

Overview of equity alternatives

	Debt	Structured debt	Convertible preferred equity	Participating preferred	Minority equity
Overview	Typically a fixed return (limited to no dilution for shareholders)	Provides a largely fixed return and less dilution for shareholders	Provides a minimum fixed return and upside through conversion to common equity	Provides a minimum fixed return and upside through equity participation	Traditional form of minority equity
Security	Senior to common equity	Senior to common equity	Senior to common equity	Senior to common equity	Pari passu with common equity
Valuation	Valuation less relevant	Valuation less relevant unless warrants are attached (can be penny warrants or have a strike price)	Equity value at investment generally dictates the percent of converted common equity ownership	Valuation less relevant to fixed portion, but determines amount of equity participation or warrants (penny warrants or strike price)	Equity value at investment determines percentage ownership
Terms	Cash interest with potential for payment in kind (PIK) option (L+6% to 14%) depending on pricing/structure	Preferred PIK dividend of 12-16% plus possible warrants (penny warrants or strike price)	Preferred PIK dividend of 8%-12%; payout is higher of principal plus accrued interest or percent of converted common equity	Preferred PIK dividend of 8%-12% plus equity upside through warrants (penny warrants or strike price based)	No preferred / accrued dividend, payout is determined by equity value at exit
Warrants	Warrants less common for senior debt	Warrants likely / balanced with other terms (e.g. PIK)	None (due to convertible feature)	None (due to participating ownership)	None (due to common ownership)
Covenants	Debt covenants (potential financial)	More debt-like; may have some covenants that align with lenders	Negative covenants	Negative covenants	Negative covenants
Term	5-7 years	5-7 years	5-7 years	5-7 years	5-7 years
Governance	Potential for observer rights or limited board representation	Basic minority rights and potential for board representation or observer rights	Customary minority shareholder rights and board representation; more involved than structured equity	Customary minority shareholder rights and board representation; more involved than structured equity	Customary minority shareholder rights and board representation consistent with ownership percentage

