WHITE PAPER

Outpacing Change

How Life Sciences Companies Use Debt Financing to Thrive

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Introduction

Imagine a scientist in a lab, surrounded by groundbreaking research that could result in a big advance in the medical field. The only thing standing between their discovery and a transformative breakthrough is having the capital to secure the right equipment to scale the research—but spending $4 million of their $15 million Series A equity capital would shorten their runway considerably and put them at risk of achieving their goals.

And that's why so many companies turn to venture debt financing as a strategic tool.

In the competitive landscape of life sciences, securing the right funding at the right time is not just about survival; it's about seizing opportunities to build a broader, more secure capital base, positioning your company to create more value, ensuring sufficient liquidity to reach a critical milestone and securing a strategic edge in partnership, equity investor and exit negotiations. The best time to secure venture debt financing is when you have as much cash runway as possible, leveraging your strong capital position to finance additional R&D, lab expansion, working capital, key hires – essentially anything that will help grow your company's value and position your business for long term success.

"Leveraging both equity and debt prudently is key to creating longer runways for our portfolio companies. By ensuring ample capital, we can support our companies through to cash flow positive operations or an acquisition, mitigating risks associated with economic uncertainty."

— Rik Vandevenne, Managing Partner at RC Capital

"Debt financing is a versatile and powerful tool for companies that want to position themselves for growth," says Ed McNamara, Senior Vice President in Bridge Bank's Life Sciences Group. "Unlike equity, which can dilute ownership and control, debt offers flexibility in terms of cost, speed to decision and adaptability to the company's evolving needs. By strategically leveraging debt, life sciences companies can maintain their innovative momentum without compromising their future growth potential."

However, companies need to realize that the economy, regulatory environment and life sciences capital markets have changed a lot in the past few years. To achieve the desired end results, life sciences companies need to wield financing strategically based on a nuanced understanding of the markets and the company's position in development.

Here's a look at how some life sciences companies are using debt capital to thrive and outpace change:

"The most appropriate use of debt is when it significantly increases the likelihood of hitting certain milestones. For early-stage companies, leveraging equipment financing allows them to extend their runway without depleting cash reserves, which is crucial when you're operating on limited capital."

— Mack Healy, Managing Partner, KdT Ventures

Section one:

Adapting to change in today's economic environment

The life sciences market has undergone significant changes in recent years, with regulatory shifts and economic fluctuations reshaping the landscape. These changes have had a substantial impact on the recent path for life sciences companies, delaying certain milestones and shifting goal posts so it takes longer for companies to meet requirements for different funding options. For example, according to Carta, the total cash raised in the healthcare sector (biotech, medtech, healthtech) declined 50% from Q1 2022, to Q4 2023.

Key Regulatory Shifts

- New FDA requirements
- Introduction of the U.S. Inflation Reduction Act (IRA)
- European Health Technology Assessment (EU HTA)

Key Economic Fluctuations

- Pandemic recovery
- Financial industry turmoil and increased economic uncertainty
- Much higher federal and corporate interest rates due to inflation
- Much lower enterprise valuations

> *"The rapid increase in interest rates has fundamentally changed the investment landscape. Investors are now more cautious and focused on sustainable growth rather than 'growth at all costs.' This shift ensures that only well-prepared companies with clear revenue paths secure funding."*
>
> **— Rik Vandevenne, Managing Partner at RC Capital**

> *"The recent market dynamics have underscored the importance of having a resilient and adaptable business model. In the current environment, it's crucial for companies to balance growth with financial prudence. We've seen that those who manage to do this are better positioned to secure funding and achieve long-term success."*
>
> **— Adrienne Vannarsdall, Chief Financial Officer at RC Capital**

For example, in the past, some companies might have held the priority to "grow at all costs," leading to aggressive investments to grow the business over a short period of time. But in an economic period with more uncertainty, stress and strain, moderate, sustainable growth is more appealing and investors react accordingly.

"The goal posts for what is considered sufficient for funding have moved, and we're seeing a shift towards requiring more substantial proof of efficacy and data for securing Series A and B funding," notes Mack Healy, Managing Partner, KdT Ventures. "The market has become more focused on tangible assets rather than platforms, emphasizing the need for clear validation and proof of concept. This means that startups must now demonstrate concrete progress and potential to attract capital."

Healy explains: "It's a significant change from previous years where broader, less defined platforms could secure funding more easily."

"In this environment, it's not just about raising equity anymore. Financing equipment through debt can help preserve equity for more critical growth areas. It's about being strategic—using capital efficiently to ensure you're not diluting ownership too early in the game."

— Phil Ho, Senior Vice President in Bridge Bank's Life Sciences Group

Debt financing might not seem like a logical investment for a life sciences startup that has just raised $25 million in equity because of the capital they have on hand. However, spending it as budgeted would lead to that $25 million in cash turning into $1 million in cash, leaving the company with a weakened negotiating position when it comes time to raise more funds. Debt financing can make a company's capital last longer.

"One of the key benefits of debt financing is that it allows companies to expand their capital base without diluting ownership," says Bill Wickline, Co-Founder and Managing Director of the Life Sciences Group at Bridge Bank. "Founders and early investors retain a greater share of the company, maximizing returns in the long run, and leveraging achievements to secure better terms in future funding rounds."

"The recent economic conditions have highlighted the importance of having a diversified financing portfolio. By leveraging both equity and debt, we can provide our companies with the stability and flexibility they need to navigate uncertain markets."

— Britney Hamberg, Principal, Investor Relations & Operations at RC Capital

Section two:

Understanding how to use financing in each growth phase

To achieve your desired outcomes, you need to wield debt financing thoughtfully, based on a nuanced understanding of the market and your development stage. Because of the changing nature of these two factors and the idiosyncratic nature of each startup, there's no set rule about what the right decision at the right time will be. Instead, life sciences companies need to have data, resources and partners who can help them make informed decisions.

Consider how debt financing could support different activities throughout the lifecycle of a company's growth:

Stage	Key Activities	Strategic Debt Financing Opportunities
Pre-Seed Stage	• Laying the foundation • Ideation, testing and analysis • Validation of the hypotheses • Bringing in key stakeholders • Clarify market needs • Understand target group • Conduct detailed market research • Present your business plan to your network	• Establish a banking relationship with a bank that understands startups and your unique journey and which can scale with you during each growth stage and eliminate unnecessary change down the line
Seed Stage	• Gain financial support • Develop internal R&D systems, protocols and testing regimens • Verify hypothesis with a working prototype or achieve a "signal" with pre-clinical results • Finding the right market solution • Make the right industry and regulatory contacts • Rely on multiple financial sources	• Take advantage of the tools, savings and advice from your banking partner that can connect you with other partners to provide you with cloud services, HR/payroll support, marketing tools, CRM options and more
Early Stage	• Reaching first round of venture capital funding • Clinical viability and discovery work/product design • Validating market opportunity, clinical pathway • Early proof-of-concept/clinical data • Pursue non-dilutive funding including grants and partnerships • Establishing IP strategy, moat and competitive differentiation	• Equipment/broad lab expansion • Cushion capital on tail end of clinical trial work • Accelerating a secondary/tertiary asset to the clinic faster • Increase manufacturing to meet clinical trial needs • Balance irregular grant funding with steady long-term capital
Growth & Expansion Stage	• Later stage clinical data/early product approval & acceptance • Regulatory, reimbursement and manufacturing planning • Expand team to include commercial and reimbursement competencies • Confirmation of market demand • Scale supply chain and working capital capacity • Seek out development and commercialization partners • Focus on product growth and acceptance – eventually unlocking new markets & geographies	• Working capital expansion (AR, Inventory, Manufacturing Capacity) • Additional hiring to drive commercial growth and scale • R&D for product line expansion • Providing an additional 6-12 months to grow into a higher valuation bracket • Balance sheet strength in negotiations with big pharma/med device
Exit Stage	• Create competition for your business – dual path M&A and IPO activities • Explore potential strategic acquisitions that will elevate the business' overall attractiveness to partners • Ensure acquisition partners and bankers are valuing all facets of the business and if not, prepare to monetize these pieces separately	• Continued working capital expansion/supply chain stability • Additional liquidity to address economic, geopolitical and markets uncertainties • Ability to credibly forgo transacting on unfavorable terms

Debt financing offers unparalleled flexibility, allowing you to leverage existing capital more effectively throughout each stage of your journey. For example, early-stage companies can allocate more capital to resource-intensive initiatives like clinical, formulation and product development, and growth stage companies can leverage debt to scale operations and expand the team in pursuit of long-term profitability and growth. Through the expansion stage and exit stage, debt can facilitate strategic choices and acquisitions that prepare the company for a sale, ensuring that founders retain maximum value.

"The flexibility of debt financing means you can leverage your existing capital more effectively," explains Phil Ho, Senior Vice President in Bridge Bank's Life Sciences Group. "This approach lets you fund critical projects without giving up equity or control. By retaining more ownership, companies can continue to steer their vision and mission without interference. Additionally, debt financing can be tailored to match the specific needs and growth stages of the business, offering a customized solution that aligns with the company's objectives."

"By utilizing debt strategically, life sciences companies can focus on achieving critical milestones that can significantly increase their market value. A well-structured debt arrangement can offer predictable and manageable repayment terms, aligning financial obligations with the company's revenue generation."

— Phil Ho, Senior Vice President in Bridge Bank's Life Sciences Group

"Early-stage companies need to be more strategic about their financing options. With the current market conditions, it's essential to consider non-dilutive funding sources like grants and partnerships, which can provide much-needed capital without sacrificing equity. It's about being resourceful and smart with the available funding avenues."

— Mack Healy, Managing Partner, KdT Ventures

Section three:
Getting the right support from a financing partner

In the life sciences industry, the journey from idea to market can be long and complex. Securing the right financial partner, like Bridge Bank, is crucial for making strategic financing choices that align with a company's growth trajectory.

Why Bridge Bank? Our individualized and collaborative approach ensures that you receive tailored solutions that meet your specific needs. We are a full-service banking partner with 20+ years of experience working and partnering with thousands of emerging companies that can support you from the pre-seed stage, where foundational work is laid, to the growth and expansion stage, as well as the exit stage, where debt financing can support scaling and strategic exits. As experts in the banking industry, we can also help you navigate time-sensitive economic factors that affect how you pursue growth.

For example, Wickline notes that valuations for companies have been compressing over the past 18-24 months due to macroeconomic factors, including rising interest rates and the much more selective nature of equity investors. However, stable financial institutions such as Bridge Bank can help companies navigate the more selective, but still active, venture capital environment.

"The success of IPOs and acquisitions in the market is crucial for instilling confidence and maintaining a healthy investment cycle," says Wickline. "These milestones provide proof points that validate the viability and growth potential of life sciences companies. As we see more successful exits, it reaffirms the strength and resilience of the sector, encouraging further investment and innovation."

One of the standout qualities of Bridge Bank is its ability to lend early in the developmental cycle of a life sciences company, even at pre-revenue, developmental stages (pre-clinical/clinical). This early support is vital for life sciences startups, which often require significant capital to progress through research, product development and/or clinical trials.

Bridge Bank's collaborative approach also ensures that financing solutions are not just about providing funds but also about building strong, supportive relationships. Our team of experienced bankers (with nearly 100 years of collective experience in life sciences) works closely with you to know you and to understand your vision and goals, offering strategic advice and insights that go beyond traditional banking services. This holistic, personalized, responsive support is essential for startups looking to navigate the complexities of the life sciences market and achieve long-term success and is a key difference versus the behemoth banks.

> *"Debt financing provides the necessary liquidity to fuel growth while preserving equity for future opportunities. Maintaining a strong equity position can provide the necessary confidence to pursue bold, innovative projects that drive substantial value creation."*
>
> **— Bill Wickline, Co-Founder and Managing Director of the Life Sciences Group at Bridge Bank**

BRIDGE BANK: A BANKING PARTNER FOR ALL SEASONS

Bridge Bank offers a comprehensive suite of commercial banking services tailored to meet the needs of emerging businesses at various stages of growth. Our key banking solutions include:

- **Life Sciences:** Supporting biotech, medical device and healthcare companies with specialized financing and strategic guidance.
- **Technology and Innovation:** Providing financing solutions to tech startups and growth companies, including venture lending, working capital lines and equipment financing.
- **Startup Banking:** Providing founders with tools, savings and advice from Bridge Bank and our network of select partners across the ecosystem, ranging from cloud services, HR/payroll support, marketing tools, CRM options and more.
- **Business Escrow:** Paying agent and escrow services related to mergers, acquisitions, asset purchases and other business escrow transactions.
- **Global Markets:** Assisting companies with foreign exchange, trade finance, interest rate hedging and international banking needs.
- **Corporate Finance:** Delivering solutions for mergers and acquisitions, leveraged buyouts and recapitalizations.
- **Commercial Real Estate:** Offering loans and financial services for commercial property development and investment.

For over 20 years, Bridge Bank has partnered with emerging companies from startup through IPO. Their bankers are dedicated and focused to providing personalized service and industry expertise. Through this strategic and collaborative approach, Bridge Bank is able to provide each client with the tailored financial solutions, expert advice and guidance, that are unique to each company's situation, helping them achieve growth and reach important milestones.

"It was very important to us that Bridge Bank understood our business, the milestones, how to underwrite the company and what mattered in terms of unlocking capital and decreasing risk, with intelligently and collaboratively designed tranches that are meaningful but also achievable."

— Celine Halioua, Founder and CEO, Loyal (Cellular Longevity)

"Emerging companies in life sciences need a bank partner that really understands the journey because it can be a difficult, arduous process."

— Brian Kirkpatrick, Director in Bridge Bank's Life Sciences Group

"During the fundraising process, we emphasize the need for a trusted banking partner that can grow and scale with our companies. This ensures that as they expand, they continue to receive the financial support necessary for sustained growth."

— Britney Hamberg, Principal, Investor Relations & Operations at RC Capital

Debt financing:

The strategic choice for life sciences growth

For every scientist in a lab conducting groundbreaking research that will revolutionize the medical field, there's another that wasn't able to secure the necessary financing to get to the research and development stage—and society will miss out on that advancement.

But that doesn't have to be your story. With the support of a banking partner like Bridge Bank, you can tap into the experience and expertise you need to navigate the financing landscape and develop a long-term, beneficial relationship that allows you to grow on the path you set for yourself.

Strategic financing is the key to success not just today, but in the future, we're standing on the verge of. If you want to fuel your growth and innovation, you'll want to successfully leverage debt financing to do it.

Today's increased expectations mean that companies must provide more compelling data and stronger validation to secure funding. It's led to a more challenging fundraising environment — but also a more rigorous and ultimately healthier market. Companies that can meet these higher standards are better positioned for long-term success.

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Bridge Bank's Life Sciences Group, a national banking group within Western Alliance Bank, Member FDIC, delivers tailored financial lending solutions across all life sciences verticals to innovators nationwide as they bring their products from lab to market, backed by outstanding service. Experienced, knowledgeable relationship managers understand the unique challenges and opportunities life science companies face in all stages of their growth trajectory and provide sophisticated products and services that make a difference. With offices in major tech hubs across the country, Bridge Bank delivers the reach, resources and market expertise that make a difference for its clients.

Bridge Bank, founded in 2001, is part of Western Alliance Bancorporation, which has more than $80 billion in assets at the time of this publication. Major accolades include being ranked as a top U.S. bank in 2023 by American Banker and Bank Director.

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