



FINANCING YOUR SAAS STARTUP USING DEBT

Choosing the Right Type of Debt Financing For Sustainable Growth



WELCOME

Every challenge presents an opportunity to find innovative solutions. Changes in capital and equity markets are presenting entrepreneurs with new fundraising challenges. Fortunately, today's entrepreneurs have a diverse set of fundraising options. While some still lean towards traditional venture capital, and personally financed debt, others are navigating towards new modes of financing, that affords them flexibility without sapping their autonomy.

In this environment, it's more important than ever to evaluate your financing options with eyes wide open.

You need to carefully consider the trade-offs you are willing to accept:

- Are you willing to trade control of the business for access to significant capital to drive growth?
- How much time are you willing to dedicate to fundraising?
- Is minimizing ownership dilution a priority?
- What's your timeline? Are you emphasizing long-term growth, or is a short-term cash infusion—and quick payback—more in line with your strategy?

Many funding sources seem similar at first glance. But when you dig deeper, there are vast differences in repayment, terms, covenants, provisions, and the like.

The capital choices you make now will have a lasting impact on your company's trajectory. In these pivotal times, it may be tempting to take whatever financing you can find. Do NOT fall into that trap. When you know the right questions to ask and how to compare your options, you'll be in a stronger position to maintain continuity today and grow when the time is right.

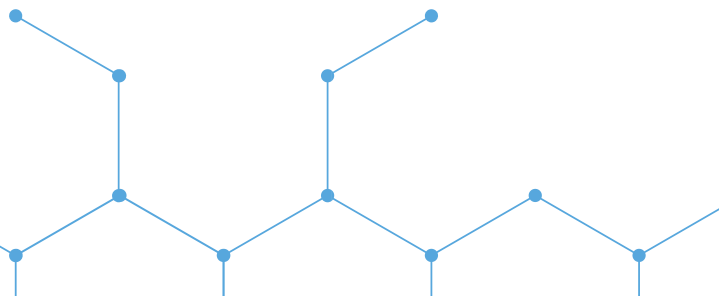
And we want to help you make the right decisions.

This whitepaper examines the different financing options available to you based on the stage of your company's growth, short-term needs, and long-term plans for growth. It explains how to compare loans and how to assess the "true cost of capital" of various funding options — with specific, real-world examples that entrepreneurs encounter during the fundraising journey.

Let's get started.

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STAGE-APPROPRIATE FUNDING OPTIONS

The available financing options depend on your company's revenue consistency and the size of the overall market you are participating in—as well as the direction you want to take your business.

Pre-revenue, early-stage startups not already backed by well-known VCs have limited funding options, with personal loans and debt or equity from friends and family being most common.

As your company begins to generate revenue, your risk profile improves, helping to expand your funding options. Merchant cash advances (MCAs), [term loans](#), lines of credit, [contract based financing](#), [revenue-based financing](#), loans guaranteed by the Small Business Association ([SBA 7\(a\) loans](#)), [tech bank loans](#) and other venture lenders become possibilities, as do seed stage equity and VC investments.

For those companies that reach profitability, other forms of funding also become available, including traditional bank loans and later-stage growth equity.

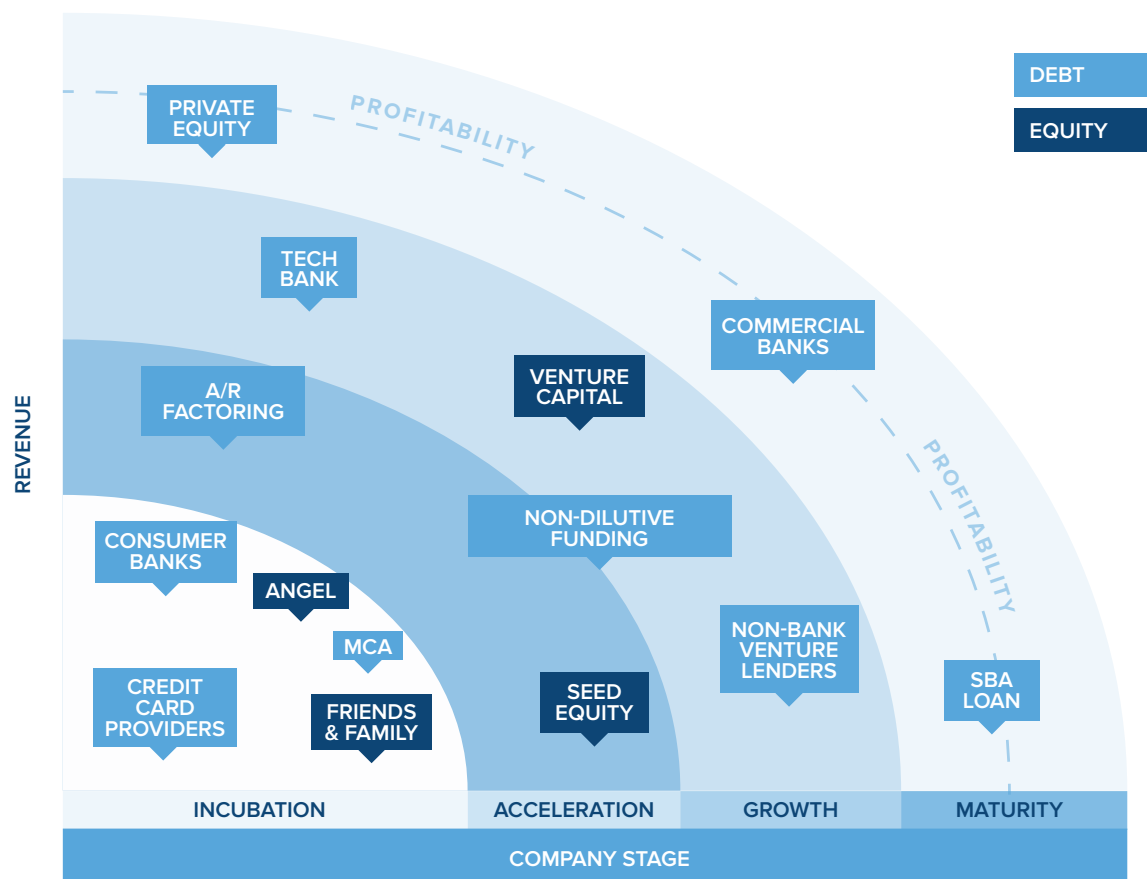


Figure 1. Available forms of financing

UNDERSTANDING EQUITY FINANCING VS. DEBT FINANCING

Debt and equity investments can both meet short-term capital needs, but they represent very different paths. Whereas the pros and cons of equity financing — friends and family money, angel investors, strategic corporate investors, venture capital (VC), and so on — are well known, the details of debt financing can be murky.

Each financing option has pluses and minuses that founders should consider before proceeding. “Time is money,” the axiom goes, but there’s a third element: pressure. That pressure mounts when equity financing is part of the equation as investors may want to see growth milestones met — immediately, if not sooner. Unlike equity financing, debt financing can be faster to obtain and much less expensive over the long haul, plus owners can retain control to drive slow and steady growth, or boost valuation and delay an equity round.

EQUITY FINANCING		DEBT FINANCING	
PROS Possibility of large investments Industry, customer, & partner connections Growth guidance Industry validation Delayed payback & no cash payment in the interim	CONS Loss of ownership & control Pressure to meet ambitious milestones to raise additional funding Opportunity cost of time & energy to raise funds	PROS Speed of access to funding Retain equity ownership & control of the business Relatively less pressure for rapid growth	CONS Smaller funding amounts Regular monthly payments required Possible personal guarantees & potentially pledges of personal collateral Possible covenants

Figure 2. Equity vs. Debt Financing: PROS & CONS

For a more comprehensive comparison of debt vs. equity financing, check out our [alternative financing industry report](#).

HOW TO COMPARE DEBT FINANCING OPTIONS

To help get your business off the ground or push for your next growth milestone, there are a variety of debt providers, from banks to online lenders. However, what's good for one business may not be right for another. Each type of lender will structure a loan differently and will include trade-offs that entrepreneurs must carefully consider.

The length of the payback period should be carefully examined. Some lenders may require you to repay their loans weekly, or even daily, and this could drain your operating cash quickly. They do this to speed up your payback period and shorten the term. While this can look inexpensive since the payback rate they're quoting seems low, when you look closely, this type of loan can be much more expensive. A high, quick payback in which lenders take a percentage of your daily or weekly cash flow and/or require payback in full in a year or less, can reduce a company's ability to deploy the funds effectively. You might also have difficulty generating enough cash flow – especially if your revenue is irregular during these volatile times – to service the debt in a very short time.

Furthermore, there are certain conditions that lenders can impose in their loan structure to ensure you are not stepping too far out of bounds to significantly change the credit/risk profile of the business. This is commonly done through [debt covenants](#) — also known as financial covenants, banking covenants, or loan covenants — in which the borrower is either obligated or forbidden to undertake a specific action. Entrepreneurs frequently run into debt covenants that require the business maintains minimum liquidity levels or meets revenue growth targets. Covenants may also prohibit the business from acquiring additional debt.

Alternatively, some lenders may want to reserve the right to share in potential profits should a borrower have a major exit. This is commonly done through [stock warrants](#), which give lenders upside participation, but can cost you a portion of your company, and ultimately be quite costly.

In addition to these trade-offs of different loans, it's also important to determine whether you need short-term, working capital, or long-term, growth capital.

Let's look at how these options may pertain to different financing needs.

WHAT IS WORKING CAPITAL?

Working capital is the money you use to cover short-term obligations, such as paying vendors and acquiring inventory, until you receive cash proceeds from sales. A few common ways that you can finance working capital needs include the following:

Credit cards and charge cards:

Quick access to short-term financing.

With a credit card, you can carry the monthly balance by making payments less than the outstanding balance. With a charge card, you'll need to pay off the outstanding balance every month. While both are effective working capital alternatives, these methods can become costly with high interest rates – especially if you miss a payment or can't pay the minimum. Another drawback is that there may be a misalignment in your payment schedules, e.g. your payment is due every 30 days, but your clients pay you on a Net 45 schedule.

Factoring:

Sell short(er)-term accounts receivables to financial service providers to gain immediate access to the funds.

This often costs an additional 1.5% to 2% per month (plus fees). Furthermore, factoring requires your customers to send payments directly to the factoring company's bank account, and the factoring company will usually contact the customer directly to verify each underlying sale.

Short-term loan:

Merchant cash advances (MCAs) or other short-term financing facilities that are used for immediate short-term needs.

For example, you may have to pay your employees tomorrow. Or, a critical vendor payment is due in two days; if you don't pay, you may harm the relationship and risk unfavorable pricing from that vendor in the future. Of course, there are trade-offs: MCAs are a drain on cash flow given the daily draw mechanism and aggressive payback period. You may be able to make the critical payment in two days, but your business could experience a near-term cash crunch after the payment.

Line of credit:

Acquire and draw from a revolving working capital facility.

With a [line of credit](#), you can draw funds to pay for regular business operations, as needed, and only pay for the capital once it's drawn – and only while it's drawn. This non-dilutive financing solution can be a flexible and revolving low-cost alternative to equity or venture debt. Some trade-offs may include borrowing formulas or loan covenants.

WHAT IS GROWTH CAPITAL?

Growth capital is leveraged for long-term initiatives that can expand and grow a business.

For example, growth capital can be used to make that critical new sales hire or fund a marketing initiative. A couple of ways that startups can obtain growth capital include:

	REVENUE-BASED	TERM-BASED	CONTRACT-BASED	VENTURE CAPITAL
HOW IT WORKS	Get upfront capital using monthly recurring revenue.	Get upfront capital using a traditional loan structure.	Get upfront capital using shorter-term contracted revenue sources.	Get upfront capital by selling portions of your company's equity (ownership)
PAYMENT TERMS	A fixed percentage of future monthly revenue. As revenue grows, payments increase and balance is paid off more quickly.	Consistent fixed monthly payments.	Payments are based on monthly cash flow.	No payment terms. Board seats may be required.
LENGTH	Up to 3 years	Up to 3 years	Less than 1 year	Depends on venture capital partner and funding rounds
WHY CHOOSE IT	You have consistent monthly revenue and need longer-term capital to accelerate growth. Monthly payments that can fluctuate with revenue will not be an issue.	You have consistent monthly revenue and need longer-term capital to accelerate growth, but desire a payment plan that features consistent monthly amounts.	You have shorter-term revenue that is associated with a <12 month contract or invoice and need upfront capital to accelerate growth	You require a large amount of upfront capital to rapidly expand sales or operations. Selling portions of ownership or handing out board seats in your company is not a concern.

COMPARING YOUR OPTIONS: KNOW YOUR TRUE COST OF CAPITAL

Your timeframe is crucial in deciding whether to pursue working capital or growth capital.

Before choosing one over the other, ask yourself:

- Do you have immediate, short-term needs (such as making payroll in three days)?
- Do you just need a cash cushion during the gap months while you wait for customers to pay?
- Do you need the funds for longer-term investments such as key hires, marketing initiatives, or product enhancements to stay competitive?

After determining how you will use the funds, it is time to look at the source of the funds to make sure they “match.” For example, hiring and training talent is not a short-term need. Rather, this is a long-term need requiring funding with a longer repayment schedule to allow for better utilization of the capital.

Once you’ve decided you will need a long-term solution, you should compare the terms of the different growth capital options. It’s imperative to understand the full amount you will be required to pay and the time frame in which you are required to pay it back.

Below are the most important questions to ask when comparing financing options:

- **What’s the total payback amount?** Calculate the all-in cost of capital, including total interest payments and any fees associated with the financing offering.
- **What controls or covenants will the lender require?** Investigate the fine print. How will the cost and control components of the loan affect your operating costs? If the loan does have financial covenants, run some what-if scenarios against your historical financials to see how and when the covenants would be breached.
- **What’s your overall preference?** If you are seeking debt to avoid further ownership dilution, be aware that some loans require you to give up a slice of ownership. Are you okay with more dilution or are you more focused on the impact on monthly cash flow? For example, all things equal, a higher interest rate will have a higher impact on monthly cash flow.
- **What other qualitative factors should you consider?** What is the lender’s track record and reputation with other entrepreneurs in the community? Do they have additional capacity to grow with your company?

FOR A BIG-PICTURE PERSPECTIVE, CONSIDER ALL THE LONG-TERM FACTORS

As you work through these questions and determine your priorities, you can narrow down your options by reviewing four key elements: annual percentage rate (APR), time value of money (TVM), fees (both explicit and hidden), intangible costs and restrictions.

APR: A low interest rate is a good thing, but look beyond advertised rates and consider the effective APR, which provides the time-adjusted cost of a loan. APR includes the quoted interest rate annualized, along with any setup, funding, or maintenance fees. If you make on-time payments, you don't have to factor in late fees. Remember that if your loan term is less than a year, you'll want to know the effective APR, not just what you'll be charged for the term of the loan.

Fees, Intangible Costs, and Restrictions:

It's easy to overlook seemingly small loan-related fees. But such fees, whether stated clearly but not easy to calculate (e.g. warrants), situation- al (e.g. a quarterly fee based on a percentage of unused facility amounts), or separated out in a way to make apples-to-apples com- parisons between debt options difficult, can increase your true cost of capital. When you borrow money, be sure to figure in any origination fees, stock warrants, MCA fees, due diligence fees, and any other costs that might be hidden in the loan documentation.

Time Value of Money: This is the concept that a dollar earned today, due to its potential earning capacity, is worth more than a dollar earned tomorrow. This is because the money available at present can be reinvested, earn interest, and grow in value over a given period of time; therefore, any amount of money is worth more the sooner it is received. The TVM can change with each unique situation, but in general, it takes into account five variables: (1) future value of money, (2) present value of money, (3) interest rate, (4) number of compounding periods per year, and (5) number of years. If you can estimate how much a dollar today will be worth in, say, 10 years, you can predict the TVM of your capital – and of [any loans you take](#).

SCENARIOS OF A COMPANY COMPARING FINANCING OPTIONS

To illustrate the true cost of capital, let's compare three fundraising scenarios:

- Working capital vs. growth capital: short-term MCA vs. term loan
- Growth capital options: standard term loan vs. venture debt facility
- Growth capital vs. working capital: term loan vs. line of credit vs. invoice factoring facility

SHORT-TERM MCA VS. TERM LOAN

A&A SaaS Co., a software startup generating \$150K in monthly recurring revenue (MRR), has been bootstrapped to date. A&A is looking for additional capital to make strategic sales hires as they have built an impressive list of leads. The estimated cost for each salesperson is about \$120K in annual salary (plus bonuses/commissions).

Given its strong business metrics, A&A has two offers on the table:

- **Option 1:** A short-term MCA of \$200K. The lender doesn't specify the interest rate. The term sheet simply says, "We are purchasing your future revenue worth of \$230K at the cost of \$200K, minus a closing fee of \$5K. The payment is 15% of your revenue (i.e. payback rate), measured and payable on a daily basis. The loan is fully repaid when the cumulative payments reach \$230K.
- **Option 2:** A term loan of \$200K, with the interest rate of 20%, 36 months term.

COMPARE AND CONTRAST CAPITAL OPTIONS

Comparing options 1 and 2, which would come at a lower cost to A&A?

The first thing that management at A&A needs to consider is the use of funds. The use case is explicitly for "growth": the company needs to utilize the capital to acquire additional resources (mostly labor and talent, in this case), which they currently do not have, in order to fulfill the growth expectation.

The next thing to consider is the true cost of capital. In Option 2, a term loan of \$200K, the interest rate (the true cost of capital) is explicitly called out in the terms. In Option 1, a short-term loan of \$200K, the cost of capital is less clear given that the specific APR is not clearly spelled out in the cost structure.

From a simple cash-on-cash calculation, you may think that the interest rate in Option 1 is 15% (\$230K/\$200K - 1 = 15%). However, when you factor in the speed of the payback mechanism, you will find that the APR is much higher. To see this, you need to calculate the cost based on your growth expectations and business use case. One way to calculate the true cost of capital is by plugging in the payback rate (15% as stated above) into your own projection.

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8
Projected Revenue	\$150,00	\$165,00	\$181,500	\$199,650	\$219,615	\$241,577	\$265,734	\$292,308
Monthly Growth Assumption	10%							
Option 1								
Payback Rate	15%							
Monthly Payment	\$22,500	\$24,750	\$27,225	\$29,948	\$32,942	\$36,236	\$39,860	\$16,539
Cumulative Payment	\$22,500	\$47,250	\$75,475	\$104,423	\$137,365	\$173,601	\$213,461	\$230,00
Additional Capital Available for sales/marketing, etc	\$177,500	\$152,750	\$125,525	\$95,578	\$62,635	\$26,399	-\$13,461	
Option 2								
Monthly Payment	\$8,889	\$8,796	\$8,704	\$8,611	\$8,519	\$8,426	\$8,333	\$8,241
Cumulative Payment	\$8,889	\$17,685	\$26,389	\$35,000	\$43,519	\$51,944	\$60,278	\$68,519
Additional Capital Available for sales/marketing, etc	\$191,111	\$182,315	\$173,611	\$165,000	\$156,481	\$148,056	\$139,722	\$131,481

Figure 3. Short-term MCA vs. Term loan

As you can see in figure 3 – for Option 1 – you can expect to pay back the loan in less than 8 months (vs. the 36 months term in Option 2). Additionally, if you look at the total cash pay back in both options 1 and 2, the differences are obvious. For Option 1, through month 8, you would have paid back \$230K, whereas for Option 2 you payback just \$69K – the result is driven by the different payback mechanism.

What this means is that you could benefit more from Option 2 by “saving” \$161K in additional debt service and invest in other growth initiatives such as marketing events or sales hires to potentially grow even more than 10% per month. Finally, given the fact that you will be paying back \$50K interest in less than 8 months, your calculated APR will be over 100% (vs. the 20% interest in Option 2).

MAKING THE RIGHT DECISION

Given the payback mechanism for Option 1, you are likely to pay back the loan in less than eight months before realizing any benefits from utilizing the proceeds. The process of hiring and training may take much longer than the payback period (depending on your business model).

From that perspective, Option 2 is a much better “match” with the use of strategic hiring due to the following factors:

The term of the loan matches the duration of the anticipated use of funds.

Acquiring and retention of labor and talent are likely to be longer term initiatives of the company.

Opportunity cost. The payback mechanism in Option 2 is much less aggressive than the one in Option 1; As shown in the above chart, by the end of month 7 in Option 1, you would have paid back all the borrowed amount of \$200K, and you would still have about \$140K available to invest in other activities in Option 2. The payback mechanism in Option 2 means that you will have extra cash to invest in other growth opportunities (such as additional trade shows) vs. paying back the lender in the very short term.

Total cash out flow. The total amount you will pay in Option 1 is \$30K, and \$40K per year (or \$120K in three year term) in Option 2. Although Option 2 has a higher dollar amount in interest over the course of the loan, it is still more favorable than Option 1 given the better pay-back mechanism, overall lower cost from a rate perspective, and its match with anticipated use of proceeds.

STANDARD TERM LOAN VS. VENTURE DEBT FACILITY

B&B SaaS Co., a software startup with 100% YOY growth, has recently raised over \$5M in equity from reputable Series A VCs. B&B is on a positive trajectory and is expected to hit \$10M in annual recurring revenue (ARR) by the end of 2025. B&B is also actively seeking additional funding through debt instruments to ensure the company has enough runway to execute on its growth plan while minimizing ownership dilution. B&B has two growth capital options on the table:

Option 1: \$1M Term loan at 20% interest rate, 36 months term, without any warrant coverage or ownership dilution.

Option 2: \$1M Venture debt facility at 12% interest rate, 36 months term, 2% warrant coverage.

Compare and contrast capital options:

Which option should B&B choose? On the surface, both funding options match the business needs to fuel future growth. It comes down to comparing the granular details in each option, in addition to considering the interest rate component.

Making the right decision: Assume you're the founder of B&B – as you consider the true cost of capital, the simplified approach is to understand the total cash outflow to the lender. Essentially, the money they make is the money you pay.

In Option 1 the cost you pay is through the interest rate. To determine the true cost of capital, you can calculate the total interest cost (\$309K in total) over the three-year horizon.

In Option 2 determining the all-in cost of capital is less clear-cut; the stock warrants act as a kicker for the lender – enabling them to realize a potentially much larger return at the end of their loan term, in return for a lower interim cash flow (lower interest rate).

On a simplified basis, how much will the warrant cost you? While a more precise answer may require running an option pricing model such as [Black-Scholes](#) for privately owned entities, you can still get a decent range by [running a couple of scenarios](#) based on your current growth trajectory and valuation expectations from the market. For example, if you think your company is valued anywhere between \$25M to \$75M in the next financing round, the result of that 2% warrant may cost you between \$500K to \$1.5M. The total cost of capital for Option 2 is \$500K to \$1.5M (that is 50% to 150% of the principal you borrowed!) + 12% interest expense. While Option 2 has a lower interest rate compared to Option 1, the warrant component reduces the upside to the business owners, founders, and equity investors when the company has a liquidity event, like an IPO.

TERM LOAN VS. LINE OF CREDIT VS. INVOICE FACTORING FACILITY

C&C Widget Co. is a software startup that recently landed a large client, and subsequently incurred additional operating costs (mostly payroll) to support that large contract. However, given the size of C&C relative to the client, C&C does not have negotiating power, and therefore must agree to “net 60” terms, which means that the client is allowed 60 days to pay C&C.

Assuming C&C has sufficient capital to achieve its long-term growth goals, its short-term working capital needs arise while the company awaits payments from its large client for previous sales, so it can pay its vendors (or acquire additional inventory for future sales). This results in C&C needing to secure a financing facility to cover its near-term needs (especially for additional costs incurred to service the contract) until this large client pays in 60 days.

The whole flow of cash between company, vendors, and customers is essentially the [Cash Conversion Cycle](#).

In this scenario, the CFO of C&C has several financing options that they will be presenting to their board for a final decision. These are:

Option 1: A \$500K, 36 month term loan with 15% interest rate.

Option 2: A \$500K revolving line of credit with 12 month term, at 15% interest rate.

Option 3: An invoice factoring (A/R) facility that will advance 85% on eligible invoices, with a 1.5% fee for the first 30 days, and 1.5% for every 15 days thereafter.

Which of the above options make the most sense for C&C?

COMPARE AND CONTRAST CAPITAL OPTIONS

Options 1 and 2 are somewhat identical in terms of amount and cost of drawn capital, however, the difference is the actual funding mechanism of the facility. Option 1 is a term loan, which means all the proceeds are funded from day 1, and C&C must pay interest on the full amount for the next 36 months. Option 2 is a committed facility in which C&C can draw capital when needed and pay it down once the payment is received from the client, and then re-draw it if needed again (revolving).

Option 2 is preferable for two reasons: First, C&C has more flexibility to utilize the capital only when needed (no choice under Option 1 in which the full proceeds will be funded from day 1). Second, C&C does not have to pay interest on Option 2 when there are no such needs to cover gaps between customer payments (simply pay down the line after C&C receives the customer payment). The trade-off to taking a short-term line of credit (Option 2) over a term loan (Option 1) is simply that a line of credit comes with a shorter term of 12 months. Should C&C have needed growth capital to support long-term initiatives, the longer repayment terms of a term loan would be preferable to expand and grow the business.

Option 3 is slightly different. An A/R factoring facility is technically not a “loan,” but instead an advance on future invoices. Most factoring facilities will require a lockbox account. This means instead of having your customer pay you directly, the facility provider will take the payment directly from your customer, and then remit the remaining amount to you.

Factoring providers not only underwrite to the financial soundness of a business, but also the soundness of its customers (defined as “account debtors,” whom the company sent the invoice to). Factoring providers will do their due diligence on several things, such as the relationship between the business and its customer, the nature of the invoice and underlying sales contracts, and so forth. Based on that, they will determine an “advance rate,” which drives the money the business will receive upfront.

In this example, C&C's large client has a strong credit profile, and Option 3's provider is willing to advance 85% of the invoice value. This means if the invoice is \$500K, C&C will receive \$425K up front. Once this large client makes their payment, C&C will receive the remaining 15% of the invoice (\$75K) net of the facility provider's fees (4.5% of invoice value in this case, if this client pays on day 60).

So how would C&C compare options 2 and 3?

From a cost perspective, Option 2 will have a lower overall cost of capital (15% per year versus calculated 30% APR in Option 3). In addition, Option 2 will provide better control of the customer payments from C&C's perspective. Option 3 may have a faster underwriting process, but then it is up to C&C to determine a preference based on how immediately they need the funds.

EVALUATING A DEBT FINANCING OFFER

You might think that debt financing, in the form of working capital or growth capital, is a good option for your business.

It's crucial that you find a capital provider who will grow with you and offer a funding structure to fit your needs.

The ideal funding partner delivers much more than money. This crucial alliance provides connections, added value, and even introductions to other capital sources. For more than a decade, Lighter Capital has provided the right fit based on a company's needs and ability to scale—for enterprises from \$180,000 to \$20 million in ARR.

When you evaluate capital sources, consider both the loan and the lender.

COMPARE THE LENDER

Market volatility makes trustworthiness more important than ever. Bad lenders can sometimes capriciously call on loans due to their own financing issues, which can materially impact a company's prospects. Or their deceptive practices somehow make 92% APRs look like 10%. So, instead of seeking verbal reassurances, seek factual proof points. Ask for data about the following:

Track record: How many startups have they funded? What is their Net Promoter Score? What do their clients say about them?

Fund dynamics: How large is their current portfolio of loans? Is the fund a committed amount, or is it capital raised for each deal? How much dry powder and reserve capital does this fund have?

Commitment to tech startups: Are there any value-added benefits? Does the lender see itself as a partner? Do they offer connections to other capital sources? Have they developed special programs or service offerings to help their customers save money and grow? Does the firm belong to the [Borrowers Bill of Rights](#)?

COMPARE THE LOAN

When evaluating loan offers, it is crucial to think carefully about how the loan you are considering will affect your company's financial picture—not only how much you will owe and how you will pay it back, but also stipulations that could restrict your future options. Look at the following:

Debt percentage: For companies with under \$3m in annual revenue, the debt should be less than 33% of annual revenue. This is called “The 33% Rule”: Debt greater than 33% of annual revenue is unhealthy for startups at this stage, particularly startups that haven't raised massive pools of equity capital.

Repayment ability: Your company's growth should soon cover your debt payments. If growth in gross profit is larger than the debt payments, the loan gives you a net positive cash position (and even better value appreciation).

Example of a cash position: Imagine a company with debt payments at 4% of revenue and 80% gross margins. The company only needs to grow revenue 5% to make the debt payments and have the same cash flow for operations. Any additional revenue growth above 5% will provide more cash flow and increases value without further dilution.

Warrants: Many venture debt lenders require warrants and expect roughly half of their total returns will come from warrants (and half from interest payments). If your startup does well, the warrant can be worth a lot of money to the lender. Warrants dilute ownership that would otherwise have been upside to the owners, founders, and equity investors. (For a real-world example, see: “[Standard term loan vs. Venture debt facility](#).”)

Covenants: Are there reasonable (or no) financial covenants? Tight covenants hinder operating your startup as you want and may come with large and surprising downsides. Beware: A bad actor lender + tight covenants = startup death. (For more information, see: “[The conditions of a covenant](#).”)

With any debt financing offer, make sure you understand the fees associated with the loan and whether there are stipulations that could restrict you now and in your future – don't forget to read the fine print! It always pays to do your due diligence and ensure you understand the terms and real costs of any type of financing. So before deciding on any small business loan, be sure to consider which funding structure is the most advantageous based on your current capital needs.

“

Lighter Capital opened up such a fast path to growth for Style Arcade, and the team has been awesome to work with. In the tech space where speed matters most, it's having a seamless process and a strong partnership – that's invaluable.”



MICHAELA WESSELS
CEO & CO-FOUNDER
style arcade

ABOUT LIGHTER CAPITAL

Lighter Capital is the leader in founder-friendly financing. Our unmatched combination of up to \$4 million in non-dilutive financing, professional networking resources, product discounts, and capital partner connections have helped hundreds of US, Canadian and Australian startups succeed on their terms. Founders find our application process easy and prefer how our financing features no hidden fees, equity, warrants, or covenant requirements. We've already financed numerous startups, yours could be next.

INTERESTED IN APPLYING FOR A LOAN?

If you're ready to expand your tech startup and still want to maintain ownership and control, connect with our investment team by [applying for funding today](#).