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Capital Structure 2027: Founder Forward Plan

How growth-stage founders should sequence equity, debt, and hybrid capital across the next 18 months

Yanne Capital Research

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Executive Summary

The growth-stage capital stack has restructured faster in the past 24 months than at any point since 2008. Private credit AUM crossed 1.7 trillion in H1 2026, up from 875 billion in 2020 (PitchBook H1 2026 Private Credit). Direct lender share of sponsored middle-market loans reached 84 percent in Q2 2026, against 25 percent in 2019 (S&P LCD). The Federal Reserve H.4.1 release shows the balance sheet at 6.8 trillion as of April 2026, still 1.6 trillion above the pre-2020 baseline. Founders raising capital in this window are not choosing between the same instruments their peers chose in 2021.

This paper lays out the sequencing decision every growth-stage founder faces between now and Q4 2027. The core argument is that capital structure has bifurcated into three regimes based on revenue quality, and the founder decisions that used to be optional are now load-bearing. Contracted-revenue businesses with net revenue retention above 115 percent can access non-dilutive facilities at coupons that were not available to them 36 months ago. Businesses with lumpier revenue profiles face a wider equity discount than headlines suggest, because the alternative funding paths have narrowed. Businesses in between, and this is the majority of the growth-stage universe, need to price the hybrid.

Across Yanne Capital's advisory work in 2025 and 2026, we observe founders anchoring capital-structure decisions on 2021 comps that no longer describe the market. The median all-in cost of senior direct-lending debt in the sponsored middle market ran SOFR plus 550 basis points in Q2 2026 (S&P LCD), against SOFR plus 425 in Q4 2021. Equity dilution to raise 25 million ran 18 to 22 percent in growth-stage rounds in H1 2026 (Bloomberg DCM), against 12 to 15 percent in H2 2021. The relative cost has moved, and the sequencing implications compound.

The paper is organized in seven sections. Section one frames the macro backdrop. Section two lays out the three capital-structure regimes and where each founder profile fits. Section three walks the sequencing question: equity first, debt first, or hybrid, and under what conditions. Section four addresses the debt service ratio math that gates every non-dilutive facility. Section five covers hybrid instruments including revenue-based financing and structured equity. Section six is the founder forward plan, a 12-month decision framework. Section seven is the outlook through Q4 2027. The paper closes with the specific ask for founders 12 to 18 months from a capital event.

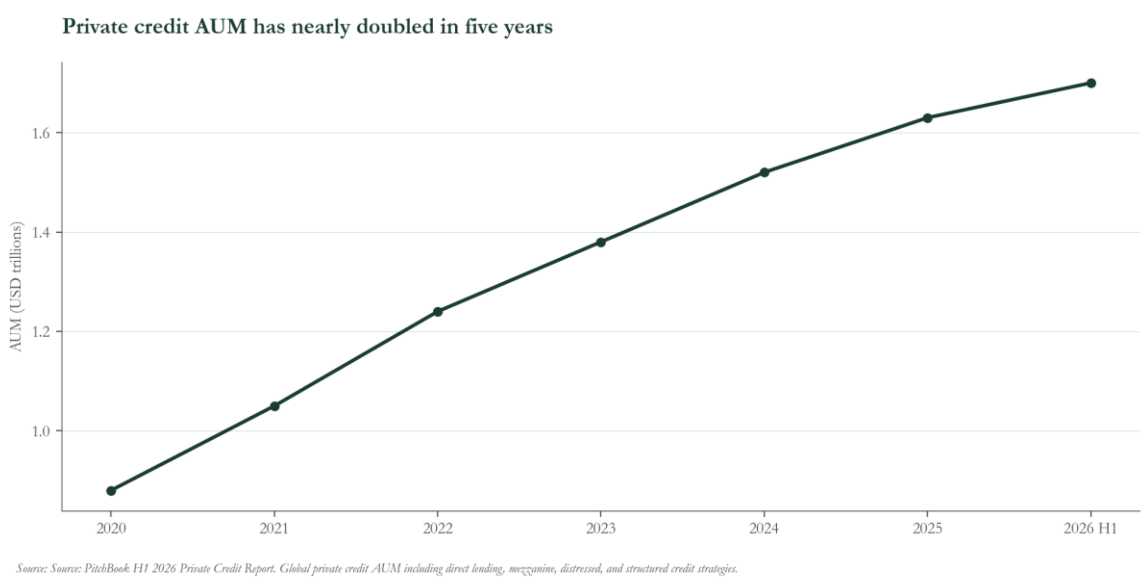
1. The macro backdrop, in numbers

Three data points frame every capital-structure decision growth-stage founders will make between now and the end of 2027. First, private credit AUM. PitchBook reports 1.7 trillion in H1 2026, roughly doubling in five years. That capital has to deploy, and the deployment target is precisely the growth-stage segment banks vacated after Silicon Valley Bank. Second, the direct-lender share of sponsored middle-market loans. S&P LCD puts it at 84 percent in Q2 2026, against 25 percent in 2019. The bank retreat from the segment is structural, not cyclical. Third, the Federal Reserve balance sheet. H.4.1 shows 6.8 trillion as of April 2026, still 1.6 trillion above the January 2020 baseline. Liquidity conditions have tightened relative to 2021, but by historical standards the environment remains accommodative.

The composite picture is a market where non-dilutive capital is abundant and structurally cheaper for the right borrower profile than it was 36 months ago, while dilutive capital has repriced upward and equity discounts have widened. That inversion is the single most consequential shift in growth-stage capital structure since 2008.

The consequence for founders is that the default sequencing playbook, raise equity first and layer debt after, no longer describes the optimal path for a growing share of the addressable universe. Contracted-revenue businesses in particular are leaving 8 to 12 percentage points of terminal dilution on the table by defaulting to the 2021 sequence. Bloomberg DCM data on 2025 growth-stage rounds shows the median founder gave up 21 percent of the company to raise the same dollar amount that a well-structured debt facility could have provided for a coupon in the low teens.

This does not mean debt is the answer for every founder. Roughly half the growth-stage universe cannot service meaningful debt without stressing the operating model. For those companies, equity remains the load-bearing instrument. The point is that the default assumption, that equity is the starting point, needs to be replaced with a diagnostic. Section two lays out the diagnostic.



Source: PitchBook H1 2026 Private Credit Report. Global private credit AUM including direct lending, mezzanine, distressed, and structured credit strategies.

2. The three capital-structure regimes

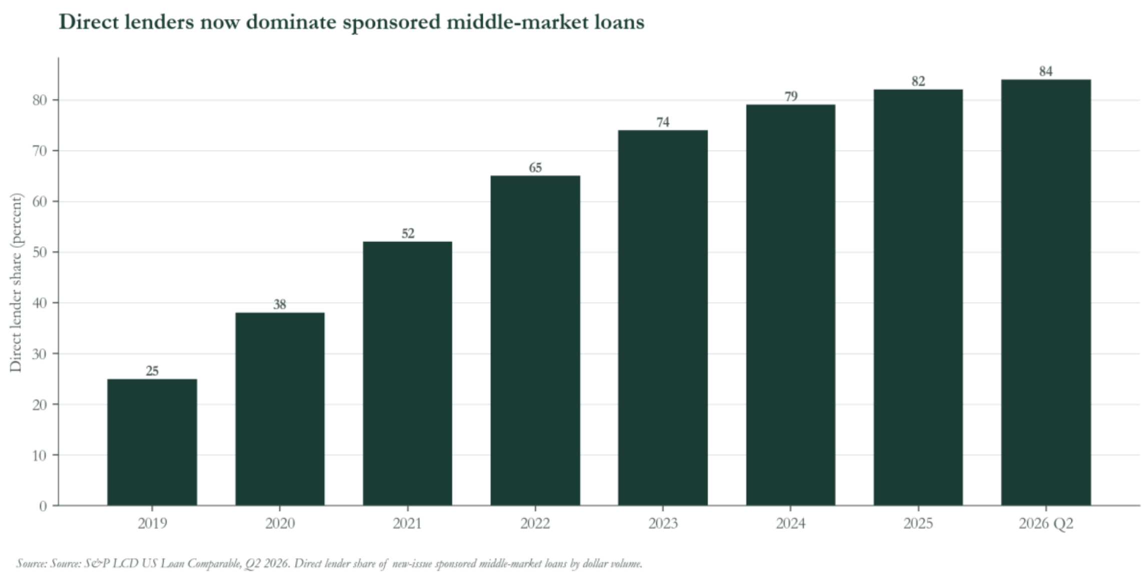
Growth-stage businesses in 2026 fall into one of three regimes based on revenue quality. The regimes are not sector-specific, they are quality-of-cash-flow-specific. A vertical SaaS business with 90 percent gross margin and 125 percent net revenue retention sits in the same regime as an infrastructure business with long-term contracted revenue and investment-grade counterparties. The instruments available to each are similar. The sequencing implications are similar. The framing question is the same.

Regime one is the contracted-revenue tier. Businesses in this regime have gross retention above 92 percent, net revenue retention above 115 percent, gross margin above 70 percent, and 24-plus-month contract terms with credit-worthy counterparties. Direct lenders will underwrite these businesses at 3 to 5 times ARR at coupons in the SOFR plus 500 to 650 range (S&P LCD Q2 2026 middle-market composite). Total non-dilutive capacity typically runs 40 to 60 percent of ARR at the point of first raise. For a business with 30 million ARR, that is 12 to 18 million of debt capacity before touching equity.

Regime two is the transitional tier. Net revenue retention between 100 and 115 percent, gross margin between 55 and 70 percent, or a mix of contracted and consumption-based revenue. Traditional senior debt is available but at tighter capacity, typically 20 to 30 percent of ARR. The economically correct instrument is often hybrid: a senior facility sized to what the operating model comfortably services, plus a smaller equity round to fund the growth investment the debt facility will not cover. Bloomberg DCM data on 2025 transactions shows this profile increasingly resolved via structured equity or revenue-based financing layered over a modest senior facility.

Regime three is the equity-required tier. Net revenue retention below 100 percent, gross margin below 55 percent, revenue profile too lumpy or too consumption-based to underwrite. For these businesses, equity is the load-bearing instrument and debt is a distraction until the operating profile changes. The founder mistake in this regime is chasing debt structures that look attractive on paper but constrain the operating flexibility the business actually needs.

Across Yanne Capital's advisory conversations in 2025 and 2026, we observe founders systematically mis-diagnosing their regime. Roughly a third of founders in regime one default to equity-first sequencing because their prior raise was equity-first. Roughly a quarter of founders in regime three chase debt structures they cannot support because they read that private credit is the new default. The diagnostic below is what we walk through on a first call.



Source: S&P LCD US Loan Comparable, Q2 2026. Direct lender share of new-issue sponsored middle-market loans by dollar volume.

3. Sequencing: equity first, debt first, or hybrid

The sequencing decision is not a single choice, it is an ordered set of choices with option value that compounds. Raising equity first at a compressed valuation forecloses the ability to add debt later at attractive terms, because the debt underwriter will price against the trailing valuation. Raising debt first without addressing the equity gap leaves the business under-capitalized for growth investment. The right answer is almost always to model both paths against a 36-month horizon and pick the one that leaves the founder with the most option value at month 36.

For regime-one businesses, the sequencing math favors debt first in the majority of scenarios. A 30 million ARR business raising 15 million of senior debt at SOFR plus 550 preserves roughly 15 to 18 percent of ownership relative to the equity-only path (Bloomberg DCM 2025 growth-round composite, S&P LCD Q2 2026 pricing). The debt service is meaningful, roughly 1.6 million per year at current SOFR, but a business with 92 percent gross retention and 125 percent NRR generates the coverage comfortably. The founder retains the option to raise equity 18 to 24 months later at a higher valuation, or to refinance and up-size the facility if performance holds.

For regime-two businesses, the sequencing math favors what we call the compressed hybrid. A modest senior facility, typically 20 to 30 percent of ARR, layered with a smaller equity round of 8 to 15 million, structured to close within 60 days of each other. The compression matters because the debt underwriter prices against the pro forma capital structure including the incoming equity, and the equity underwriter prices against the pro forma capital structure including the incoming debt. When run in sequence rather than compressed, each transaction sees the other as a future dilution or leverage event, and both price more conservatively.

For regime-three businesses, sequencing is equity first, and the question is how much and at what valuation discipline. The temptation to raise a larger round at a compressed valuation is the primary founder mistake in this regime. A 25 million round at a 100 million pre-money is a 20 percent dilution event that leaves the founder with the same terminal ownership as a 15 million round at 125 million pre-money followed by a 15 million round at 200 million pre-money 18 months later, assuming the business hits plan. The difference is that the second path preserves the option to skip the second round entirely if the business outperforms. Section six walks the founder forward plan that operationalizes these choices.

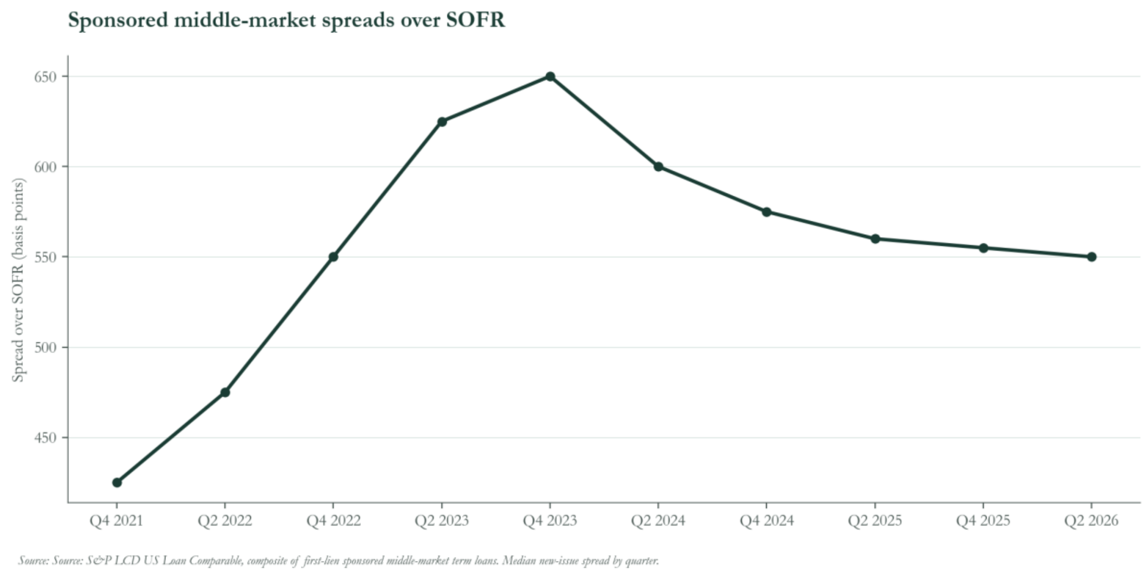
4. The debt service ratio math

Every non-dilutive facility is gated on the debt service ratio, sometimes called DSR or fixed charge coverage depending on the lender. The math is simple: cash available for debt service divided by required debt service, where required debt service includes principal amortization plus interest plus any mandatory fees. The threshold that gets a growth-stage business past first-look diligence at a direct lender in 2026 is 1.3 times on a trailing 12-month basis, with a forward 12-month projection that clears 1.5 times (S&P LCD middle-market underwriting standards, Q2 2026).

The founder mistake we see most often is running the DSR math on EBITDA rather than on free cash flow after growth investment. Direct lenders will underwrite on adjusted EBITDA for the initial sizing, but the covenant testing during the life of the facility runs on cash available for debt service, which is closer to free cash flow after maintenance capital expenditure and required working capital investment. Founders who model the initial sizing on EBITDA and then run the operating model on the assumption that growth investment continues at prior rates end up in a covenant conversation 18 months in.

The practical implication is that founders considering a debt facility should model the coverage on two scenarios. The base case assumes the growth investment plan continues as budgeted. The stress case assumes growth investment holds at maintenance levels only. If the coverage clears 1.3 times in the stress case, the facility is right-sized. If it only clears in the base case, the facility is over-sized and the founder is one bad quarter away from a covenant conversation.

At current SOFR, roughly 4.3 percent as of April 2026 (Federal Reserve H.4.1), a senior facility at SOFR plus 550 carries an all-in coupon of approximately 9.8 percent before original issue discount and fees. On a five-year term with straight-line amortization, the annual debt service on 15 million of principal is roughly 4.5 million in the first year, declining as principal amortizes. A business needs roughly 6 to 7 million of free cash flow after growth investment to comfortably service that facility. That is the arithmetic that gates the sizing.



Source: S&P LCD US Loan Comparable, composite of first-lien sponsored middle-market term loans. Median new-issue spread by quarter.

5. Hybrid instruments and structured equity

Between the pure senior debt and pure equity endpoints sits a growing set of hybrid instruments that have become materially cheaper and more available since 2023. Revenue-based financing at scale, structured equity with defined return profiles, and convertible facilities with capped conversion terms all fall in this category. PitchBook H1 2026 Private Credit data attributes roughly 240 billion of the 1.7 trillion private credit universe to hybrid and structured strategies, up from 60 billion in 2020.

Revenue-based financing at the growth stage typically prices at a 1.4 to 1.7 times return cap with monthly revenue share between 3 and 8 percent, terms which translate to an effective annual rate in the 15 to 22 percent range depending on repayment speed. That is more expensive than senior debt in absolute terms, but it carries no dilution, no board seat, and no financial covenants beyond the revenue share mechanic. For businesses in regime two with revenue quality that is close to but not quite at direct-lender standards, revenue-based financing fills the gap that would otherwise require expensive equity.

Structured equity, sometimes called preferred equity or growth debt depending on the structure, sits between debt and common equity. Typical 2026 structures include a 12 to 15 percent coupon plus a warrant kicker sized to deliver a target IRR of 18 to 22 percent to the investor. The founder gives up some equity via the warrants, roughly 3 to 8 percent typically, but avoids the full dilution of a straight equity round. Bloomberg DCM tracks approximately 180 growth-stage structured equity transactions in H1 2026, against 95 in H1 2024.

The instrument selection question is not which instrument is cheapest, it is which instrument leaves the founder with the most flexibility to reach the next capital event on favorable terms. A revenue-based financing that costs 200 basis points more than senior debt but preserves the ability to raise equity in 18 months without a debt overhang is often the correct choice, even though the coupon comparison would suggest otherwise. The comparison that matters is terminal ownership at month 36 across the full path, not the coupon on the first instrument.

6. The founder forward plan: a 12-month framework

The framework compresses the capital-structure decision into six sequential questions, each answered before the next is engaged. The point of the sequence is to force the founder through the diagnostic before the sales pitch from any single capital provider anchors the conversation.

Question one: what regime is the business in today, using the trailing 12 months of financial data. Not the projections, the actuals. Net revenue retention, gross margin, gross retention, contract terms. The answer determines which instruments are available. Question two: what is the 24-month capital need, and can it be met with any single instrument, or does it require a stack. The answer here reveals whether the sequencing question is even relevant, because roughly 30 percent of growth-stage capital needs are small enough to be met with a single instrument, in which case sequencing collapses to a single choice.

Question three: what is the stress-case DSR, calculated on free cash flow after growth investment held at maintenance levels. If the answer is below 1.3, meaningful debt is off the table and the sequencing question resolves to equity or hybrid. If the answer is above 1.5, meaningful debt is available and the sequencing question opens up. Question four: what is the terminal ownership at month 36 across the three sequencing paths, equity first, debt first, and compressed hybrid, holding the underlying business plan constant. The path that maximizes terminal ownership is usually not the same as the path that minimizes near-term cost of capital.

Question five: what is the option value in each path, measured as the flexibility to skip the second capital event if the business outperforms. This is where the debt-first path often shows well, because a debt facility that gets repaid ahead of schedule preserves the option to skip an equity round entirely. Question six: what is the downside protection in each path, measured as the flexibility to raise capital in a stressed scenario. This is where the equity-first path often shows well, because equity is not a claim on future cash flows the way debt is.

The framework does not produce a single answer. It produces a range of paths ordered by trade-off. The founder decision is which trade-off to accept, not which instrument is optimal on any single dimension.

7. Outlook through Q4 2027

The five-quarter outlook rests on three claims we are willing to be wrong about. First, direct-lender pricing will compress modestly through 2027 as private credit AUM continues to grow ahead of deployment capacity. We expect the median sponsored middle-market spread to move from SOFR plus 550 in Q2 2026 to approximately SOFR plus 475 to 500 by Q4 2027. The compression favors borrowers, but not enough to change the regime allocation materially.

Second, equity dilution for growth-stage rounds will remain elevated relative to 2021 levels through 2027. Bloomberg DCM data on H1 2026 rounds already shows a modest recovery from the 2023 trough, but the median 18 to 22 percent dilution for a 25 million round is likely to persist. The structural reasons are LP allocation shifts toward yield and private credit, which we do not expect to reverse before 2028.

Third, hybrid instrument availability will expand further, particularly for regime-two businesses. PitchBook data suggests the hybrid and structured private credit segment will approach 400 billion by end of 2027 if current growth persists. That expansion widens the option set for the majority of growth-stage founders, and it particularly benefits businesses that fall between the direct-lender bar and the equity-required threshold.

The cases where this outlook is wrong. If the Federal Reserve reverses course and cuts rates more aggressively than the current path implies, direct-lender pricing compresses faster and equity dilution moderates faster, and the sequencing math shifts back toward the 2021 defaults. If private credit deployment stalls due to loss experience in a sector we have not yet stressed, direct-lender availability tightens for growth-stage borrowers and the sequencing math shifts back toward equity first for a wider share of the universe. We think both scenarios are less likely than the base case, but neither is implausible.

Case Studies

Regime-one contracted-revenue business, sequencing debt first

Consider a vertical SaaS business at 32 million ARR, 94 percent gross retention, 121 percent net revenue retention, and 76 percent gross margin, approaching a 20 million capital need to fund a two-year growth investment plan. The equity-first path in H1 2026 pricing would clear at approximately 21 percent dilution against a 95 million pre-money valuation (Bloomberg DCM 2026 growth-round composite). The debt-first path, sizing a senior direct-lending facility at 14 million and reserving equity for a smaller top-up 18 months later, projects terminal ownership at month 36 approximately 11 percentage points higher, assuming the business hits plan. The debt service in the base case runs 1.9 times coverage on projected free cash flow. In the stress case with growth investment held at maintenance, coverage clears 1.4 times. The sequencing decision is defensible on both cost and option value.

Regime-two transitional business, compressed hybrid path

Consider a B2B software business at 22 million ARR, 88 percent gross retention, 108 percent net revenue retention, 62 percent gross margin, with roughly 40 percent of revenue in consumption-based pricing. Traditional senior debt sizing at this profile runs 5 to 7 million, meaningfully below the 15 million capital need. The compressed hybrid path pairs a 6 million senior facility at SOFR plus 625 with a 10 million equity round structured to close within 60 days. The blended cost of capital is roughly 40 percent below the equity-only path, and the pro forma capital structure closes both transactions in the same underwriting window. The founder gives up approximately 12 percent equity against 18 to 20 percent in the equity-only path (Bloomberg DCM Q2 2026 growth-round composite for the segment). The trade-off is the ongoing debt service and covenant compliance, which the business models at 1.5 times coverage in the base case.

Forward Look: 12-Month Outlook

Through the next five quarters, we expect three shifts to define the capital-structure decision for growth-stage founders. Direct-lender pricing compresses modestly, from SOFR plus 550 to approximately SOFR plus 475 to 500 by Q4 2027, as private credit AUM continues to outpace deployment capacity (PitchBook H1 2026 projection, extrapolated). Equity dilution remains elevated relative to 2021, with median growth-stage rounds pricing in the 18 to 22 percent dilution band, because LP allocation shifts toward yield and private credit are structural rather than cyclical. Hybrid and structured instruments expand further, potentially approaching 400 billion in AUM by end of 2027 if current growth persists. The composite implication is that the sequencing question, which the 2021 default resolved with equity first for nearly every growth-stage founder, will resolve differently across the three regimes we describe. Regime-one businesses will increasingly lead with debt. Regime-two businesses will increasingly resolve with compressed hybrids. Regime-three businesses will continue leading with equity, but with more discipline around valuation and round sizing than the 2021 defaults enforced.

Conclusion

If you are 12 to 18 months from a capital event and considering whether the sequencing defaults you inherited from your last raise still apply, the diagnostic in section six is what we walk through on a first call. 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. Reach out at contact@yannecapital.com.

Frequently Asked Questions

What is the optimal capital structure for a growth-stage company in 2027?

The optimal capital structure depends on which of three regimes the business falls into, based on revenue quality. Regime one, contracted-revenue businesses with net revenue retention above 115 percent and gross margin above 70 percent, can access senior direct-lending debt at 3 to 5 times ARR and typically benefits from sequencing debt first. Regime two, transitional businesses with net revenue retention between 100 and 115 percent, typically resolves with a compressed hybrid of modest senior debt plus a smaller equity round. Regime three, businesses with net revenue retention below 100 percent, leads with equity. The diagnostic is the trailing 12-month revenue quality, not the sector.

How much debt can a growth-stage company support?

The debt capacity is gated on the debt service ratio, calculated as cash available for debt service divided by required debt service. Direct lenders in 2026 require 1.3 times coverage on a trailing 12-month basis and 1.5 times on a forward 12-month projection (S&P LCD Q2 2026 underwriting standards). For a contracted-revenue business, this typically translates to 40 to 60 percent of ARR in debt capacity. Founders should model coverage on both a base case and a stress case that holds growth investment at maintenance levels, and size the facility to clear 1.3 times in the stress case.

What are the current spreads on private credit for growth-stage companies?

As of Q2 2026, the median sponsored middle-market senior direct-lending spread runs SOFR plus 550 basis points (S&P LCD). At current SOFR of approximately 4.3 percent (Federal Reserve H.4.1, April 2026), the all-in coupon runs approximately 9.8 percent before original issue discount and fees. Spreads have compressed from the Q4 2023 peak of SOFR plus 650 and are projected to continue compressing modestly through 2027 as private credit AUM outpaces deployment capacity.

Should growth-stage founders raise equity or debt first?

The sequencing decision depends on the business regime. For contracted-revenue businesses in regime one, the debt-first path typically preserves 10 to 15 percentage points of terminal ownership at month 36 relative to the equity-first path. For transitional businesses in regime two, the compressed hybrid path, closing a modest debt facility and a smaller equity round within 60 days of each other, typically outperforms sequential paths because each underwriter prices against the pro forma capital structure. For regime three businesses, equity first is the load-bearing choice, with the primary discipline being round sizing and valuation, not sequencing.

What is revenue-based financing and when is it appropriate?

Revenue-based financing is a non-dilutive instrument that provides capital in exchange for a percentage of ongoing revenue, typically 3 to 8 percent monthly, until a defined return cap of 1.4 to 1.7 times is repaid. The effective annual rate runs 15 to 22 percent depending on repayment speed, which is more expensive than senior direct-lending debt but requires no dilution, no board seat, and no financial covenants beyond the revenue share mechanic. It is appropriate for regime-two businesses whose revenue quality is close to but not quite at direct-lender standards, filling the gap that would otherwise require expensive equity.

How much dilution do growth-stage founders currently face?

Bloomberg DCM data on H1 2026 growth-stage rounds shows median dilution of 18 to 22 percent for rounds in the 20 to 30 million range, against 12 to 15 percent in H2 2021. The elevated dilution reflects LP allocation shifts toward yield and private credit strategies, which we expect to remain structural through at least 2027. Founders in contracted-revenue businesses can reduce terminal dilution meaningfully by sequencing debt ahead of equity, but the equity dilution when it does come remains at the elevated 2026 levels.

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