $18.4 | $18.2 | $19.7 | $22.0 | $18.3 |
| Trinity Capital | $15.6 | $15.7 | $18.6 | $21.6 | $19.3 | $22.1 | $23.4 | $25.1 |
| TriplePoint Venture Growth | $13.5 | $12.7 | $16.7 | $20.5 | $18.6 | $18.8 | $19.1 | $17.3 |

Source: PitchBook • Geography: US • *As of December 31, 2023

## Net investment income per share of select BDCs by quarter*

| Company | Q1 2022 | Q2 2022 | Q3 2022 | Q4 2022 | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 |
|---|---|---|---|---|---|---|---|---|
| Hercules Capital | $0.30 | $0.32 | $0.39 | $0.47 | $0.48 | $0.53 | $0.52 | $0.56 |
| Horizon Technology | $0.26 | $0.35 | $0.43 | $0.40 | $0.46 | $0.54 | $0.53 | $0.45 |
| Runway Growth Capital | $0.30 | $0.35 | $0.36 | $0.45 | $0.45 | $0.49 | $0.54 | $0.45 |
| Trinity Capital | $0.57 | $0.51 | $0.56 | $0.62 | $0.55 | $0.61 | $0.58 | $0.57 |
| TriplePoint Venture Growth | $0.44 | $0.41 | $0.51 | $0.58 | $0.53 | $0.53 | $0.54 | $0.47 |

Source: PitchBook • Geography: US • *As of December 31, 2023

## Gains/losses

### Net realized gains/losses from investments ($M) by quarter*

| Company | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 |
|---|---|---|---|---|
| Hercules Capital | $8.0 | $0.2 | -$2.6 | $2.8 |
| Horizon Technology | -$0.2 | -$16.5 | -$11.8 | -$1.2 |
| Runway Growth Capital | -$1.2 | $0.0 | $0.0 | N/A |
| Trinity Capital | -$0.4 | -$26.6 | -$1.9 | $0.8 |
| TriplePoint Venture Growth | $0.0 | $1.9 | -$25.6 | -$52.1 |

Source: PitchBook • Geography: US • *As of December 31, 2023

### Net unrealized appreciation/depreciation from investments ($M) by quarter*

| Company | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 |
|---|---|---|---|---|
| Hercules Capital | $21.1 | $18.9 | -$46.2 | $31.3 |
| Horizon Technology | -$7.5 | $0.6 | -$17.5 | -$24.3 |
| Runway Growth Capital | -$5.1 | $2.6 | -$7.2 | N/A |
| Trinity Capital | $3.5 | $24.4 | -$4.7 | -$8.1 |
| TriplePoint Venture Growth | -$10.9 | -$41.6 | $8.6 | $6.0 |

Source: PitchBook • Geography: US • *As of December 31, 2023

Net incomes were high across the board. As noted, several BDCs were at record income levels for Q4 and 2023 annual figures, driving high dividends. Hercules' core yield of 14.3% (which excludes prepayment returns and other fees) was the highest it had realized. Trinity's core yield was even higher at 16.7%.

TriplePoint had the highest realized and unrealized losses, in large part due to a single company that generated a loss of more than $17 million on the quarter. Other lenders wrote off investments and had companies enter nonaccrual basis, but some were immaterial to returns overall.

## Available capital

### Total available liquidity ($M) of select BDCs by quarter*

| Company | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 |
|---|---|---|---|---|
| Hercules Capital | $553.1 | $670.7 | $598.0 | $743.9 |
| Horizon Technology | $112.3 | $107.1 | $79.9 | $103.9 |
| Runway Growth Capital | $131.3 | $227.7 | $311.9 | $281.0 |
| Trinity Capital | $174.8 | $130.3 | $257.2 | $141.8 |
| TriplePoint Venture Growth | $187.6 | $199.4 | $262.5 | $306.6 |

Source: PitchBook • Geography: US • *As of December 31, 2023

Hercules increased its portfolio fair value by nearly $300 million during 2023, providing the largest increase to its NAV during the year. The lender's cash position, however, was maybe more of a point of interest as it increased by nearly $85 million. The cash position provides a strong ability to add new opportunities to the Hercules portfolio and fund commitments it has already made. The cash position growth was due to a late-year prepayment rather than a decision to increase cash holdings on a recurring basis, which can drag on returns.

## Portfolio

### Portfolio at fair value ($M) of select BDCs by quarter*

| Company | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 |
|---|---|---|---|---|
| Hercules Capital | $3,130.0 | $3,112.8 | $3,261.4 | $3,248.0 |
| Horizon Technology | $715.3 | $715.4 | $729.1 | $709.1 |
| Runway Growth Capital | $1,125.3 | $1,095.3 | $1,010.0 | $1,067.0 |
| Trinity Capital | $1,091.5 | $1,148.0 | $1,150.9 | $1,270.2 |
| TriplePoint Venture Growth | $982.8 | $942.0 | $870.2 | $802.1 |

Source: PitchBook • Geography: US • *As of December 31, 2023

### Debt portfolio at fair value ($M) of select BDCs by quarter*

| Company | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 |
|---|---|---|---|---|
| Hercules Capital | $2,968.0 | $2,937.9 | $3,091.9 | $3,057.3 |
| Horizon Technology | $684.6 | $683.3 | $679.8 | $670.2 |
| Runway Growth Capital | $1,125.3 | $1,036.7 | $962.0 | $978.5 |
| Trinity Capital | $929.3 | $1,100.1 | $1,063.8 | $1,222.1 |
| TriplePoint Venture Growth | $890.1 | $853.2 | $782.9 | $730.3 |

Source: PitchBook • Geography: US • *As of December 31, 2023

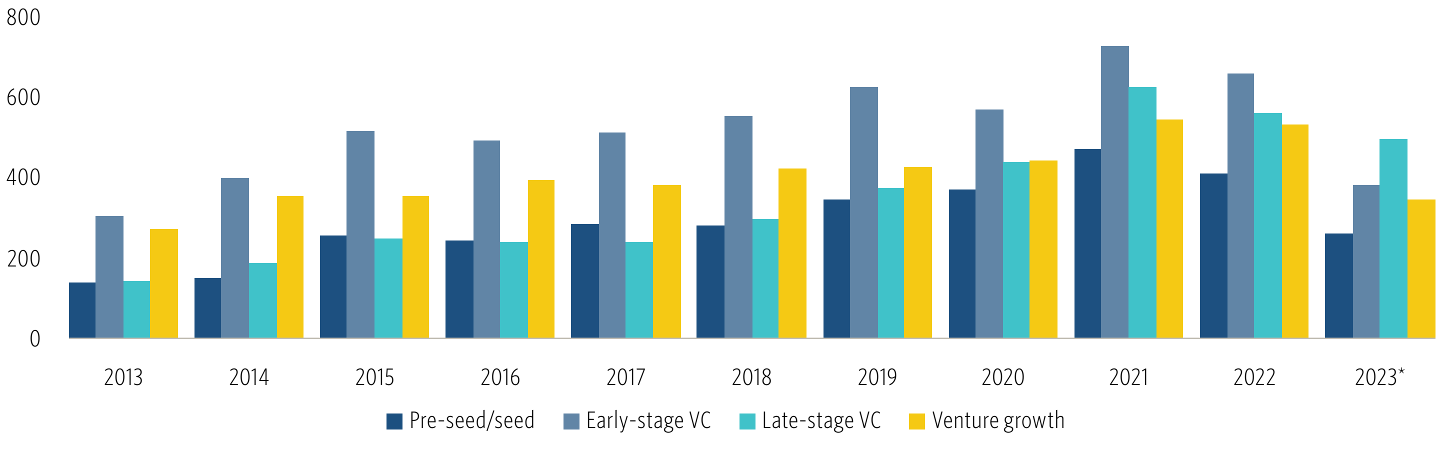
## Outlook

The venture market is now roughly a year past the chaotic weekend that was the collapse of Silicon Valley Bank (SVB). At the time, the near-term future of venture debt was in doubt. A contagion of bank failures was the fear, and while Signature and First Republic did succumb to poor management decisions, overall we have seen resilience in startup banking.

Though 2023 total US venture debt value had fallen roughly 25% from the 2021 highs, it surpassed $30 billion for the fourth consecutive year, also marking the fourth year ever to hit that benchmark. However, there were significant shifts in where that debt was being placed, at least in terms of loan count by stage. SVB was a prolific lender to early-stage companies. The bank delved into seed and early-stage lending, developing a portfolio of roughly $6.5 billion in what it termed "investor-dependent loans," which is another term for high-risk companies where revenues alone could not justify the debt.

Over the past year, we have seen loan counts to early-stage companies fall rather dramatically. Seed loan counts fell to the lowest level since 2016, and early-stage counts fell to the lowest level since 2013. Meanwhile, late-stage venture loan count, the stage of many loans originated from BDCs, was higher in 2023 than any year other than 2021 and 2022, and loan value at the late stage was second only to 2021. Banks are more likely to provide capital to earlier stages of VC than nonbank funds or BDCs. Where J.P. Morgan and Stifel Bank quickly moved in to provide loans to the early-stage companies, BDCs have been positioned well to support late-stage companies, and the slowing loan activity at the early stages did not disturb activity as much as may have been expected at the outset of the crisis.

### Venture debt loan count by stage




Source: PitchBook • Geography: US • *As of December 31, 2023

Capital availability in venture is not likely to shift over the short term. The number of companies at the late and venture-growth stages, where public BDC lenders largely operate, is at an all-time high, again, adding to the large pipeline of borrowers. With the expectation that rates remain higher for longer, and a higher number of companies keep looking for low-dilutive options for financing, BDC lenders sit in a fortified position to continue deploying their strategies. New “record” returns each quarter can only be sustained for so long, but it’s likely that these lenders continue to show strong performance as long as the economy navigates the market uncertainty well.