Venture Debt after Product-Market Fit

Funding Growth without Breaking the Cap Table

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Abstract

Venture debt can finance a high-growth company between equity rounds, fund a commercial milestone, support research and development, acquire equipment or provide contingency liquidity. It can reduce near-term equity issuance and preserve founder and employee ownership. It also adds contractual interest, fees, security, repayment, covenants, information rights and potential warrant dilution to a company whose cash flow may remain negative.

Official and lender evidence shows that venture debt is a structured risk product. The British Business Bank describes it as financing for venture-backed, early-stage and high-growth companies that usually supplements venture capital and relies partly on the borrower's capacity to raise future capital. HSBC Innovation Banking describes venture debt as a loan for fast-growing, often loss-making Series A to C companies seeking to reach strategic milestones. Silicon Valley Bank states that venture debt is generally most suitable after a sizeable equity round and may include draw periods, interest-only periods, financial covenants and warrants.

Public lender filings show how providers underwrite the asset class. Hercules Capital's 2025 annual report describes senior secured lending to venture- and institution-backed technology and life-sciences companies. It defines structured debt as debt with equity, warrant, option or other equity-related rights and seeks current income plus capital appreciation. Its disclosures also show non-accrual loans and portfolio exposure to companies that later complete IPO or M&A events, illustrating the lender's combined credit and optionality model.

International programmes provide additional structures. The European Investment Bank offers long-term venture debt with bullet repayment and equity-risk-linked remuneration and states that the product complements venture capital. Its TechEU platform supports rapidly growing innovative companies. In the UAE, Hub71 announced a partnership with Stride Ventures to support venture debt access, while Emirates Development Bank publishes technology, SME and growth-finance routes. These programmes have their own eligibility and do not establish availability for a particular borrower.

This paper creates a board-ready framework for venture debt after product-market fit. It defines the evidence threshold, sizes the facility through milestone and downside capacity, separates committed from drawable capital, prices cash and equity-linked cost, maps covenants, models liquidity, stress-tests the next financing event and builds a 180-day execution programme. Six figures cover the capital decision, evidence funnel, tranche architecture, hypothetical cash runway, risk heatmap and operating roadmap. Six tables provide an eligibility scorecard, facility term map, total-cost bridge, hypothetical operating case, covenant dashboard and diligence register.

Every company metric, facility amount, interest rate, fee, warrant percentage, valuation, runway, probability and cash flow in the worked example is a hypothetical management assumption created solely to demonstrate the method. Lending, security, insolvency, corporate, securities, tax, accounting, valuation, employment and foreign-exchange treatment depends on the borrower, lender

and jurisdictions. This paper provides general information for professional audiences and does not provide legal, regulatory, tax, accounting, valuation, credit, investment or securities advice.

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Keywords: venture debt, product-market fit, runway, dilution, covenants, warrants, growth capital, startup financing

1. Start with the financing job

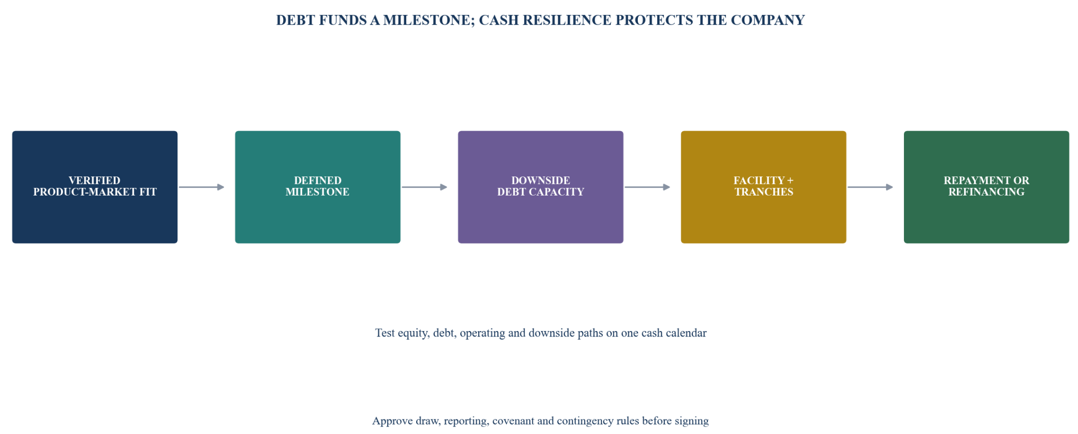
Venture debt should finance a defined job. Common uses include extending runway to a product or revenue milestone, funding equipment, financing a controlled acquisition, supporting working capital or protecting against a delayed equity round. "More cash" is an incomplete mandate.

The board should name the milestone, amount, timing, expected value creation and fallback. It should state whether the debt finances an investment that can be stopped, a recurring operating loss or a liability that cannot be deferred.

The repayment source matters from the beginning. It can be operating cash, a future equity round, asset proceeds, acquisition financing or an exit. A repayment source that depends entirely on a favourable financing market exposes the company to refinancing risk.

The financing decision should compare venture debt, equity, revenue finance, asset finance, customer prepayment, grants and a slower operating plan. The right answer can combine several sources.

Figure 1. Venture-debt capital decision



Author framework. The facility should connect a defined financing job to a credible repayment route.

2. Define product-market fit as evidence

Product-market fit is not a founder declaration. For financing, it should be expressed through customer behaviour, unit economics, delivery reliability and a repeatable route to growth.

Evidence can include contracted and collected revenue, retention, cohort expansion, usage, gross margin, sales conversion, implementation time, customer concentration, service attainment and contribution cash. The relevant measures depend on the business model.

The lender also considers the equity syndicate, cash runway, management, sector, technology, intellectual property, regulation and future capital access. The British Business Bank states that venture debt often considers previously raised equity and the capacity to raise future capital rather than relying only on conventional cash flow or collateral.[1]

HSBC Innovation Banking describes the product as supporting fast-growing, often loss-making companies around Series A to C to reach strategic milestones.[2] These stage labels are indicative; the borrower needs company-specific credit evidence.

Table 1. Product-market-fit and debt-readiness scorecard

Dimension	Evidence	Debt-readiness question
Customer need	renewals, usage, references, backlog and collection	do customers repeatedly pay for the product?
Revenue quality	contracts, invoice ageing, concentration and churn	can revenue support a reliable forecast?
Unit economics	gross margin, contribution, acquisition cost and payback	does growth improve or consume cash per cohort?
Delivery	implementation, capacity, service and support records	can the company scale without uncontrolled delivery cost?
Capital support	cap table, investor reserves, financing history and board plan	is there a credible capital route through maturity?
Governance	board, reporting, controls, compliance and information rights	can the borrower meet lender reporting and consent duties?
Downside resilience	cash, cost flexibility, asset value and contingency plan	can the company survive slower growth or delayed financing?

The board and lender should use verified evidence and company-specific thresholds.

3. Understand the lender's economic model

A venture lender receives contractual income and may receive equity-linked upside. Interest, upfront fees, commitment fees, end-of-term charges, prepayment amounts and warrants can all contribute to return.

Hercules Capital describes its objective as generating current income from debt and capital appreciation from warrant and equity investments. Its 2025 filing describes structured debt as debt with equity, warrant, option or other rights and focuses on senior secured instruments for venture- and institution-backed companies.[3]

The lender therefore underwrites repayment, downside recovery and optionality. Security can cover assets, bank accounts, intellectual property or share pledges subject to the transaction and law. Covenants and consent rights allow intervention when performance deteriorates.

Borrowers should model every source of lender return. A low cash coupon can be offset by fees, end-of-term charges, warrant dilution or restricted prepayment. A facility with favourable headline pricing can become expensive when a delayed draw incurs commitment fees or a short interest-only period accelerates amortisation.

4. Separate commitment, availability and cash drawn

A headline facility size is not necessarily available on signing. Facilities can include an initial tranche and later tranches tied to revenue, equity financing, regulatory, product, clinical or lender-discretion conditions.

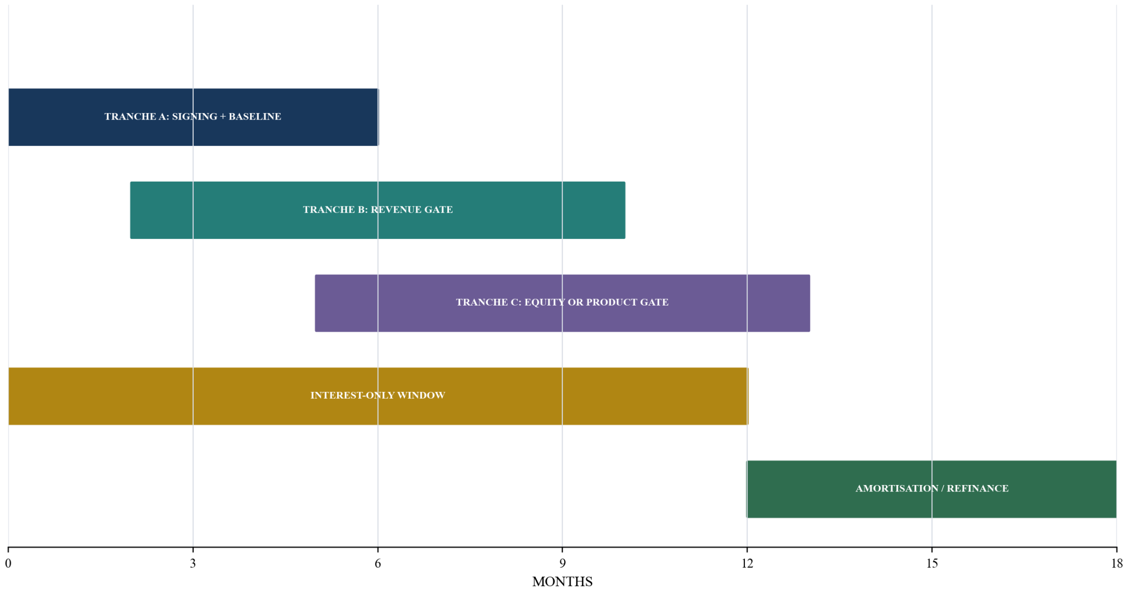
The company should create a tranche register. Each tranche needs an amount, draw window, objective condition, evidence source, lender discretion, fee and expiry. The board should identify which capital is committed and which remains conditional.

An undrawn facility can serve as insurance. Its value depends on whether the company can still draw when conditions deteriorate. A material-adverse-change clause, minimum cash requirement or lender discretion can reduce that protection.

Draw timing changes interest and runway. Drawing early increases cash and carrying cost. Drawing late preserves cost and risks missing a condition or window. The decision should follow the milestone cash calendar.

Figure 2. Facility and tranche architecture

COUNT CASH ONLY WHEN THE DRAW CONDITION IS CONTROLLED



Author framework. Conditional tranches should not be counted as cash until their draw conditions are satisfied.

Table 2. Venture-debt facility term map

Term	Economic effect	Diligence question
Commitment and tranches	maximum potential capital split into availability windows	which amounts are committed, conditional or discretionary?
Interest	cash or capitalised periodic cost, often linked to a benchmark or floor	what is the effective rate under each benchmark scenario?
Interest-only period	defers principal cash outflow	what performance or financing condition extends or shortens it?
Amortisation and maturity	determines principal cash burden and refinancing date	can the downside plan fund payments without assumed equity?
Fees and end-of-term charge	adds cash cost at signing, undrawn period, repayment or maturity	what is paid under draw, no-draw, prepay and maturity cases?
Warrants or equity rights	creates potential dilution and lender upside	what security, strike, duration, adjustment and exit rights apply?
Security and priority	allocates recovery and control in downside	which assets, subsidiaries and accounts enter the collateral package?
Covenants and consents	creates reporting, operating and intervention rights	which actions require consent and what creates default?

Terms vary by borrower, lender, jurisdiction and market; qualified advisers should review the documents.

5. Size from milestone capital and downside capacity

Facility size should not begin with the lender's maximum offer. It should begin with the cash required to reach a milestone and the amount the company can carry through a downside.

The milestone model states the operating investment, timing and evidence required for the next financing or cash-flow event. It includes contingency for slower sales, collections, hiring and delivery.

The downside model assumes delayed revenue, lower gross margin, continued essential investment and a later equity round. It includes interest, fees, amortisation and minimum cash. The facility should not turn a commercial delay into an immediate solvency event.

A useful board rule is to size debt at the minimum of four constraints: capital needed for the milestone, amount offered under firm terms, amount serviceable in the downside and amount repayable or refinanceable under a credible plan.

6. Price the complete economic cost

The cash cost includes interest, fees, legal and diligence expense, end-of-term charges, hedging where applicable and prepayment economics. The equity-linked cost includes warrants, conversion or value participation.

Warrant cost is uncertain because future share value is uncertain. The board can model dilution at the current fully diluted cap table, next-round valuations and exit scenarios. It should also assess anti-dilution and adjustment provisions.

The alternative-equity cost should use the actual security terms. New preferred equity can have liquidation preference, participation, anti-dilution, consent and board rights. Comparing a debt coupon with the headline dilution of common shares misses both products' full economics.

Table 3. Total-cost bridge for venture debt and equity

Cost layer	Venture debt	New equity
Upfront cash	fees, legal, diligence and initial interest	legal, placement and transaction expense
Periodic cash	interest, monitoring and principal after any interest-only period	generally no contractual repayment; dividends depend on terms
End-of-term cash	principal, end charge, prepayment or make-whole	no maturity; preference applies in an exit under terms
Ownership effect	warrants, options, conversion or participation	issued shares, options and fully diluted ownership
Control	covenants, security, consents, default and enforcement	board, reserved matters, information and shareholder rights
Downside	fixed claim and possible enforcement	residual claim with preference and protection under terms
Upside	lender equity-linked participation where included	investor participation in enterprise value

Every element should be measured under signed terms and consistent company scenarios.

7. Model runway as a cash calendar

Runway should be a monthly cash calendar, not cash divided by average burn. Customer receipts, payroll, tax, capital expenditure, interest, fees and principal occur on different dates.

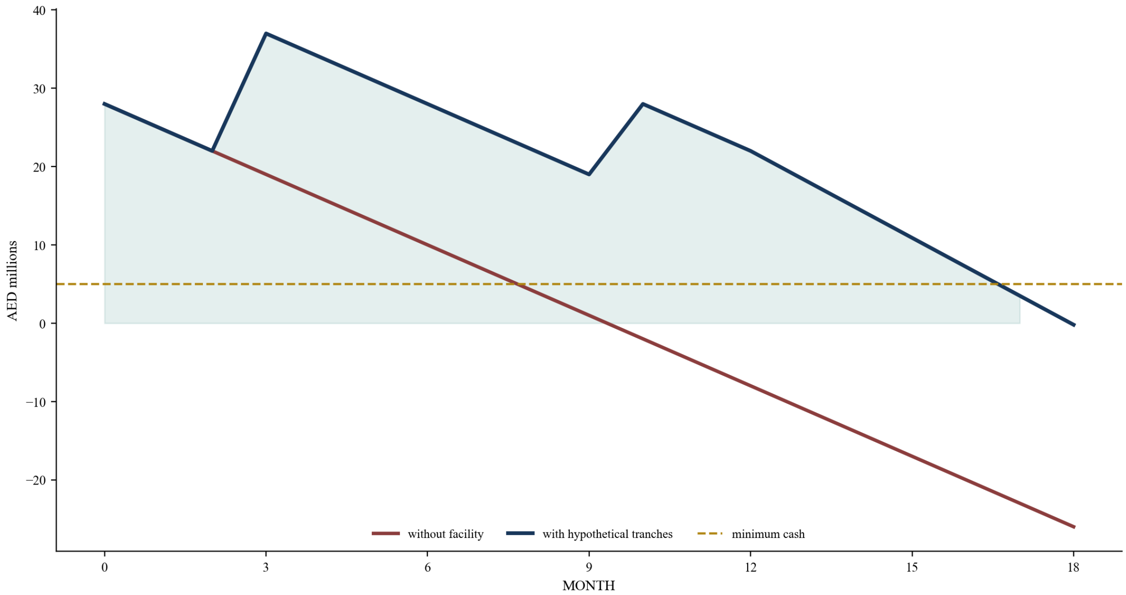
The model should show cash before financing, each tranche, minimum cash and covenant headroom. It should distinguish contractual availability from management expectations.

Seasonal collections, annual prepayments and project acceptance can create temporary cash peaks. Debt-service capacity should be tested through the trough.

The model should include a no-debt operating case. This reveals whether debt finances incremental value or simply postpones an unavoidable restructuring.

Figure 3. Hypothetical cash runway with venture debt

A FACILITY EXTENDS TIME ONLY IF THE MILESTONE CHANGES THE CASH PATH



Every value is a hypothetical management assumption in AED millions for method illustration.

8. Design covenants around the risk

Covenants can include minimum cash, liquidity, revenue, recurring revenue, leverage, burn, milestone, reporting, permitted debt, liens, acquisitions, disposals, dividends and change of control. Definitions matter more than labels.

Minimum cash can protect the lender and reduce the usable facility. A covenant tested against unrestricted cash may exclude blocked, customer or subsidiary balances. Cure rights and grace periods should be explicit.

Revenue covenants can be unsuitable for volatile businesses unless thresholds, measurement periods and adjustments match the model. Milestone covenants can create ambiguity if evidence or approval is subjective.

The company should model headroom before signing. It should know the earliest breach month in the base, downside and severe cases and the operational action needed to preserve compliance.

9. Treat security and negative covenants as strategic terms

Security gives the lender rights in downside. Intellectual property, bank accounts, receivables, equipment, shares and subsidiary assets may enter the collateral package under applicable law and agreed exclusions.

Negative covenants can limit new debt, liens, acquisitions, disposals, investments, distributions, affiliate transactions, account movements and changes to the business. These terms can affect ordinary growth and the next financing.

The board should map every planned activity against consent requirements. A product acquisition, overseas subsidiary, equipment lease, receivables facility or strategic partnership may require lender approval.

Intercreditor terms matter when the company already has asset finance, working capital or customer-specific facilities. Priority, standstill, enforcement and proceeds allocation need current legal advice.

10. Protect the next equity round

Venture debt often assumes future equity capacity. The company should model how the next investor will view outstanding debt, required repayment, covenants, warrants and maturity.

New investors may resist having their capital used primarily to repay an earlier lender. The financing plan should show how much new money funds growth after repayment and fees.

Debt can improve the next-round valuation if it funds verified progress. It can weaken negotiating leverage when maturity approaches, cash falls or covenants narrow flexibility.

The board should start the next capital process with sufficient runway. A target date based on the final cash month leaves little room for diligence, investor approval, documentation or a market delay.

11. Work a hypothetical software case

Consider a hypothetical enterprise-software company with AED 42 million of annualised recurring revenue, 84 per cent gross revenue retention, 118 per cent net revenue retention and negative AED 2.7 million monthly free cash flow. It seeks capital to complete two integrations, build regional sales capacity and reach AED 65 million of annualised recurring revenue.

Every operating and financing value below is a hypothetical management assumption. The example demonstrates the method and does not represent an actual company or financing offer.

Table 4. Hypothetical venture-debt operating case

Measure	Signing	Month 12 plan	Downside month 12	Evidence gate
Annualised recurring revenue, AEDm	42	65	52	contracts, billing and cohort reconciliation
Net revenue retention	118%	120%	105%	customer-level revenue bridge
Gross margin	72%	76%	68%	direct delivery-cost ledger
Monthly free cash flow, AEDm	(2.7)	(0.8)	(2.2)	bank, ledger and driver forecast
Cash before debt, AEDm	28	4	(10)	monthly cash calendar
Tranche A, AEDm	18	18	18	drawable at signing
Tranche B, AEDm	0	12	0	conditional on revenue and retention gate
Interest and fees paid to month 12, AEDm	0.8	3.1	2.6	facility model and statement
Cash after financing, AEDm	45.2	25.9	5.4	reconciled cash forecast
Next equity round	none	AED 80m in month 15	delayed beyond month 18	board-approved financing plan

All amounts and percentages are hypothetical management assumptions.

The base case reaches the operating milestone and retains meaningful cash. The downside does not unlock the conditional tranche and approaches minimum liquidity. That case requires earlier cost action or equity, despite the headline facility being AED 30 million.

12. Stress the event that repays the debt

A future equity round should be tested for timing, amount, valuation and usable proceeds after debt. An acquisition or exit should be tested for completion, consideration form, escrow and waterfall. Operating repayment should be tested against collected cash.

The company should maintain at least four cases: base milestone, delayed milestone, lower growth and severe financing delay. Each case should show covenant, liquidity and maturity dates.

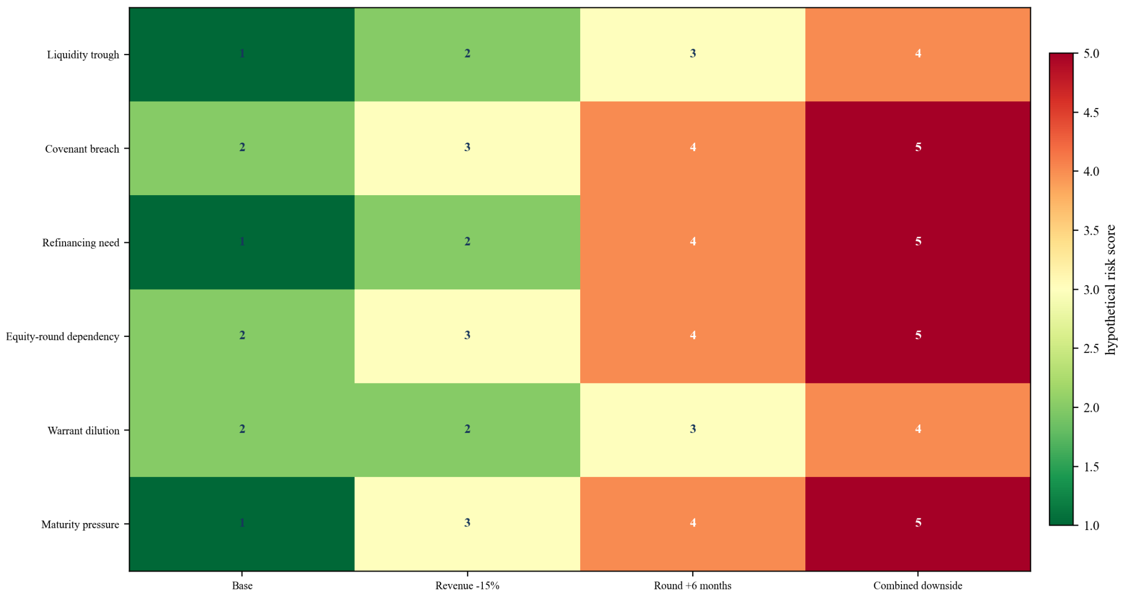
A debt-funded milestone can fail while the underlying company remains valuable. The facility documents determine whether the board still has time to replan or must negotiate under default pressure.

Refinancing risk should be treated as a dated operating risk rather than a distant capital-markets assumption. The company should identify when a replacement lender would need audited accounts, current management reporting, legal diligence, security releases and credit approval. That timetable can begin months before the contractual maturity date. A facility that appears to provide twelve months of runway can provide substantially less decision time once lender diligence, documentation and funding conditions are included.

The repayment analysis should also distinguish enterprise value from cash availability. A company may have attractive strategic value, strong intellectual property and credible growth prospects while lacking the cash required for an interest payment, an amortisation instalment or an end-of-term charge. Boards therefore need a cash-based repayment bridge for each scenario. It should show unrestricted cash, receipts, operating disbursements, debt service, transaction costs and the residual amount available to discharge principal.

Figure 4. Hypothetical venture-debt risk heatmap

DEBT RISK RISES WHEN OPERATING AND FINANCING DELAYS COINCIDE



Scores are hypothetical management assumptions from one to five; five indicates higher risk.

13. Compare regional and international availability

Product availability varies by jurisdiction, lender, company stage and sector. A public announcement of a programme does not establish borrower eligibility or offered terms.

Hub71 announced a partnership with Stride Ventures to foster venture-debt access for startups in Abu Dhabi.[4] Emirates Development Bank publishes financing for advanced-technology adoption and SME growth, including long-term repayment structures for eligible businesses and projects.[5]

The EIB offers long-term venture debt with bullet repayment and equity-risk-linked remuneration for eligible innovative companies and describes secured, unsecured and subordinated structures.[6] Its TechEU platform positions the product as complementary to venture capital.[7]

These examples show that growth debt exists across institutional, commercial and development-finance channels. Each channel has a mandate, eligibility test, diligence process, documentation and return requirement.

Cross-border companies should map the proposed borrower, guarantors, operating entities, intellectual-property owner and principal cash accounts before approaching lenders. A lender willing to finance a parent company in one jurisdiction may require guarantees, share security, account control or contractual protections over subsidiaries in other jurisdictions. The practical value of an international facility therefore depends on legal enforceability, tax and withholding treatment, currency exposure, cash movement and the lender's ability to obtain its intended security package.

Currency deserves separate treatment. Revenue, operating costs, debt drawdown, interest and repayment may be denominated in different currencies. A facility can preserve headline runway and create cash volatility when exchange rates move. The monthly model should translate each currency at an observed base rate, apply stated stress assumptions and show whether hedging, matched cash balances or contractual pricing can reduce the mismatch. All exchange-rate scenarios remain management assumptions until documented with market data and executed hedges.

Development-finance, bank and specialist-fund products can also differ in purpose. Some facilities finance research, technology adoption, equipment or eligible project expenditure. Others provide general corporate growth capital. The use-of-proceeds covenant should match the operating plan. A low-cost facility with a narrow eligible-use definition can deliver less usable liquidity than a higher-cost facility that finances the actual milestone.

14. Build a lender process before requesting terms

The company should prepare a financing memorandum, historical and forecast financials, monthly cash model, customer and unit-economics evidence, cap table, equity financing history, product roadmap, legal structure, intellectual property, security map and proposed milestone.

A lender matrix should record mandate, sector, geography, ticket, seniority, collateral, pricing, equity-linked economics, covenant style, decision timetable and portfolio conflicts.

Indicative terms should be normalised. One lender may quote a larger commitment with conditional tranches. Another may quote a smaller fully committed amount. Coupon, benchmark, floor, fees, warrant, end charge, amortisation and consent rights should sit on one comparison sheet.

The company should control information and communications. Financing discussions can include sensitive customer, product and shareholder information. Access should be staged and documented.

Process design affects both terms and execution risk. Lenders should receive a consistent forecast date, capital structure, requested facility and milestone case. Management should record each clarification and update all bidders when a material assumption changes. This creates a comparable record and reduces the risk that apparently competing term sheets rely on different information.

The work plan should place legal documentation alongside commercial selection. Security diligence, corporate-authority checks, existing shareholder consents, intercreditor issues and intellectual-property ownership can delay closing after a term sheet is signed. Early legal review identifies structural obstacles while the company still has financing alternatives. Management should maintain a decision log covering rejected terms, negotiated protections, outstanding conditions and accountable owners.

15. Build a monthly covenant and liquidity close

Debt creates an operating calendar. Finance should close cash, debt, interest, covenant measures, forecast and certificate preparation on a repeatable timetable.

Definitions should follow the agreement. Annualised recurring revenue, revenue, EBITDA, liquidity, permitted cash and indebtedness can differ from internal reporting.

The board should receive actual, forecast and headroom. A covenant that is currently compliant can still require action when the forecast shows a breach within three months.

Table 5. Monthly venture-debt dashboard

Measure	Actual	90-day forecast	Threshold	Board action
Unrestricted cash	bank and ledger close	receipts, payroll, tax and debt service	minimum liquidity covenant	preserve cash, accelerate collection or raise capital
Recurring revenue	contract and billing bridge	cohort and pipeline plan	revenue covenant where applicable	correct forecast, sales plan or seek amendment
Free cash flow	cash-flow statement	driver-based downside	board limit and runway	control hiring, projects and discretionary spending
Debt service	lender statement	interest, fees and principal calendar	payment dates	reserve cash and confirm payment authority
Tranche availability	condition evidence	expected gate date	draw window and conditions	draw, extend, replace or remove from plan
Covenant headroom	agreement definitions	base and downside	warning threshold before breach	escalate, cure, renegotiate or refinance
Maturity runway	months to maturity	financing process plan	board-approved minimum lead time	start equity, refinance, sale or repayment process

Thresholds and definitions must follow the executed facility documents.

16. Plan for amendment and distress before they occur

Performance can fall below plan. The company should understand notice, cure, waiver, default interest, draw stop, acceleration and enforcement provisions before signing.

Early engagement can preserve options when the company has reliable information and a credible remediation plan. A lender may seek additional fees, pricing, warrants, covenants, repayment or equity support in an amendment.

The board should identify who can negotiate, approve and sign amendments. It should maintain a current stakeholder map for lenders, equity investors, critical customers and employees.

Directors need current legal advice when solvency risk increases. Duties, payment decisions, asset transfers and new financing can change under the applicable jurisdiction and facts.

17. Protect operating flexibility

The facility should be tested against the company's planned decisions. Hiring, pricing, international expansion, acquisitions, product investment, capex, leases and partner contracts can affect cash or require consent.

Foreign-currency debt creates exchange risk when revenue and cash are in another currency. Benchmark-linked interest creates rate risk. The board should show both in the cash model.

Customer prepayments and restricted cash should be classified carefully. Cash that is legally or contractually unavailable cannot support debt service.

Insurance, cyber-security, data, intellectual property and compliance undertakings can create continuing requirements. Owners and evidence should be assigned before closing.

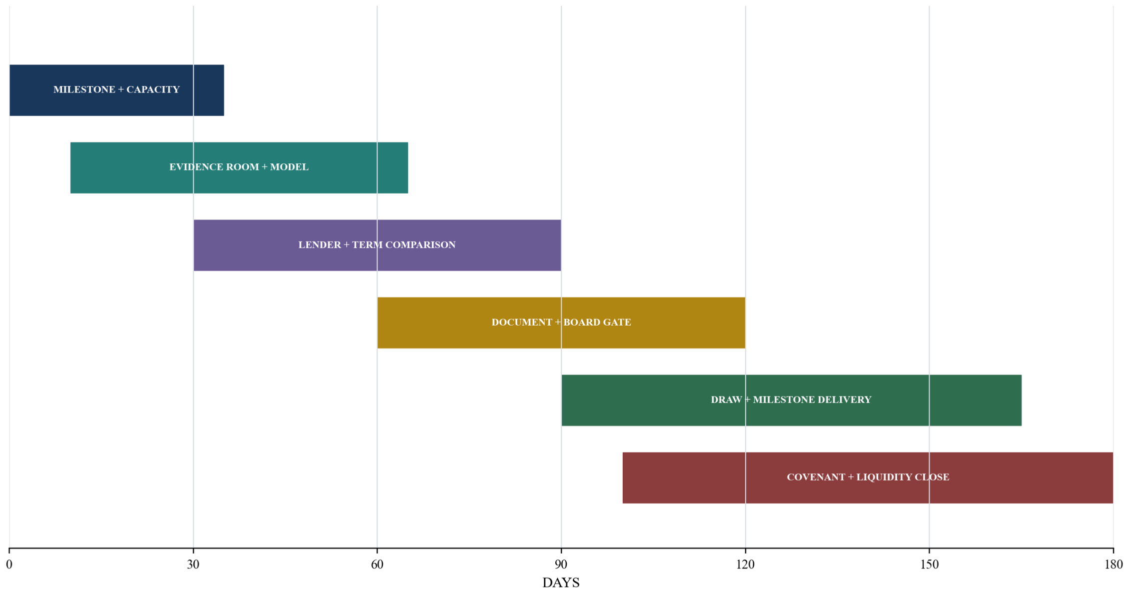
18. Run a 180-day financing and execution programme

The first thirty days establish the milestone, debt capacity and evidence room. The next thirty compare lenders and normalise terms. Documentation, security and board approval follow only after the operating model can support the facility.

After closing, the programme moves immediately into covenant reporting, draw governance and milestone delivery. Waiting until the first certificate is due increases execution risk.

Figure 5. 180-day venture-debt programme

CONNECT THE FINANCING PROCESS TO THE OPERATING MILESTONE



Author framework. Timing should be adapted to company evidence, lender process and legal requirements.

19. Diligence the facility and the company together

The lender diligences company risk. The board should diligence the facility's effect on the company. The same data room can support both when evidence is reconciled.

Management should verify customer revenue, unit economics, cash, cap table, intellectual property, legal structure, regulation, tax and existing obligations. The facility workstream adds repayment, collateral, covenant and consent analysis.

Table 6. Venture-debt diligence register

Workstream	Company evidence	Facility test
Capital and ownership	cap table, rights, options, investor reserves and approvals	quantify warrant dilution, consent and future financing effects
Financial	audited accounts, monthly ledger, cash, forecast and tax	reproduce runway, debt service, fees and downside headroom
Commercial	contracts, cohorts, retention, pipeline and collections	verify product-market fit and milestone credibility
Technology and IP	ownership, licences, security, resilience and roadmap	identify collateral, exclusions and value risk
Legal and regulation	entities, licences, disputes, compliance and jurisdictions	confirm borrowing, security, guarantee and consent capacity
Existing finance	debt, leases, grants, customer cash and liens	map priority, permitted debt and intercreditor requirements
Facility documents	term sheet, loan, security, warrant and disclosure documents	compare economics, covenants, default, cure and enforcement
Governance	board paper, delegated authority, reporting and contingency plan	establish draw, covenant, amendment and repayment controls

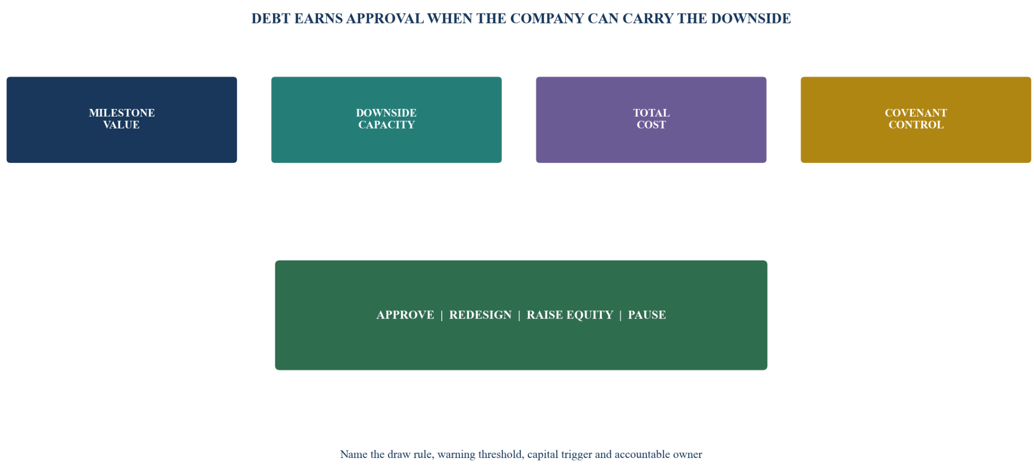
Scope should follow the company, facility, lender and jurisdictions.

20. Apply a board gate that can reject debt

The board paper should state the financing job, milestone, facility amount, committed and conditional tranches, complete economic cost, security, covenants, cash runway, next financing, downside and fallback.

It should show the latest month for a new equity or refinancing process, the earliest potential covenant pressure and management actions. Hypothetical assumptions should remain separate from contracted and observed evidence.

Figure 6. Venture-debt board gate



Author framework. Approval requires alignment across value, capacity, control and downside resilience.

The board can approve, reduce, restructure or reject the facility. Equity can be the safer form of capital when product-market fit is weak, runway is short, repayment depends on an uncertain round or lender control would impair the operating plan.

Conclusion

Venture debt can fund a valuable milestone and defer equity dilution after product-market fit. Its effectiveness depends on verifiable customer economics, an institutional capital base, a credible repayment or refinancing path and sufficient liquidity for a downside.

The complete cost includes interest, fees, end-of-term amounts, prepayment economics, warrants, security, covenants and management constraints. Headline commitment is less important than firm draw availability and cash delivered when required.

A disciplined board sizes debt from the minimum of milestone need and downside capacity. It integrates tranches into the monthly cash calendar, stress-tests the next equity event and begins covenant reporting before closing.

Debt should extend strategic choice. It should not convert a financing delay into a loss of control.

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Chennakeshav Adya is an independent researcher and Managing Partner of Matchpoint Partners. His work examines strategy, capital formation, valuation, transactions and operating execution across private and public markets.