A Look at Early-Stage Lending

Ken Wilcox
President and Chief Executive Officer
SVB Financial Group
February 23, 2007
Nasdaq: SIVB

SVB
• One target market
• Six businesses
• The bulk of our profitability from lending

Technology and Life Sciences
• A small universe
  - 10,000 venture-backed
  - 3,000 public

Gross Profit Vs ROE by Stage (pre-expense)
Types of Risk

- Pre-revenue and pre-profit – venture risk
  - Will the next round take place?
  - If not, what happens next?

- Pre-corp tech and corp tech – business risk
  - How big are the cash flows?
  - How much can we sell the assets for?

So, Why Early-Stage Lending?

- As a group, they earn us money
- In general, if they succeed, they stay with us
- Most lenders don’t like them
- We love them

Why Do They Borrow?

- Lower the cost of capital
- Avoid dilution
- Extend runway
- Improve optics

How Does It Work?

- $12 million, 12 months
  - To hit a milestone
- $3 million from us
  - Turns 12 months into 15 months
- Higher probability of achieving milestones
- Lower probability of getting diluted
**Typical Pricing**

- 8-10% interest
- 2-8% warrant coverage

---

**How Does it Work for Us?**

- **We need:**
  - $80 million × 2% = $1.6 million
  - $30 million × 20% = $4.0 million
  - $100 million - $5.6 million

---

**How Does it Work for Us?**

- **We get:**
  - $10 million × Interest
  - -$7 million Charge-offs
  - -$2 million SG&A
  - $1 million

- Therefore, we need $4.6 million in warrant income per $100 million in loans

---

**How Does it Work for Us?**

- **Do we earn $4.6mm in warrant income per $100mm in loans?**
  - 5% of warrant payoff
  - 50 loans × 5% = 2.5 warrants payoff
  - $86mm is the average payment
  - 2.5 × $253 million × 7 years = $4.4 billion
It Works!

- But just barely...
- And only if...
  - # of warrants
  - Average strike price
  - Charge-off rate
  - Life of warrant
  - Interest rates
  - Cost of lenders (SG&A)
  - Average payoff
- And you can’t make it up on volume...

The Third Venture Debt Bubble

- 2004 – Today: The Third Bubble

Hope springs eternal!
or
P.T. Barnum was right!