

The most active US debt investors in European startups

Debt funding has taken off in Europe in 2022. But it's US banks and debt funds that are dominating the deal landscape

European startups have raised record amounts of debt already this year, and it's nearly all coming from US investors.

All of the top ten most active debt investors in Europe in the last two years are from the US, based on publicly announced debt rounds compiled by Dealroom and analysed by Sifted. Local debt funds are [are upping the ante](#), but the reality remains that the US debt financing market, and its investors, are still far ahead in backing companies globally.

Debt is becoming a more frequent source of funds for European startups as the environment for equity fundraising has become more difficult. Unlike debt, equity investors take an ownership stake when they invest. [Debt financing can involve interest payments or give lenders a cut of exit proceeds](#).

So who are the most active debt investors in Europe? And why are US players dominating the European market?

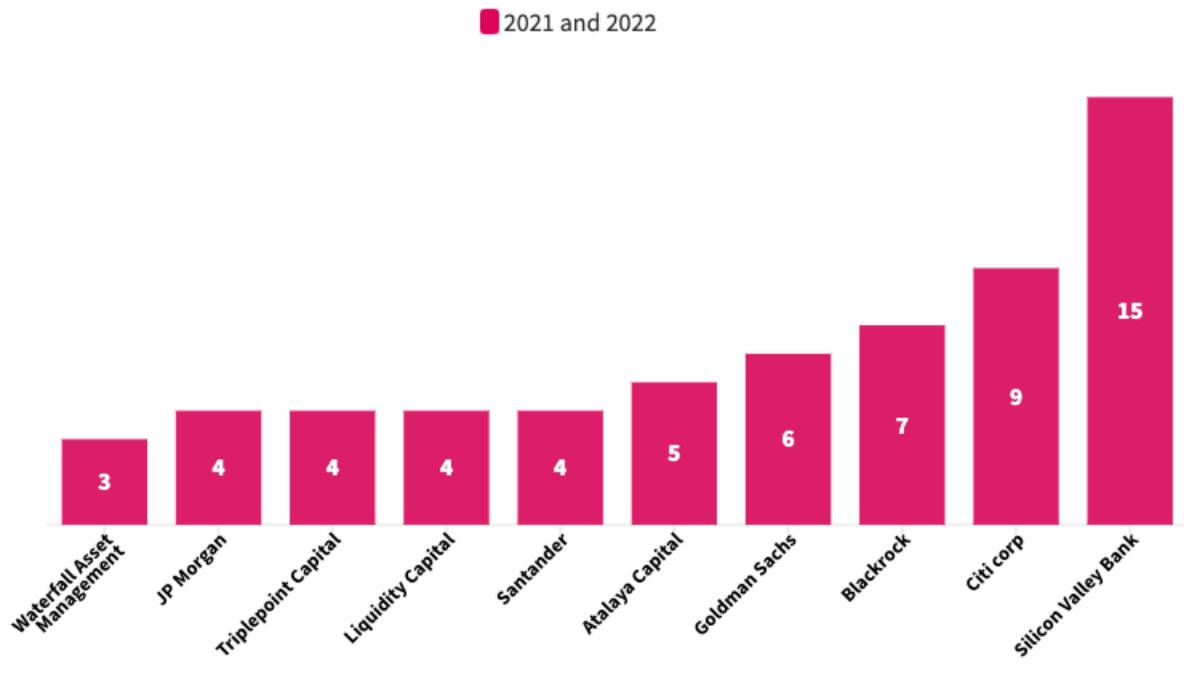
Though there has been a growing trend of announcing debt rounds in Europe this year, there will still be some that have flown under the radar.

Silicon Valley Bank tops the charts

Silicon Valley Bank is the most active debt investor in Europe



The top fourteen debt investors in Europe, 2021-2022



Silicon Valley Bank has come out on top for debt investment into Europe for the second year running. It's been involved in some of the biggest equity and debt combined rounds this year, including Paddle's \$200m Series D, the \$115m debt component to [Wagestream's Series C](#), and Celonis' massive \$600m debt component to its \$1bn funding round.

And it's also been the sole debt investor in some high profile debt rounds, including Plum's £5m debt round earlier this month.

It's not been unusual for startups to raise significantly more debt than equity this year — especially in the lending space. Koyo Loans is one such startup. It raised a Series A extension of £5m equity earlier this month, combined with a substantial £100m debt facility from New York-based alternative investment advisory firm Atalaya Capital Management — the fifth most active debt investor in Europe this year.

Thomas Olszewski, CEO and cofounder of Koyo Loans, tells Sifted that the company chose Atalaya because it offered the most competitive terms it could find in the European market.

“The debt is used to fund our loans to customers — it is the most efficient way to fund this type of structure,” Olszewski says.

On the one hand, if a lending startup wanted to fund its loan book with equity investment, it would mean that its shareholders would lose a cut of the business to investors. But on the other, an equity investor would be unlikely to do this in the first place, because it would reduce the return on the equity investment.

“If a lender wanted to fund a loan book with equity it would be a very dilutive transaction for the shareholders, and it’s also unlikely the investor would want to do that in the first place — the company would lack sufficient leverage to have an attractive equity return.”

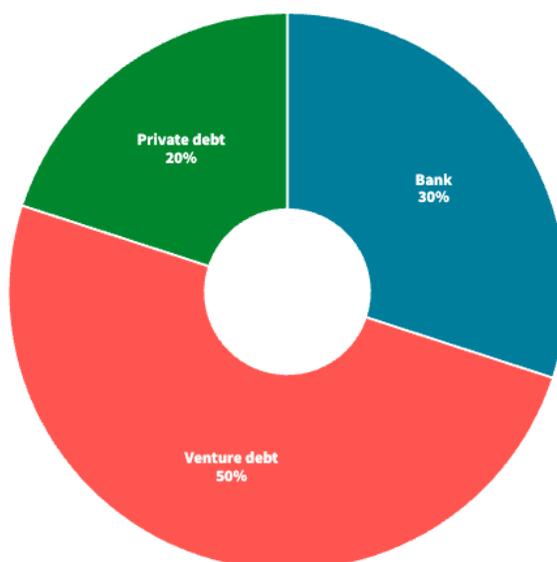
Atalaya’s terms also attracted UK SME credit card startup Capital on Tap, which raised £100m from the investment manager this month, too.

Banks outpace venture debt funds

Venture debt funds dominate debt funding for European startups in 2022



Sector share of the top 10 most active debt investors



Source: Dealroom data

Proportionally speaking, specialist US venture debt funds have outpaced US banks when it comes to Europe’s top 10 debt investments this year. Some 50% of the top ten debt rounds in Europe were funded by US venture debt funds, including Silicon Valley Bank, Triple Point Capital, Atalaya Capital, SaaS Capital and Liquidity Capital.

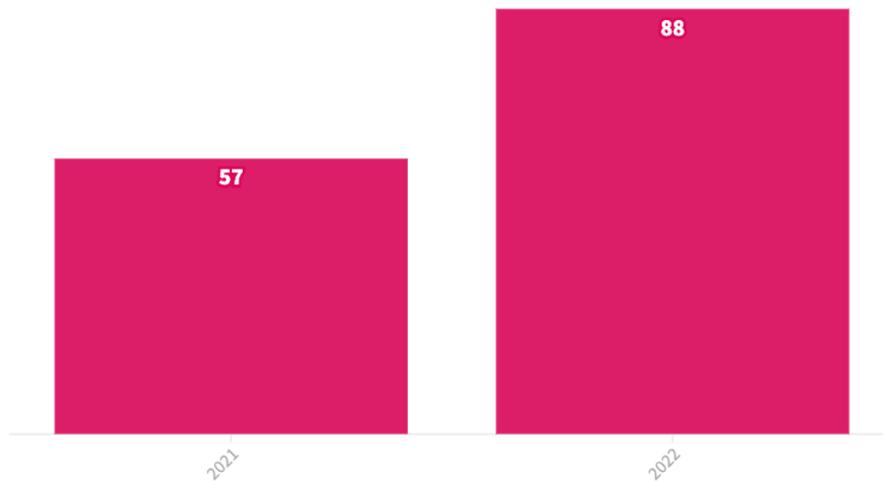
Around a third were funded by US banks, including Citi, Goldman Sachs, and JP Morgan.

Debt financing takes off in 2022

Debt investment activity in Europe has jumped in 2022



2022 is on track to be a record year for debt investment in Europe



Source: Dealroom data

2022 is projected to be a record year for debt financing in Europe, and it's already far outpaced 2021 for deals: there have been 88 publicly announced debt rounds to date, up from 57 in the whole of last year.

"We're hearing pretty consistently across our conversations with VCs that the majority are trying ensure their companies have a minimum of two years' runway on their balance sheet," Bailey Morrow, managing director of venture and growth at SVB tells Sifted.

So if a startup has raised a round and has 18 months' liquidity, they would go to a venture debt lender and try to get an additional six or nine months' worth of debt, to buy enough to weather the storm through 24 months.

"We're getting brought into deals to pump up the balance sheet and insure some liquidity — it's definitely this focus on runway extension and ensuring a buffer on the balance sheet that's driving this," Morrow says.

Startups and investors in the US have long been used to raising debt alongside equity rounds and have done so for years — quite the opposite of in Europe, where debt was perceived as a 'dirty word' [until very recently](#).

Morrow tells Sifted that many US lenders have turned to Europe as a place to find meaningful growth opportunities to deploy capital in a less competitive market.

Is it cheaper for US players to make debt deals in Europe right now?

Most of the large banks — which make up the majority of these deals — are able to lend in multiple different currencies, so will lend debt in whichever currency the underlying borrower is going to spend in most, and whichever currency the majority of their revenue is generated in.

The difference is something that European startups must prioritise when choosing a debt lender right now, investors say. If a funder provides euro or US dollar denominated facilities, this would be problematic for a company with British pound-denominated assets and US dollar liabilities, for example.

“You can imagine if you’ve borrowed £50m in USD you now owe £8.5m more than initially planned (GBP/USD -17% year-to-date) that could potentially wipe out the equity and put the company into bankruptcy,” Olszewski says.

“For those entities, they would need to hedge their exposure — but this would likely have been a requirement of the lender to do so when they signed the deal.”