YANNE CAPITAL

INSTITUTIONAL RESEARCH

The Non-Dilutive Turn: How Growth-Stage Founders Are Rebuilding the Capital Stack with Venture Debt in 2026

Why Venture Debt Hit a Record in 2025, and How Founders Should Use It as a Structural Tool Rather Than a Last Resort

Yanne Capital Research

2026-06-08

Executive Summary

US venture debt issuance reached a record 68.8 billion in 2025, even as deal count held roughly flat at about 1,000 transactions (Runway Growth Capital and PitchBook, 2025-2026 Venture Debt Review). The signal is not that more companies borrowed; it is that larger, later-stage, better-capitalized companies borrowed more deliberately. Venture debt has moved from a last-mile liquidity patch to a structural layer of the growth-stage capital stack.

Three forces drive the shift. First, equity scarcity at the top: when the large majority of new venture capital concentrates into a handful of mega-funds and AI names, the median growth-stage company faces a thinner, more selective equity market and prices dilution accordingly. Second, the math improved: with a typical facility sized at 20 to 35 percent of the last equity round, priced at roughly 8 to 15 percent all-in, and carrying warrant coverage usually under 2 percent of equity, debt now buys 12 to 18 months of runway at a fraction of the ownership cost of a priced round. Third, the lender base institutionalized: specialty BDCs, private credit funds, and the successors to the old bank-led market now compete for quality borrowers, and that competition has widened terms in the founder's favor.

This paper maps the 2026 venture debt market, breaks down the real cost of a facility against the dilution it displaces, identifies which companies qualify and which should not borrow, and provides the decision framework Yanne Capital uses to advise growth-stage CEOs on layering debt into the stack. The paper closes with a forward look through 2027. Yanne Capital is an independent boutique investment bank advising growth-stage companies on equity, debt, and M&A transactions across 26 sectors, with 240+ closed deals and relationships with 3,500+ institutional investors globally. We are your trusted filter between noise and signal.

1. What the record number actually says

The headline from the Runway Growth Capital and PitchBook 2025-2026 Venture Debt Review is a record 68.8 billion of US venture debt issued in 2025. The more important number sits underneath it: deal count stayed roughly flat at about 1,000 transactions. Volume rose while the number of borrowers did not. That combination means the average facility got bigger and the borrower got later-stage and better-capitalized, not that distressed companies flooded the market for emergency cash.

The deal-size distribution confirms it. Median venture debt deal size rose to 5.5 million in 2025, while the 75th percentile reached 27.7 million (Runway Growth Capital and PitchBook). The widening gap between the median and the upper quartile is the same selectivity pattern visible across the broader private markets in 2026: capital concentrating into fewer, larger, higher-quality positions. Lenders are underwriting scaled borrowers with revenue visibility, customer retention, and contracted cash flows, and writing larger checks against them.

Across our advisory work in 2025 and 2026, we observe that the founders bringing debt into the conversation earliest are not the ones running low on cash. They are the ones who have a credible equity round available and are choosing to displace part of it with debt to protect ownership. That is the behavioral shift the record number is really measuring. Venture debt in 2026 is a deliberate capital-structure decision, not a fallback.

Sector concentration tracks the broader market. SaaS again exceeded 28 billion of venture debt financing in 2025, the second consecutive year above that level, and AI-linked borrowers drove a reported 25 percent rise in deal volume alongside fintech. Healthtech, cleantech, and asset-heavy or IP-heavy businesses are taking debt tailored to their cash-flow profiles. The instrument has broadened from a software-only product into a financing tool that flexes across business models.

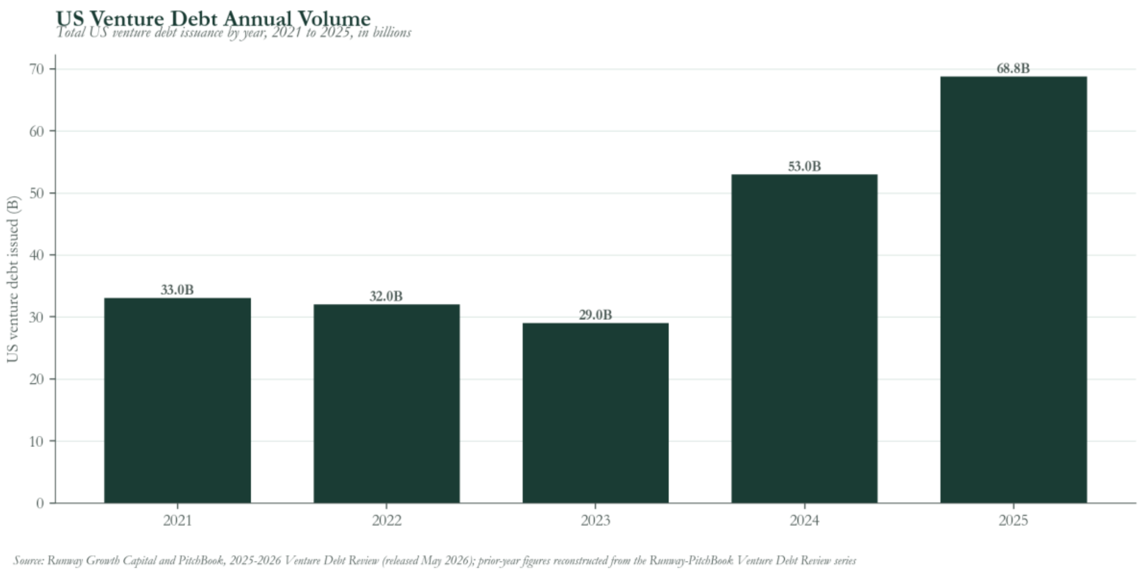

Figure 1. Venture debt reached a record 68.8B in 2025, roughly double the post-SVB low of 2023.

2. Why the equity market pushed founders toward debt

Venture debt did not get more popular in a vacuum. It got more popular because the equity market got more concentrated and more selective at exactly the same time. When the bulk of new venture capital flows to a small number of mega-funds and a short list of AI names, the median growth-stage company confronts a thinner equity market, longer raise timelines, and pricing that no longer rewards the absolute revenue the company has built.

Faced with that, a founder has three levers. Raise a full equity round at whatever price the market sets and accept the dilution. Cut burn hard and stretch the existing runway. Or layer debt onto the stack to buy time to the next milestone at a lower ownership cost. In 2023, the third lever was constrained because the collapse of the largest venture bank had pulled supply out of the market. By 2025 and 2026, the lender base had rebuilt and re-priced, and the third lever became broadly available again.

The result is a stack that looks different from the 2021 playbook. In 2021, founders raised large priced equity rounds because equity was cheap and abundant. In 2026, founders increasingly raise a smaller equity round and pair it with a debt facility, because equity is expensive and debt is competitive. The blended cost of that stack, measured in ownership given up, is materially lower than an all-equity raise of the same size for a company that qualifies.

This is the structural reason the venture debt number is at a record and will stay elevated. It is not a cyclical spike driven by distress. It is a durable response to an equity market that has become harder for the median company to access on attractive terms.

3. The real cost: what a facility actually buys

Founders routinely misprice venture debt in both directions. Some treat it as nearly free because the headline interest rate looks modest against equity upside. Others treat it as dangerously expensive because debt feels heavier than equity. The accurate read sits in the middle and depends on running the numbers against the dilution the debt displaces.

Current market terms, per 2026 venture debt benchmarks, cluster around an 8 to 15 percent all-in interest rate, typically a floating benchmark such as Prime or SOFR plus a spread of roughly 6 to 9 percent. Facilities usually run 2 to 4 years, often with an interest-only period of 6 to 12 months before principal amortizes. Lenders take warrant coverage that for a strong growth-stage borrower usually lands under 2 percent of equity, and they attach covenants: a minimum cash balance, revenue milestones, or limits on additional debt.

The sizing rule of thumb is the part founders should anchor on. A facility is commonly sized at 20 to 35 percent of the most recent equity round. That is the dilution math made concrete. A company that raised a growth round and adds a facility at 30 percent of that round is buying 12 to 18 months of additional runway while giving up warrant coverage of under 2 percent of equity, rather than the 15 to 25 percent of common a full incremental equity round would have cost. For a qualifying company, the ownership saved is the entire point.

The cost that matters is not the coupon; it is the covenant and the amortization. The interest is a known, modelable expense. The risk is the covenant package and the repayment schedule colliding with a slower-than-planned quarter. Across our advisory work, the founders who get venture debt wrong are almost never the ones who misjudged the rate. They are the ones who took a facility their cash-flow profile could not service through a soft patch, or who accepted covenants that handed the lender control at the worst possible moment.

4. Who qualifies, and who should not borrow

Venture debt is not available to every company, and it is not appropriate for every company that could get it. The qualification screen and the suitability screen are different questions, and founders should answer both before engaging a lender.

On qualification, lenders in 2026 underwrite revenue visibility above raw growth. The borrowers getting the best terms have contracted or recurring revenue covering a meaningful share of the forward 12 months, demonstrated customer retention, a defensible margin profile, and a clean enough cap table that the lender can model recovery. The instrument has broadened beyond software, but the common thread is predictability of cash flow. A pre-revenue company burning toward a binary milestone is the wrong borrower; a scaled recurring-revenue business with a soft equity market is the right one.

On suitability, the test is whether the debt buys a genuine milestone or merely defers a reckoning. Debt that funds the path to a clearly higher next round, a profitability inflection, or a sale process is well-placed. Debt that papers over a business that does not support its runway to a credible next milestone is the worst version of the instrument, because it adds a fixed claim ahead of the equity at exactly the moment the company can least afford one. The orderly alternative for that company is to cut burn or run a sale process, not to borrow.

Venture-debt-backed companies accounted for 37 percent of total US exit value and 18 percent of exit count in 2025, both up from the prior year (Runway Growth Capital and PitchBook). That outperformance is not the debt creating better outcomes; it is selection. Lenders concentrate on companies with stronger fundamentals, and those companies exit better. The lesson for founders is to read the exit data as a description of who qualifies, not as a promise that adding debt improves the odds.

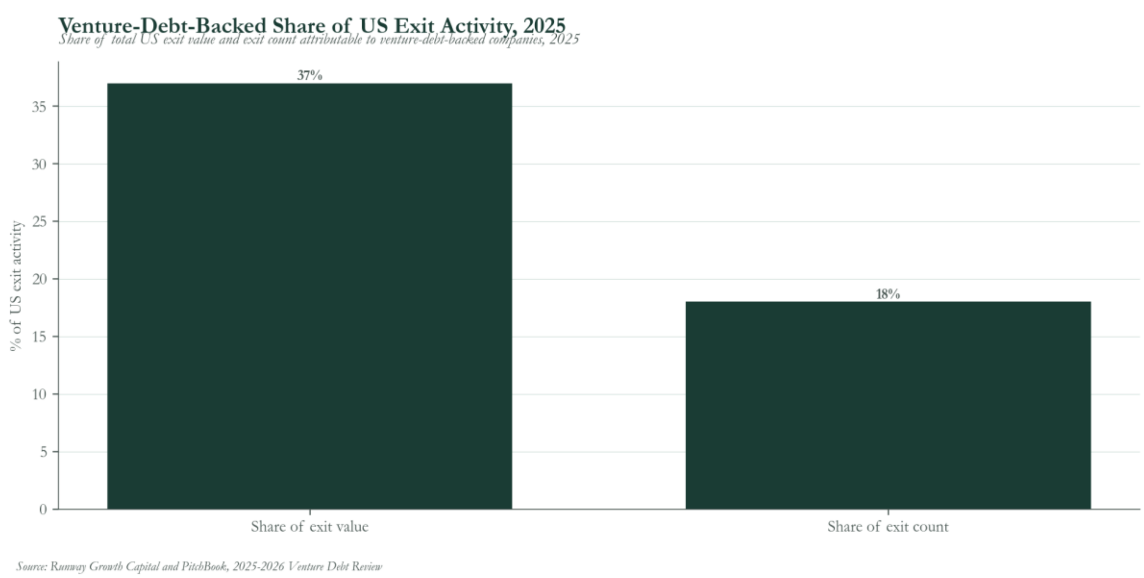

Figure 2. Venture-debt-backed companies punched above their weight on exits, taking 37 percent of exit value from 18 percent of exit count.

5. The lender map: who is actually competing for the deal

The supply side of the venture debt market institutionalized between 2023 and 2026, and the founder benefit is competition. The market is no longer a single dominant bank. It is a layered field of specialty lenders, each with a different risk appetite and a different reason to win the deal.

The publicly traded specialty BDCs, including Hercules Capital, TriplePoint, Trinity, Horizon, and Runway Growth, anchor the senior secured growth-loan segment. Hercules set an all-time record of 1.81 billion in new debt and equity commitments in the first quarter of 2026 alone, across 16 new and 12 existing portfolio companies, and has committed more than 27 billion to over 700 companies since inception (Hercules Capital). That pace tells founders the capital is there and the lenders are leaning in.

Alongside the BDCs sit private credit funds, including large asset managers building dedicated venture and growth-lending strategies, and the bank successors to the pre-2023 market. The busiest sub-segments entering 2026 are recurring-revenue lending, life-sciences specialty lending, late-stage and pre-IPO structured facilities, and a fast-growing AI-infrastructure lending category underwriting the capital intensity of model and data-center buildouts.

For a founder, the practical consequence is that a venture debt facility is a process, not a phone call. The terms a company can get from a competitive process with three to five qualified lenders are materially better than the terms from the first lender that picks up. The spread, the warrant coverage, the covenant package, and the amortization schedule are all negotiable, and they move when lenders know they are competing. Running the debt raise like a real process is the single highest-leverage thing a qualifying founder can do.

6. The framework: four questions before signing a term sheet

Yanne Capital advises founders considering venture debt to answer four questions in writing before signing any term sheet. The framework separates the companies for which debt is a structural advantage from the companies for which it is a hidden risk.

Question one: what specific milestone does this facility buy, and is that milestone credible on the runway the debt provides? If the answer is a higher next round, a profitability inflection, or a sale process, the debt is well-placed. If the answer is only more time, the debt is deferring a decision rather than enabling one.

Question two: can the business service the interest and the amortization through a soft quarter without tripping a covenant? Model the facility against a downside case, not the plan. The risk in venture debt is almost never the rate; it is the collision of the repayment schedule and the covenant package with a slower-than-expected period.

Question three: what is the blended ownership cost of an equity-plus-debt stack versus an all-equity raise of the same size? For a qualifying company, the debt-inclusive stack usually costs materially less in dilution. Run the actual number rather than assuming. The warrant coverage of under 2 percent of equity against a facility sized at 20 to 35 percent of the last round is the comparison that matters.

Question four: is this a competitive process? A facility negotiated against three to five qualified lenders prices better on spread, warrant coverage, covenants, and amortization than a facility taken from the first lender to respond. Founders who run the debt raise as a real process close on structurally better terms. Debt is a tool; the four questions decide whether it is the right tool for this company at this moment.

Case Studies

Publicly-reported reference: the 2025 record and the flat deal count

The Runway Growth Capital and PitchBook 2025-2026 Venture Debt Review documents the defining pattern of the year: record issuance of 68.8 billion against a roughly flat deal count near 1,000 transactions, with median deal size rising to 5.5 million and the 75th percentile reaching 27.7 million. The pattern is illustrative of the broader 2026 market. Capital concentrated into larger facilities for later-stage, better-capitalized borrowers rather than spreading across more companies, the same selectivity dynamic visible across private markets.

Publicly-reported reference: SaaS as the anchor sector

Per the same review, SaaS again exceeded 28 billion in venture debt financing in 2025, the second consecutive year above that mark, while AI-linked and fintech borrowers drove a reported 25 percent rise in deal volume. The data shows venture debt remains anchored in predictable recurring-revenue businesses while broadening into AI infrastructure, healthtech, and cleantech. For founders, the read is that lenders price predictability of cash flow above raw growth rate, and the sectors with the cleanest recurring-revenue profiles get the deepest debt capacity.

Publicly-reported reference: Hercules Capital Q1 2026 commitments

Hercules Capital reported a record 1.81 billion in new debt and equity commitments in the first quarter of 2026 across 16 new and 12 existing portfolio companies, having committed more than 27 billion to over 700 companies since its 2003 inception. The pace is illustrative of an institutionalized, well-capitalized lender base actively competing for growth-stage borrowers. The practical takeaway for founders is that supply is abundant and lenders are leaning in, which is precisely the market condition in which running a competitive process pays off.

Forward Look: 12-Month Outlook

Three predictions hold with high conviction for the next 12 months. First, venture debt volume stays elevated. The 2025 record was structural, not cyclical, driven by a concentrated equity market that has not loosened for the median growth-stage company, so issuance holds near or above record levels through 2026 rather than reverting. Second, the lender field keeps institutionalizing and specializing. Recurring-revenue lending, life-sciences specialty facilities, late-stage and pre-IPO structured debt, and AI-infrastructure lending each deepen as distinct sub-markets with dedicated capital, widening terms for qualifying borrowers. Third, the equity-plus-debt stack becomes the default growth-stage playbook rather than the exception. As founders and boards internalize the dilution math, pairing a smaller priced equity round with a competitively sourced debt facility moves from a sophisticated tactic to a standard capital-structure decision. The risk to watch is covenant discipline: in a competitive lender market, the temptation to accept looser facilities on weaker businesses rises, and the companies that borrow against cash-flow profiles they cannot service through a downside case are the ones that will struggle in 2027.

Conclusion

If you are a growth-stage CEO weighing whether to layer venture debt into your capital stack in H2 2026, Yanne Capital's deal team will run a no-cost 60-minute structural review. We will tell you whether your company qualifies, what a facility should cost in the current market, how the blended dilution compares to an all-equity raise, and how to run the debt raise as a competitive process. Reach out at contact@yannecapital.com.

Frequently Asked Questions

How big is the venture debt market in 2026?

US venture debt issuance reached a record 68.8 billion in 2025, with deal count roughly flat at about 1,000 transactions, per the Runway Growth Capital and PitchBook 2025-2026 Venture Debt Review. Median deal size rose to 5.5 million and the 75th percentile reached 27.7 million, reflecting larger facilities for later-stage, better-capitalized borrowers. Tech venture debt deal value was reported near 19.3 billion in the first quarter of 2026.

What does venture debt cost a growth-stage company in 2026?

Current benchmarks cluster around an 8 to 15 percent all-in interest rate, typically a floating benchmark such as Prime or SOFR plus a 6 to 9 percent spread, over a 2 to 4 year term that often includes a 6 to 12 month interest-only period. Lenders take warrant coverage usually under 2 percent of equity for a strong borrower, and facilities are commonly sized at 20 to 35 percent of the most recent equity round.

Should a growth-stage founder use venture debt?

Venture debt suits companies with revenue visibility, contracted or recurring cash flow, customer retention, and a defensible margin profile, where the facility buys a credible milestone such as a higher next round, a profitability inflection, or a sale process. It is the wrong tool for pre-revenue companies funding a binary milestone or businesses using debt to defer a reckoning. Founders should run the facility as a competitive process against three to five qualified lenders.

Where can a founder reach Yanne Capital?

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