

## TriplePoint's venture debt debut

by Paul Bonanos Posted 08:10 EST, 10, Feb 2006

When venture capital-backed wireless software maker **Devicescape Software Inc.** saw that its equipment costs were about to increase tenfold between its first and second round of venture funding, chief financial officer Anne Dorman knew not to go out seeking a massive round of equity funding.

Instead, by raising a smaller second round and seeking additional venture debt from Menlo Park, Calif.-based **TriplePoint Capital** to lease capital equipment, Dorman reduced costs and freed up operating cash flow. In addition, Devicescape received the expertise and guidance of TriplePoint founder Jim Labe and his team, who claim to take a more active role than most debt firms in assisting young startups throughout their lifespan.

TriplePoint, which has already done \$100 million worth of deals but finally announced itself to the public last month, claims to be a unique venture debt firm that combines leasing expertise with the lifelong guidance of a venture equity firm. Although it invests alongside traditional venture firms, TriplePoint does not draw from a specific fund, nor does it answer to public investors or traditional limited partners.

The firm has taken in \$310 million from "a small handful" of institutional investors, which it expects to invest in early-phase startups as they complete traditional venture rounds, Labe says. Labe, the longtime chief executive of Rosemont, Ill.-based **Comdisco Ventures**, says the firm is well suited to small companies with equipment needs that outpace their revenues, for which a liquidity event remains on the distant horizon.

Unlike venture equity firms, TriplePoint does not plan to close additional funds. Rather, it will build additional capital through ongoing returns before making further investments. "We'll scale according to the quality of our transactions and plow more money back into our own business," Labe says. "The quality of our deals will really govern how well we do."

Adds chief operating officer and onetime Comdisco colleague Sajal Srivastava: "We're not dependent on exits. That's one of the great things about debt deals; you start getting returns in 30 days."

Exits, though, are still important. "We still do get a return if there's an IPO," Labe says. "We ask for an equity kicker, which are warrants to acquire stock at some point in the future."

The deal structure seems to work for TriplePoint and startups such as Devicescape. "If the name of the game is to get to cash-flow positive as soon as possible, I'm going to do anything I can to push costs into the future rather than burn cash right now," says Dorman, explaining Devicescape's motivations. "Anything I can lease — servers, lab equipment, conference room tables, widgets — I'm going to do it."

David Davies, CFO of Wilsonville, Ore.-based software maker **Corrigo Inc.**, says another key to his deal with TriplePoint was the financial flexibility to spend the money in different ways as the startup grew. "TriplePoint gave us a secured line, but it's not tied to specific purchases," he says. "It's more like a term loan that's based on the performance of the company."

Srivastava notes another motivation for startups. "Entrepreneurs like us because they can maintain a higher percentage of ownership by adding a debt component," he says. "Why would they take an extra million dollars of venture capital funding at the lowest possible valuation just to buy a piece of equipment that will lose its value over the next few years?"

There are other practical, operational issues that venture debt providers bring to the table. Devicescape's Dorman says that "a lot of leasing companies won't work with venture-backed startups."

Dorman, a self-described "rent-a-CFO," says she investigated deals from other debt providers, including **Silicon Valley Bank** of Santa Clara, Calif., before choosing TriplePoint's deal. "They had the best terms, as well as a Web-enabled services platform that's pretty slick," she says. "I can see what our debt commitments are online at any time."

With about 20 deals completed or in process, TriplePoint has already built a diverse portfolio, though it expects that most of its deals will go unannounced. Most investments will fall between \$1 million and \$6 million over the lifespan of the company, though a few could be several times that size, Labe says.

TriplePoint has invested alongside Silicon Valley venture firms such as **Kleiner Perkins Caulfield & Byers**, **Menlo Ventures** and **Sequoia Capital**, though it hasn't revealed details of its investments yet.

"Our portfolio will mirror those of top-tier venture firms," Labe says. "We've had great success with financial services, technology, pharmaceuticals and medical devices. A certain share will be in emerging fields such as clean tech, too."

Labe adds that his firm "tends to work with both the venture capitalists and entrepreneurs in the deal, in conjunction with a lead investor who takes equity." Srivastava adds that "venture firms like having a debt investor because by the time of the next round, it helps boost the valuation of the company and boosts their return."

Although TriplePoint emphasizes that it intends to work with its portfolio companies throughout their lifetimes, including post-IPO debt and leasing, Labe says it does not intend to occupy seats on their boards of directors. "We're still more passive than a venture firm," he says. "That role is really best served by someone with an equity stake, as opposed to a complementary debt investor."

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