Scaling smarter: How tech startups can boost growth with venture debt

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In today's fast-paced startup ecosystem, founders are rethinking how they fund growth. Venture debt is quickly becoming a smart, strategic tool that lets startups scale on their own terms. In Canada in the first quarter of 2025, there were 14 venture debt deals totaling $283 million, marking the highest Q1 dollar amount ever recorded since tracking started, with Ontario leading the activity with nine deals valued at $182 million.

What is venture debt?

Venture debt is a form of non-dilutive or low-dilution capital typically provided to startups with high growth potential but limited tangible assets. Unlike traditional bank loans, which rely heavily on collateral, venture debt focuses more on the company's growth trajectory and the quality of its investor backing.

Lenders in this space tailor their offerings to the unique challenges and opportunities tech startups face, making venture debt an increasingly attractive financing option.

Three strategic advantages of venture debt for tech startups

Beyond simply providing extra capital, venture debt can give startups a real edge by helping them scale smarter and on their own terms.

1. Preserve ownership and control

One of the biggest benefits of venture debt is its ability to help founders preserve ownership and control. Tech startups, especially those in SaaS, fintech or AI, tend to be asset-light – meaning traditional collateral is scarce. Venture debt lenders recognize this unique circumstance and offer flexible financing structures that align with the company's growth, allowing the company to manage cash flow effectively while scaling.

Venture debt also keeps a company nimble in that it increases flexibility to hit key milestones and target favourable financing conditions before taking on a subsequent equity round.

2. Cost of capital

The cost of capital for venture debt is relatively inexpensive compared to equity. In addition to the interest rate, borrowers usually pay a small commitment fee and may issue warrants that represent only a minor portion of equity, meaning founders can pay a lower cost of capital and avoid heavy dilution while still accessing critical funds to invest in the growth of their startup.

Startups can use these funds for a variety of strategic needs, including customer acquisition, product development, cloud infrastructure investment, hiring, mergers and acquisitions, or international expansion.

3. Compliments strong venture capital (VC) backing

Lenders often base their decisions on the quality of the startup’s VC investors, which acts as a form of validation and signals to the broader investment community that a startup is managing its capital thoughtfully. While venture debt is most commonly available to VC-backed companies, self-funded or bootstrapped startups that are with strong growth potential may also qualify.

Preparing for what ’s next: Opportunities and strategic considerations

When used carefully, venture debt can be a strong strategy for tech startups. It increases flexibility around the timing and terms of future financings and helps startups scale faster and smarter.

The venture debt market continues to grow rapidly as more lenders recognize the evolving needs of tech startups. It is one of a range of financing techniques to be considered by founders to best position their companies for efficient growth.

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By

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BLG Offices

Calgary

Centennial Place, East Tower
520 3rd Avenue S.W.
Calgary, AB, Canada
T2P 0R3

T 403.232.9500
F 403.266.1395

Ottawa

World Exchange Plaza
100 Queen Street
Ottawa, ON, Canada
K1P 1J9

T 613.237.5160
F 613.230.8842

Vancouver

1200 Waterfront Centre
200 Burrard Street
Vancouver, BC, Canada
V7X 1T2

T 604.687.5744
F 604.687.1415

Montréal

1000 De La Gauchetière Street West
Suite 900
Montréal, QC, Canada
H3B 5H4

T 514.954.2555
F 514.879.9015

Toronto

Bay Adelaide Centre, East Tower
22 Adelaide Street West
Toronto, ON, Canada
M5H 4E3

T 416.367.6000
F 416.367.6749