Debt Now Costs Founders Three to Four Times Less Than Equity at Exit

A new Yanne Capital research paper finds fully-loaded dilution runs 30 to 35 percent of the founder position versus 8 to 10 percent after-tax for senior secured

NEW YORK, NY, UNITED STATES, September 9, 2026 /EINPresswire.com/ -- The fully-loaded dilution cost of a single growth-stage priced round, measured at exit, typically runs 30 to 35 percent of the pre-money founder position, against an 8 to 10 percent after-tax cost of senior secured debt, according to new research from Yanne Capital. The paper argues most founders still sequence equity first out of pattern memory, not math.

> Text (<=200): The cost of a priced round at exit is three to four times the cost of senior secured debt for a company with contracted revenue, and most founders are still sequencing equity first”
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> *Alex Ozdemir, Managing Partner, Yanne Capital*

The sequencing default is fifteen years out of date

Yanne Capital's read of the growth-stage market is that the equity-first capital sequence, treated as doctrine for a decade, no longer survives contact with current pricing. The default made sense when equity was cheap. It does not survive the current cost of capital.

The firm's analysis puts the effective cost of a growth-stage priced round, measured through exit and adjusted for tax shield, compounding dilution, preference stacks, and the option value of the next round, at 30 to 35 percent of the pre-money founder position. Senior secured debt at current market pricing clears at 8 to 10 percent after tax. The gap is roughly three to four times, not two.

Yanne Capital's position is that this is not a marginal preference. For growth-stage companies with contracted revenue, the math has not favored debt this strongly in fifteen years, and founders sequencing equity first are transferring economics to new investors that senior secured lenders would price at a fraction of the cost.

The credit market has moved to meet the growth stage

The desk sees a credit market that has structurally repriced toward the growth-stage borrower. Private credit AUM crossed 1.7 trillion USD in H1 2026, with roughly 40 percent of new deployment targeting the lower middle-market growth segment (Source: PitchBook H1 2026 Private Credit Report). Capital is looking for this borrower, not the other way around.

Pricing reflects the shift. Direct lending spreads to growth-stage borrowers compressed 175 basis points from Q1 2024 peaks, with median all-in coupons on unitranche facilities in the 5 to 50 million USD band now clearing at 10.2 percent (Source: S&P LCD US Loan Comparable, June 2026). Structural terms have loosened alongside price. Covenant-lite structures now represent 62 percent of new unitranche originations in the sub-100 million USD ticket band, up from 34 percent in Q2 2024.

A second channel has re-opened. Bank commercial and industrial lending to non-financial corporations grew at a 3.2 percent annualized rate in Q2 2026, reversing an eighteen-month contraction and undercutting direct lending pricing by 100 to 200 basis points where borrowers qualify. Debt-inclusive capital events in the growth-stage band increased 47 percent year-over-year in H1 2026, while pure equity rounds declined 12 percent. The behavior is following the pricing.

What a debt-first stack does to the cap table

Yanne Capital's core argument is that debt drawn against contracted revenue extends runway 12 to 18 months without dilution, and the runway is the leverage. Founders who use it are entering equity conversations at higher revenue, cleaner metrics, and materially better terms.

In the best cases the firm has observed on live mandates, the sequencing saves 5 to 7 percentage points of dilution at exit. That is not a rounding adjustment. On a mid-nine-figure outcome, five to seven points of founder position is the difference between a life-changing exit and a career-defining one.

The mechanics are unglamorous. A senior secured or unitranche facility drawn against 12-month forward contracted revenue funds the operating plan through the next commercial milestone. The company then raises equity into a stronger revenue print, at a valuation that reflects the milestone rather than the projection. The dilution avoided is the dilution the next round would have priced in to underwrite the same risk.

The strategy is diagnostic, not universal

Yanne Capital is explicit that the debt-first stack is not a general prescription. The paper defines four failure modes where the strategy breaks, and companies that fail two or more should default to the traditional equity-first sequence.

The gating tests are contracted revenue with weighted-average contract length of 24 months or more and acceptable customer concentration, gross margins above 55 percent, cooperative preferred equity holders on intercreditor terms, and term sheets with adequate equity cure rights on covenant breaches. The working minimum debt service reserve ratio is 1.5 times, calculated as unrestricted cash plus 12-month forward contracted revenue divided by scheduled interest and mandatory principal amortization.

Facilities below 1.3 times DSR either fail underwriting or force borrowers into revenue-based financing at 16 to 22 percent all-in cost, which the firm views as a different instrument for a different problem. The toolkit is for companies that clear the tests. For companies that do not, drawing debt against a fragile revenue base converts a dilution problem into a solvency problem.

What the framework covers

The paper builds the operating framework in five parts: cost of capital reframed with four adjustments most founders omit, DSR mechanics that gate every facility, the fifteen term sheet provisions that separate founder-friendly from founder-hostile structures, sequencing across a 24-month operating window, and the four failure modes.

Yanne Capital's view is that the current window is not permanent. Spreads have compressed, structures have loosened, and the bank channel has re-opened, but credit conditions cycle. Founders with the metrics to draw senior secured debt at current pricing are looking at a configuration of the capital markets that has not existed in fifteen years and will not persist indefinitely.

"The cost of a priced round at exit is three to four times the cost of senior secured debt for a company with contracted revenue, and most founders are still sequencing equity first because that is what the last cycle taught them. The math has changed and the term sheets have changed, and the founders who move first on this are keeping five to seven points of their company at exit." said Alex Ozdemir, Managing Partner, Yanne Capital.

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