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List of abbreviations

1940 Act	Investment Company Act of 1940
ABC	Assignment For The Benefit Of Creditors
BDC	Business Development Company
Chapter 7	Business Liquidation
Chapter 11	Business Reorganisation
HRZN	Horizon Technology Finance Corp.
HTCG	Hercules Capital Inc.
PIK	Payment-in-kind, interest is paid with additional debt
RGC	Runway Growth Capital LLC
Rule 2a-5	Framework for Fund Valuation Practices
Rule 31a-4	Recordkeeping Requirements for Fair Value Determination
TPVG	Triplepoint Venture Growth BDC Corp.

List of references

All citations, references, and sources are publicly available. Annual reports and other company documents were obtained through the respective issuer's website, regulatory filings, and commercial registries. Documents are cited as follows:

< company name / author > < year of publication / business year >, < document title >, < page >, < url >

All annual reports are quoted with their business year in parentheses instead of publication year as we noticed that it does limit confusion.

Some SEC filings were retrieved through direct URLs within the EDGAR system, and those filings are quoted directly.

The phrase "company data" indicates that we aggregated the specific metrics from one or several respective regulatory filings.

List of figures

If not stated otherwise, all figures are obtained through the quoted references in the footnotes and can be found in the respective source.

Executive Summary

Runway Growth Finance Corp.	
Ticker:	RWAY
Market Cap:	USD 502.3m
Share Price:	USD 12.58
Consensus:	USD 13.16

We are short Runway Growth Finance Corp. (NASDAQ: RWAY) because, in our opinion, Runway Growth Finance Corporation is misleading shareholders and lacking transparency, as discrepancies in their disclosed loan-to-value (LTV) ratio and actual figures raise concerns. Furthermore, the company's reliance on high-risk payment-in-kind (PIK) loans, coupled with significant cash shortfalls and a decline in loan originations, jeopardizes its dividend strategy and long-term viability.

In our opinion,

- RWAY claims a low LTV of 17% compared to industry averages, but **the actual LTV is significantly higher at 24%.** This is not disclosed in any regulatory filings, indicating potential inaccuracies and a lack of transparency. RWAY is deceiving shareholders by not fully disclosing the risk of an investment in the company's stock. **Runway Growth's valuation methods for investments are highly subjective and circumvented SEC rules, specifically Rule 2a-5.** We believe the manipulated fair value of investments like Pivot3, Gynesonics, Marley Spoon, and Circadence raises concerns about the reliability and accuracy of RWAY's financial statements. (Read more on page 5)
- RWAY's **significant share of high-risk PIK loans** and the **increase in PIK interest income by 760% within the last two years** raise doubts about the availability of sufficient cash support. The company's distribution of **cash dividends exceeding its net investment income, reaching a ratio of 121% in Q1/23, indicates a significant shortfall of cash.** This leads to potential challenges in fulfilling future dividend obligations and raises **concerns about the long-term sustainability of RWAY's dividend strategy.** (Read more on page 8)
- **In the first half of 2023**, Runway Growth experienced a notable decline in its deal flow, resulting in **significantly fewer loan originations compared to analysts' expectations.** The company's performance was characterized by lackluster originations, **leading to net repayments of $35 million instead of $280 million in net originations.** Furthermore, additional repayments have been communicated by RWAY's borrowers, **which will result in a cash loss of total investment income amounting to $13.4 million annually until 2026.** (Read more on page 10).
- Runway Growth heavily relies on consistent net originations to generate interest income and support dividend payments. **The stalled originations also highlight the shift towards a portfolio of high-risk payment-in-kind (PIK) loans from distressed late-stage growth companies, posing additional risks for investors.**
- Runway's investment in Pivot3 Holdings raises concerns due to the **concealment of Pivot3's liquidation and the inclusion of "ghost value" on RWAY's balance sheet.** Despite the **sale of Pivot3's assets book value of the loan principal**, Runway Growth recorded a realized gain instead of a loss in 2021. **Pivot3 ceased operations but RWAY's continuous classification** of Pivot3 loans as non-accrual, coupled with its marked-up fair value, **suggests an attempt to offset other investments' unrealized losses to whitewash RWAY's net income.** (Read more on page 11)

- Runway Growth's investment in Gynesonics, a biotech company, raises concerns due to **RWAY's failure to promptly disclose Gynesonics' restructuring and the subsequent conversion of 50% of the senior secured loans into unsecured preferred equity.** The lack of transparency and failure to assign a higher risk rating **accurately** demonstrate RWAY's **manipulated risk assessment, mismanagement, and disregard for shareholder interests.** The swap into riskier equity positions, after previous equity holders were wiped out, puts **Runway Growth at significant losses because Gynesonics' equity was marked down by 13% in the first 30 days of ownership.** The preferred equity's rapid fair value deterioration and the limited growth prospects of Gynesonics **indicate a high likelihood of complete loss on the investment.** (Read more on page 17)

- **RWAY's loans to Marley Spoon**, a distressed meal delivery company, **exceed the portfolio company's current market capitalization**, indicating a risky investment with doubtful repayment prospects. **Marley Spoon's financial distress, negative equity, and significant cash burn rate raise concerns about the reported fair value of the loans.** Despite Marley Spoon undergoing a restructuring through a de-SPAC merger with a German company, accompanied by **significant alterations of the financial covenants, such as amortization and maturity extensions, and PIK relief, Runway Growth's risk rating for Marley Spoon has not changed.** We believe there is a likelihood of another ill-advised debt-to-equity swap, **potentially resulting in worthless Marley Spoon stock and losses for Runway Growth's shareholders.** (Read more on page 20)

- Runway's **loans to Circadence Corporation**, a government contractor specializing in educational products, **have experienced substantial fair value markdowns, with a 99% reduction in the accompanying equity stake.** Since 2014, Circadence struggled in securing new government contracts and according to government documents its remaining backlog is only worth $1.4 million. Because **the loans are PIK interest-only with SOFR+9.50% PIK,** we believe **the fair value is highly overstated** and **Circadence will be unable to repay its loan with cash.** (Read more on page 22)

- **Investments with an aggregated principal of more than $140 million are in distress or bankruptcy-like status** and RWAY failed to disclose material information about several investments. In addition, **the portfolio becomes more concentrated towards distressed PIK loans** as healthy cash-generative companies repay their loans early while **RWAY's deal flow stalled within the first half of 2023.**

1. Just another BDC company tricking shareholders

Runway Growth Finance Corp ("Runway", "Runway Growth", "RWAY") is a publicly traded Business Development Company (BDC) specializing in venture debt investments. RWAY primarily lends money to late-stage growth companies that have been funded by venture capital (VC) investors, offering them an alternative capital-raising solution that does not dilute their equity.[1] RWAY is managed by an external fund adviser called Runway Growth Capital LLC ("RGC"), an entity that is owned by RWAY's CEO David Spreng.

RWAY promotes the benefits of venture debt, emphasizing that it provides companies with an opportunity to secure capital while preserving their equity stakes.[2] The company asserts that venture debt is a cost-effective option compared to raising additional equity.[3] However, one significant driver of the industry's growth in recent years has been the low-interest-rate environment, which has increased the appeal of venture debt. Based on data from Crunchbase, the average age of an RWAY portfolio company is about 17 years. Some late-stage growth companies were founded almost 30 years ago.[4] We do not think that those firms are still in any growth phase. **By leveraging venture debt, unprofitable zombie companies can fund their survival through Runway loans.** We believe venture lending exists because VC firms are less inclined to fund these companies due to limited upside potential and unlikely possibilities of moonshots. As a result, late-stage growth companies turn to Runway as a means to obtain further funding to survive. With the FED's ten consecutive interest rate hikes, we believe **the tide has turned for such zombie companies.**

Despite RWAY's attempt to present itself as unique and more successful than other publicly listed Business Development Companies (BDCs), we hold the view that the company is quite the opposite of its perceived image.[5] **In our opinion, Runway Growth Finance Corp. is just an average BDC without any significant distinguishing factors**. It operates in the same space as other publicly traded BDCs such as TPVG, HRZN, and HTCG, lending money to VC portfolio companies. RWAY has highlighted the advantages of venture debt, noting that it combines downside protection with the upside potential of equity.[6]

However, **what differentiates RWAY from its peers is its incorporation of high-risk features into its loans that its competitors have long abandoned.** While other BDCs have learned from past experiences, RWAY is still in the process of learning and adapting what works in the venture lending space. And RWAY's shareholders will participate in that learning process.

We believe RWAY uses every trick possible to make its business look sounder and more appealing than it is.

2. Fair value is just a state of mind

RWAY claims in its investor presentation that its LTV of 17.4% is the lowest compared to the venture debt industry – at an average LTV of 30% – and significantly lower in comparison to middle market lenders that have an average LTV of 80%.[7] The promoted LTV is the ratio at loan origination and is

[1] Runway Growth Finance Corp. (2022), annual report, p. 4, https://www.sec.gov/Archives/edgar/data/1653384/000095017023005814/rway-20221231.htm
[2] Finsight Group, Inc. (2022), Runway Growth Finance - Q2 Earnings call transcript, https://capedge.com/transcript/1653384/2022Q2/RWAY
[3] Finsight Group, Inc. (2022), Runway Growth Finance - Q2 Earnings call transcript, https://capedge.com/transcript/1653384/2022Q2/RWAY
[4] Crunchbase Inc. (2023), Circadence, https://www.crunchbase.com/organization/circadence
[5] Finsight Group, Inc. (2023), Runway Growth Finance – Q4 Earnings call transcript, https://capedge.com/transcript/1653384/2022Q4/RWAY
[6] FactSet CallStreet, LLC (2022), 03-Mar-2022 Runway Growth Finance Corp. (RWAY) Q4 2021 Earnings Call, p. 3.
[7] Runway Growth Finance Corp. (2023) First Quarter 2023 Investor Presentation, p. 3, https://investors.runwaygrowth.com/static-files/c7f6f47e-aed8-4900-95ad-4af2e5dbee58

based on a subjective valuation from Runway's external advisor. We believe the value for the ratio was neither determined by the company's valuation designate nor by a third-party valuation firm. In fact, **Runway Growth does not disclose in any filed investor material that its current LTV is significantly higher.**[8] On average 40% higher than the promoted LTV in the investor presentation (see Figure 1).

Loan-to-value	Reported:	Q1/2023	Q4/2022	Q3/2022	Q2/2022	Q1/2022	Q4/2021
Average LTV at loan origination	in investor presentation	17%	17%	17%	16%	12%	14%
Current LTV	on earnings calls	24%	23%	22%	21%	20%	
Difference in %		**38%**	**32%**	**33%**	**30%**	**64%**	

Figure 1 LTV reported in investor presentation and current LTV reported in earnings calls, source: NINGI Research, company data

The company reports the figure neither in any SEC filings nor in the investor presentation but only tells investors the number in the earnings calls.[9] [10] [11] [12] In our opinion, Runway and its management are deceiving investors by not incorporating and properly disseminating basic financial metrics and key performance indicators about its business and loan book. **Because otherwise, an investor would have noticed that RWAY's current LTV grew by 20% over a year (see Figure 1).**

Runway also claims that its LTV is not based on regular enterprise value but is calculated based on **RWAY's determined enterprise value – as told in the Q2/22 earnings call "loan to our value".**[13] [14] However, it is not even disclosed to Runway's credit facility what variables are chosen for the calculation.[15] Because enterprise value is based on market capitalization and preferred stock, we doubt Runway's claims that it is so different from regular enterprise value. If the LTV is not based on the same definitions, how is a comparison of LTVs even possible, or can be justified to be put in investor materials? **We believe the LTV of Runway's investments is significantly understated.**

Even Runway's CEO David Spreng acknowledges that start-ups choose Runway's venture debt because additional funding would be at a lower equity valuation. That's RWAY's selling point: venture debt is cheaper than equity because a new funding round will lower the borrower's enterprise value and that's why late-stage growth companies choose venture lending. They just borrow based on an overpriced enterprise value. In our opinion, **Runway's underwriting practices are based on an LTV with the borrower's overpriced enterprise value in the denominator.** It is a win-win for the lender and the borrower because Runway complies with its creditors' LTV covenants for loan origination and the borrower can keep its overpriced valuation.

In their blog post titled "How to pitch a venture lender," Runway Growth provides guidance that discourages borrowers from granting proper access to a data room, as it may uncover negatively perceived information referred to as a "skeleton in the closet."[16] Additionally, the post suggests that **companies should exercise caution in sharing excessive information, particularly when it comes to**

[8] Runway Growth Finance Corp. (2023) First Quarter 2023 Investor Presentation, p. 3, https://investors.runwaygrowth.com/static-files/c7f6f47e-aed8-4900-95ad-4af2e5dbee58
[9] Runway Growth Finance Corp. (2023), quarterly report, https://www.sec.gov/Archives/edgar/data/1653384/000095017023019606/rway-20230331.htm
[10] Finsight Group, Inc. (2023), Runway Growth Finance – Q4 Earnings call transcript, https://capedge.com/transcript/1653384/2022Q4/RWAY
[11] Finsight Group, Inc. (2022), Runway Growth Finance - Q2 Earnings call transcript, https://capedge.com/transcript/1653384/2022Q2/RWAY
[12] Runway Growth Finance Corp. (2023) First Quarter 2023 Investor Presentation, p. 3, https://investors.runwaygrowth.com/static-files/c7f6f47e-aed8-4900-95ad-4af2e5dbee58
[13] Runway Growth Finance Corp. (2022), prospectus supplement, p.11, https://www.sec.gov/Archives/edgar/data/1653384/000110465922123707/rway-20221127xn2.htm
[14] Finsight Group, Inc. (2022), Runway Growth Finance - Q2 Earnings call transcript, https://capedge.com/transcript/1653384/2022Q2/RWAY
[15] Runway Growth Finance Corp. (2023), Second Amendment To Amended And Restated Credit Agreement, https://www.sec.gov/Archives/edgar/data/1653384/000110465923002333/tm232751d1_ex10-1.htm
[16] Runway Growth Finance Corp (2022), How to pitch a venture lender, https://web.archive.org/web/20230716124422/https://runwaygrowth.com/how-to-pitch-a-venture-lender/

discussing business challenges.[17] We find it difficult to comprehend that a lender would endorse such tactics to a borrower as a means to secure a loan. **In our opinion, it seems as though Runway Growth is aiming to protect itself from potential fiduciary responsibilities by deliberately remaining unaware.** By not being aware of certain matters, the company believes it avoids any breaches of fiduciary duty.

In our opinion, valuations and underwriting seem to be more of a whimsical concoction rather than a serious financial theorem for Runway Growth. There is a discrepancy in the information provided by the management and their external advisor, Runway Growth Capital, regarding the valuation methodologies and the legally mandated valuation designee. The inclusion of the valuation designee is a requirement under the newly introduced 2020 rule 2a-5 of the Investment Company Act of 1940:

> *"[…] The rule requires a board or its valuation designee to assess and manage material risks associated with fair value determinations; select, apply and test fair value methodologies; and oversee and evaluate any pricing services used. […]"*

The rule became effective in early 2021 and compliance was required from September 2022.[18] **Runway Growth did not appoint its external advisor as the company's valuation designee** but RWAY "has adopted certain revisions to its valuation policies and procedures in order comply with the applicable requirements of Rule 2a-5 and Rule 31a-4.[19] The board of directors chose to use independent third-party valuation firms in determining the fair value of its investments. The interval for determining the portfolio's fair value by the third-party firm is undisclosed. **However, Runway's CEO stated in the company's Q1 earnings call that the fair value is determined internally.[20] In addition, the LTV is determined internally by Runway or its external advisor. In our opinion, this would be a violation of the new rule.**

Fair value accounting is determined by rule 2a-5 under the Investment Company Act of 1940 and the SEC issued new guidance on how to apply it.[21] The rule was effective as of March 8, 2021.[22] Reasonably the SEC requires fair value accounting for securities when market quotations are readily available and **if market quotations are not readily available the fair value should be determined in good faith by the fund's board.[23]** RWAY disclosed that the investment's fair value is determined by its board of directors. [24] **The fair value in good faith is based on input from its external advisor RGC, the Audit Committee, and an independent third-party valuation firm.[25]** We think it is evident through the **various examples that Runway's board does not act in good faith and does not correctly determine the fair value of its investments but what benefits its external advisor.** In our opinion, it is a conflict of interest that the board is responsible for the fair value determinations and utilizing input from its external advisor that is owned by the chairman of the board. We think it is odd that the external advisor is not the valuation designee especially as the SEC guides that the designee "[…] generally will

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[17] Runway Growth Finance Corp (2022), How to pitch a venture lender, https://web.archive.org/web/20230716124422/https://runwaygrowth.com/how-to-pitch-a-venture-lender/
[18] Securities and Exchange Commission (2020), SEC Modernizes Framework for Fund Valuation Practices, https://www.sec.gov/news/press-release/2020-302
[19] Runway Growth Finance Corp. (2022), annual report, p. 111, https://www.sec.gov/Archives/edgar/data/1653384/000095017023005814/rway-20221231.htm
[20] Seeking Alpha Ltd. (2023), Runway Growth Finance Corp. (RWAY) Q1 2023 Earnings Call Transcript, https://seekingalpha.com/article/4604056-runway-growth-finance-corp-rway-q1-2023-earnings-call-transcript
[21] Securities and Exchange Commission (2020), Good Faith Determinations of Fair Value: A Small Entity Compliance Guide, https://www.sec.gov/investment/good-faith-determinations-fair-value-secg
[22] Runway Growth Finance Corp. (2023), quarterly report, p. 28, https://www.sec.gov/Archives/edgar/data/1653384/000095017023019606/rway-20230331.htm
[23] Securities and Exchange Commission (2020), Good Faith Determinations of Fair Value: A Small Entity Compliance Guide, https://www.sec.gov/investment/good-faith-determinations-fair-value-secg
[24] Runway Growth Finance Corp. (2022), annual report, p. 34, https://www.sec.gov/Archives/edgar/data/1653384/000095017023005814/rway-20221231.htm
[25] Runway Growth Finance Corp. (2022), annual report, p. 34, https://www.sec.gov/Archives/edgar/data/1653384/000095017023005814/rway-20221231.htm

be the fund's adviser."[26] May it be so RGC cannot be held responsible for the fair value determinations under the 1940 act?

In our opinion, there is a pattern in any distressed loan on Runway's loan book. It appears that as soon as a loan is distressed or in default and its fair value would be significantly impaired or there will the realized losses on a loan, RWAY buys in and is able to classify the loan as affiliate or control investment in accordance with the requirements of the 1940 Act.[27] We believe RWAY buys itself into the distressed company to increase its stake for reporting and reclassification purposes only. We believe that's why Runway swapped its senior secured loan for equity in Gynesonics and purchased preferred stock in Pivot3. **That way, the external advisors' incentive fee is shielded from the losses as those bad investments are not classified as non-control/non-affiliate investments (see Figure 2).[28]** In our opinion, all at the expense of RWAY's shareholders. **We think RWAY's external advisor is incentivized to invest more of RWAY's funds in a distressed borrower so it leads to a reclassification.**

> Until the consummation of a Spin-Off transaction, in the event that (a) the sum of the Company's cumulative net realized losses since the date of the Company's election to be regulated as a BDC exceeded 2.0% of the total non-control/non-affiliate investments made by the Company since the date of the Company's election to be regulated as a BDC through the end of the quarter and (b) the Pre-Incentive Fee net investment income adjusted to include any realized capital gains and losses ("Adjusted Pre-Incentive Fee net investment income"), expressed as an annualized rate of return on the value of the Company's average daily net assets (defined as total assets less liabilities), since the Company's election to be regulated as a BDC through the end of the quarter was less than 10.0%, no Income Incentive Fee would be payable for such quarter until the first subsequent quarter in which either (x) the sum of the Company's cumulative net realized losses

Figure 2 Solely losses based on non-control/non-affiliate investments are considered for RGC's incentive fees, source: NINGI Research, company filings

No matter how bad Runway's investments turn out, its external advisor Runway Growth Capital will be entitled to its incentive fee. The compensation requirements and fair value accounting could be questioned and adjusted by Runway's board of directors. However, the board is headed by external advisor CEO David Sprang.

> The Adviser is responsible for sourcing, reviewing and structuring investment opportunities for us, underwriting and conducting diligence on our investments and monitoring our investment portfolio on an ongoing basis. The Adviser's incentive fee is based on the value of our investments and, therefore, there may be a conflict of interest when personnel of the Adviser are involved in the valuation process for our portfolio investments. See the "Risk Factors" sections of our public SEC filings for more information about these potential conflicts of interest.

Figure 3 Incentive fee and the fair value determination are reported as a conflict of interest, source: NINGI Research, company filings

In our opinion, RGC is incentivized to take more risk because the advisors' variable compensation is shielded from any realized losses as laid out by us herein (see Figure 3). Runway Growth's past investments already signaled bad underwriting but **we believe this inadequate underwriting could lead to severe losses for Runway Growth and its shareholders as we head into a recession.**

3. PIK your dividend wisely

Next to RWAY's questionable valuation technique, **we believe there is a significant deviation regarding the company's perceived income strength.** Like most publicly-traded BDC, RWAY's investment thesis evolves around its ability to distribute dividends to its shareholders. The company

[26] Securities and Exchange Commission (2020), Good Faith Determinations of Fair Value: A Small Entity Compliance Guide, https://www.sec.gov/investment/good-faith-determinations-fair-value-secg
[27] Runway Growth Finance Corp. (2023), quarterly report, p. 13, https://www.sec.gov/Archives/edgar/data/1653384/000095017023019606/rway-20230331.htm
[28] Runway Growth Finance Corp. (2022), annual report, p. 122, https://www.sec.gov/Archives/edgar/data/1653384/000095017023005814/rway-20221231.htm

is classified as a RIC and is required by the 1940 Act to distribute 90% of its taxable income.[29] However, the taxable income to be distributed also includes any investment income from payment-in-kind interest (PIK interest).[30] **Because the PIK interest is recognized as investment income in the reporting period but is only paid at loan maturity Runway is forced to distribute more cash than it collected through investment income.[31]** That's why most middle market lenders avoid PIK provisions: it leads to a cash drain through required distributions and the loss is significantly higher for PIK loans if it defaults. **In Runway Growth's case, about a third of the company's loans have a PIK feature and in 2022 the company reported $8.6 million in PIK investment income - hence non-cash.[32]** The trailing twelve months' PIK interest income was about $10 million. **We expect the PIK interest income to grow to $12 million for full-year 2023.** In total, PIK interest income has been growing by 760 percent since Runway's IPO in 2021. Distinct PIK features include that some loans have a cash cap and are allowed to pay interest above the cash cap with payment-in-kind.[33] One particular borrower with a $44 million loan pays 50% of its interest payments with additional debt.[34] Other loans are converted to PIK only and some even get a PIK relief, meaning the loan does not pay interest at all.[35]

Payment-in-kind interest, in thousand USD	**Q1/2023**	**Q4/2022**	**Q3/2022**	**Q2/2022**	**Q1/2022**	**Q4/2021**	**Q3/2021**
Total investment income	39,310	36,806	27,329	25,158	19,259	17,580	18,610
Net investment income	18,246	18,361	14,497	14,479	12,460	10,929	10,741
PIK investment income	**3,796**	2,310	1,199	3,704	1,426	568	438
PIK interest in % of total investment income	9.66	6.28	4.39	14.72	7.41	3.23	2.35
PIK interest in % of net investment income	**20.80**	**12.58**	**8.27**	**25.58**	**11.45**	**5.20**	**4.08**
Net investment income less PIK investment income	14,450	16,051	13,297	10,775	11,034	10,360	10,303
Cash dividends in % of cash investment income	**121.11**	**87.17**	**96.14**	**94.41**	**34.01**	**99.85**	**26.34**

Figure 4 Total PIK interest income and % relative to investment income since IPO, source: NINGI Research, company data

As already mentioned, RWAY is required to distribute 90% of income even though it is non-cash, like PIK interest. **In the past, the increase in PIK income was not a concern for RWAY's dividend because the company has a dividend reinvestment plan in place.[36]** Shareholders have to opt out of the reinvestment plan to receive a cash dividend.[37] This is what happened over the last couple of quarters: **96 percent of RWAY's shareholders opted out of reinvesting their dividends and instead want to receive the cash distribution (see Figure 5). In our opinion, that is where the problems now arise.**

[29] Runway Growth Finance Corp. (2022), annual report, p. 65, https://www.sec.gov/Archives/edgar/data/1653384/000095017023005814/rway-20221231.htm
[30] Runway Growth Finance Corp. (2022), annual report, p. 17, https://www.sec.gov/Archives/edgar/data/1653384/000095017023005814/rway-20221231.htm
[31] Runway Growth Finance Corp. (2022), annual report, p. 17, https://www.sec.gov/Archives/edgar/data/1653384/000095017023005814/rway-20221231.htm
[32] Runway Growth Finance Corp. (2022), annual report, p. 86, https://www.sec.gov/Archives/edgar/data/1653384/000095017023005814/rway-20221231.htm
[33] Runway Growth Finance Corp. (2023), quarterly report, p. 5, https://www.sec.gov/Archives/edgar/data/1653384/000095017023019606/rway-20230331.htm
[34] Runway Growth Finance Corp. (2023), quarterly report, p. 5, https://www.sec.gov/Archives/edgar/data/1653384/000095017023019606/rway-20230331.htm
[35] Runway Growth Finance Corp. (2023), quarterly report, p. 45, https://www.sec.gov/Archives/edgar/data/1653384/000095017023019606/rway-20230331.htm
[36] Runway Growth Finance Corp. (2023), quarterly report, p. 34, https://www.sec.gov/Archives/edgar/data/1653384/000095017023019606/rway-20230331.htm
[37] Runway Growth Finance Corp. (2021), Amended And Restated Dividend Reinvestment Plan Of Runway Growth Finance Corp., p. 2, https://www.sec.gov/Archives/edgar/data/1653384/000165338421000025/rgc-20211027xex10.htm

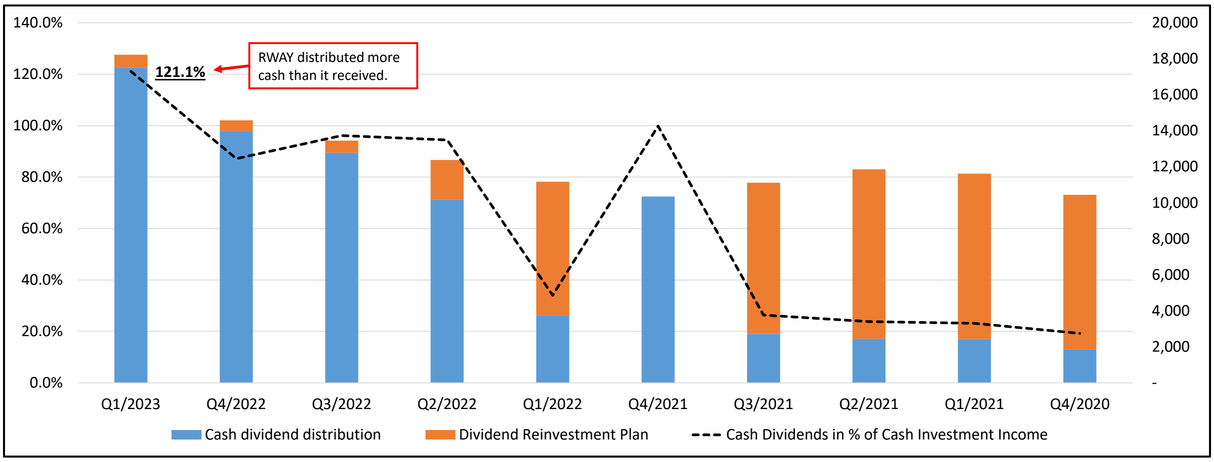

Figure 5 Cash dividends are exceeding cash investment income due to a shift away from the dividend reinvestment plan, source: NINGI Research, company data

Starting from the first quarter of 2022, there has been **a notable increase in the proportion of cash dividends relative to cash interest income (as shown in Figure 5).**[38] Surprisingly, the ratio of cash dividends to collections for Runway Growth **reached an astonishing 121 percent** in the first quarter of 2023 (see Figure 5). **This signifies that the company distributed dividends in excess of the cash it actually received.** Runway Growth faces a dilemma as its management had previously announced plans to pay both, a regular and a supplemental dividend in 2023. However, considering that the company has already paid out more in cash dividends than its net investment income, there arises a question of how it will sustain future dividend payments while experiencing an acceleration in payment-in-kind (PIK) interest income. **In our opinion, this situation raises concerns regarding the long-term viability of Runway Growth's dividends and the availability of sufficient cash support.**

4. Deal pipeline stalled

Runway Growth's business model and deal flow have seen a notable decline since the first quarter of 2023.[39] [40] In that quarter, the company reported significantly fewer loan originations than anticipated, with **net originations totaling only $2.8 million, falling short of sell-side analysts' expectations ranging from $60 to $80 million.**[41] This trend continued into the second quarter, characterized by a lackluster deal pipeline.[42] **Notably, Runway experienced an accelerated rate of repayments, resulting in net repayments for the second quarter of 37.8 million dollars.** Despite investing $50.9 million during that period, the company received repayments of approximately $88.7 million, **leading to an annual loss of interest income amounting to $5.46 million.**[43] [44] [45] What is more concerning is that these repayments were made on investments that had not yet matured and did not

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[38] Runway Growth Finance Corp. (2023), quarterly report, p. 31, https://www.sec.gov/Archives/edgar/data/1653384/000095017023019606/rway-20230331.htm
[39] Runway Growth Finance Corp. (2023), Runway Growth Finance Corp. Provides First Quarter 2023 Portfolio Update, https://www.sec.gov/Archives/edgar/data/1653384/000110465923042480/tm2311899d1_ex99-1.htm
[40] Runway Growth Finance Corp. (2023), Runway Growth Finance Corp. Provides Second Quarter 2023 Portfolio Update, https://www.sec.gov/Archives/edgar/data/1653384/000110465923079830/tm2321008d1_ex99-1.htm
[41] Runway Growth Finance Corp. (2023), Runway Growth Finance Corp. Provides First Quarter 2023 Portfolio Update, https://www.sec.gov/Archives/edgar/data/1653384/000110465923042480/tm2311899d1_ex99-1.htm
[42] Runway Growth Finance Corp. (2023), Runway Growth Finance Corp. Provides Second Quarter 2023 Portfolio Update, https://www.sec.gov/Archives/edgar/data/1653384/000110465923079830/tm2321008d1_ex99-1.htm
[43] Runway Growth Finance Corp. (2023), quarterly report, p. 5, https://www.sec.gov/Archives/edgar/data/1653384/000095017023019606/rway-20230331.htm#scheduleofinvestments_460338
[44] Runway Growth Finance Corp. (2023), quarterly report, p. 7, https://www.sec.gov/Archives/edgar/data/1653384/000095017023019606/rway-20230331.htm#scheduleofinvestments_460338
[45] Runway Growth Finance Corp. (2023), Runway Growth Finance Corp. Provides Second Quarter 2023 Portfolio Update, https://www.sec.gov/Archives/edgar/data/1653384/000110465923079830/tm2321008d1_ex99-1.htm

have a payment-in-kind (PIK) feature, translating into an actual cash loss.[46] [47] [48] Furthermore, Allurion Technologies, another portfolio company, has disclosed its intention to fully repay its $55 million Runway loan, resulting in an additional annual interest income loss of approximately $7.9 million.[49] **In our opinion, without any new loan originations, Runway Growth would face net repayments of around $92.8 million. Sell-side analysts had projected net originations ranging from $150 million to $280 million.**

It is crucial to recognize that **Runway Growth relies on consistent net originations to generate interest income and support the payment of dividends.** Loan originations contribute to the company's revenue stream through interest payments and fees. **A higher number of originations ensures a steady influx of new loans and corresponding interest income.** Additionally, increased originations contribute to a larger loan portfolio, potentially enhancing Runway Growth's profitability and risk diversification. A greater number of originations also **contributes to the stability of the company's operations by reducing dependence on a limited pool of existing borrowers** and mitigating risks associated with a small number of loans. **Early repayments can impact cash flow and profitability,** and a higher number of originations helps offset this impact, reducing the risks associated with early loan repayment.

Year-to-date RWAY's originations have mostly been directed towards existing investments, and Runway Growth has already set aside funds for these types of committed loans.[50] [51] [52] Unfunded commitments are funded by the company's substantial credit facility, which Runway Growth increased. However, **the expectation of new investments worth hundreds of millions of dollars led the company to issue debt through notes** to fund the expected originations in 2023.[53] **As originations have stalled, Runway Growth is now burdened with expensive debt that requires servicing.** The elevated interest expense puts additional pressure on the company, as it must service the debt with cash while collecting significant non-cash income through PIK interest.

The last two-quarters of stalled originations highlight the contrast between Runway's financially stable portfolio companies repaying their loans early and distressed investments requiring loan extensions or restructuring. In our opinion, RWAY morphs into a portfolio of high-risk PIK loans from distressed late-state growth companies.

5. Pivot3 – fair value of a ghost

One of the most intriguing investments made by Runway in the past five years was a loan provided to a company called Pivot3 Holdings, Inc., also referred to as Pivot3, Inc. in Runway's reports (see Figure 7). The initial loan was issued in May 2019, and two additional loans were extended in 2020.[54]

[46] Except for the partial repayment of the Pivot3 senior secured term loan.
[47] Runway Growth Finance Corp. (2023), quarterly report, p. 5, https://www.sec.gov/Archives/edgar/data/1653384/000095017023019606/rway-20230331.htm#scheduleofinvestments_460338
[48] Runway Growth Finance Corp. (2023), quarterly report, p. 7, https://www.sec.gov/Archives/edgar/data/1653384/000095017023019606/rway-20230331.htm#scheduleofinvestments_460338
[49] Allurion Technologies, Inc. (2023), prospectus p. 127, https://www.sec.gov/Archives/edgar/data/1964979/000119312523183836/d445118d424b3.htm#fin445118_3
[50] Runway Growth Finance Corp. (2023), Runway Growth Finance Corp. Provides First Quarter 2023 Portfolio Update, https://www.sec.gov/Archives/edgar/data/1653384/000110465923042480/tm2311899d1_ex99-1.htm
[51] Runway Growth Finance Corp. (2023), Runway Growth Finance Corp. Provides Second Quarter 2023 Portfolio Update, https://www.sec.gov/Archives/edgar/data/1653384/000110465923079830/tm2321008d1_ex99-1.htm
[52] Runway Growth Finance Corp. (2023), quarterly report, p. 32, https://www.sec.gov/Archives/edgar/data/1653384/000095017023019606/rway-20230331.htm
[53] FactSet CallStreet, LLC (2022), 03-Nov-2022 Runway Growth Finance Corp. (RWAY) Q3 2022 Earnings Call, p. 7.
[54] Runway Growth Finance Corp. (2022), annual report, p. 106, https://www.sec.gov/Archives/edgar/data/1653384/000095017023005814/rway-20221231.htm

By the end of 2020, the total amount of loans to Pivot3 reached $23.6 million (see Figure 6).[55] Although the product offered by the company itself lacked innovation or interest, **what makes this debt investment particularly fascinating is that the Pivot3 loans encountered financial difficulties and were classified as non-accrual in 2021.[56]** This prompted us to delve deeper into the situation, given Runway's claims of a significantly lower loss rate compared to its competitors.

Pivot3, Inc.	Data Processing & Outsourced Services	Tranche I: LIBOR+8.50% PIK, 11.00% floor, 4.00% ETP, due 11/15/2022 (4)	5/13/2019	21,345,001	21,609,825	19,864,282
		Tranche II: LIBOR+8.50% PIK, 11.00% floor, due 11/15/2022 (4)	10/2/2020	1,022,772	1,022,772	951,822
		Tranche III: LIBOR+8.50% PIK, 11.00% floor, due 11/15/2022 (4)	10/2/2020	1,000,000	1,000,000	930,629

Figure 6 Pivot3's three tranches at the principal, cost, and fair value, source: NINGI Research, company filings

On January 27, 2021, as part of an overall reorganization of Pivot3, Inc., Pivot3, Inc. changed its name to Pivot3 Holdings, Inc. and the Company: (i) funded a $1,000,000 investment of Series 1 Preferred Stock, and (ii) converted the $1,000,000 Convertible Bridge Loan into Series 1 Preferred Stock. Further, in conjunction with the reorganization, our Series D warrants were effectively canceled and as such we recorded a $216,610 realized loss.

Figure 7 In January 2021 Pivot3 was "reorganized" which led to a loss on its warrants, source: NINGI Research, company filings

During the beginning of 2021, Runway experienced an initial partial loss of $216,610 on its Pivot3 warrants (see Figure 7). However, six months later, **in the third quarter of 2021, Runway decided to reclassify its Pivot3 loans (see Figure 8). The total principal amount placed on non-accrual status amounted to approximately $26.2 million.[57]**

Effective July 1, 2021, the Company placed three loans to Pivot3 Holdings, Inc. on non-accrual status, representing an aggregate principal funded of $26,201,092 at a fair market value of $13,797,915 and comprises 2.89% of the investment portfolio as of June 30, 2021. On July 20, 2021, the Company also received cash proceeds of $5,000,000 from the sale of a portion of assets held by Pivot3 Holdings, Inc.

Figure 8 Pivot3 loans are classified as non-accrual, source: NINGI Research, company filings

What happened in the six months after the first loss so that RWAY had to reclassify the loans as non-performing? **On July 19, 2021, a company called Quantum Corporation purchased all assets of Pivot3 for $8.9 in cash and Quantum stock (see Figure 12).[58] [59]** Quantum Corporation even took over the URL for Pivot3: pivot3.com; and redirected it to Quantum's website. RWAY received $5 million in cash and we believe the parts of the payment were in Quantum stock, which was listed in RWAY's Q3 report at cost of $2.6 million.[60] **Interestingly the received dollar amount did not add up to 8.9 million dollars because about $1.3 million was missing.** But we will come to that later.

Although the loans provided to Pivot3 by Runway were classified as senior secured, **it is evident through basic algebra that Runway likely incurred a loss of approximately $18.6 million** on its venture loans to Pivot3.[61] [62] Contrary to expectations, **Runway Growth did not report a realized loss**

[55] Runway Growth Credit Fund Inc. (2020), annual report, p. 86, https://www.sec.gov/Archives/edgar/data/1653384/000155837021002833/rgc-20201231x10k.htm
[56] P. 42, https://www.sec.gov/Archives/edgar/data/1653384/000155837021010525/rgc-20210630x10q.htm
[57] Runway Growth Finance Corp. (2021), quarterly report, p. 42, https://www.sec.gov/Archives/edgar/data/1653384/000155837021010525/rgc-20210630x10q.htm
[58] Quantum Corp. (2021), Quantum Acquires Surveillance Portfolio and Assets from Pivot3, a Market Leader in Hyperconverged Infrastructure for Surveillance Workloads, https://www.prnewswire.com/news-releases/quantum-acquires-surveillance-portfolio-and-assets-from-pivot3-a-market-leader-in-hyperconverged-infrastructure-for-surveillance-workloads-301336339.html
[59] Runway Growth Finance Corp. (2021), quarterly report, p. 42, https://www.sec.gov/Archives/edgar/data/1653384/000155837021010525/rgc-20210630x10q.htm
[60] Runway Growth Finance Corp. (2021), quarterly report, p. 7, https://www.sec.gov/Archives/edgar/data/1653384/000155837021014567/rgc-20210930x10q.htm
[61] Runway Growth Finance Corp. (2021), quarterly report, p. 49, https://www.sec.gov/Archives/edgar/data/1653384/000155837021014567/rgc-20210930x10q.htm
[62] Runway Growth Finance Corp. (2021), quarterly report, p. 6, https://www.sec.gov/Archives/edgar/data/1653384/000155837021010525/rgc-20210630x10q.htm

of that magnitude in either its third-quarter or 2021 annual report.[63] [64] **Surprisingly, the company actually recorded a realized gain of $4.2 million for the year 2021 (see Figure 12 and Figure 14).**[65] This is quite perplexing considering that Pivot3's assets were sold in the middle of 2021 at a value below what was reported on the company's balance sheet.[66] Remarkably, the remaining portion of the loans, representing the difference between the pre-sale loan fair value and the actual sale price, continues to be included on Runway Growth's balance sheet.[67] Furthermore, Runway Growth held $2 million worth of Pivot3's preferred stock in its financial records.[68] However, it was not until the fourth quarter of 2022 that the company recognized a loss of $2 million.[69] As a result, for a period of one and a half years, Runway carried worthless stock on its books with a reported fair value of $2 million.

What adds to the intrigue is that Runway Growth continues to classify the Pivot3 loans as non-accrual, with the fair value changing each quarter. **According to an article, Pivot3 "gave up its ghost" and relinquished all of its assets** related to its security products, which happened to be its sole product (see Figure 10). These assets were subsequently sold to Quantum Corporation. The sale of Pivot3 has even been used as a case study by an M&A advisory firm, which reports that:[70]

> *"[…] The transaction successfully closed as a sale of substantially all of Pivot3's assets to Quantum Corporation ("Quantum") (Nasdaq: QMCO). The parties opted to effectuate the asset sale transaction inside an assignment for the benefit of creditors (ABC). […]"*

Why has RWAY not realized a loss on the non-accrual loans yet? **Pivot3 ceased operations almost two years ago.** It is well-documented what happened and a former employee put it bluntly (see Figure 9 below).[71]

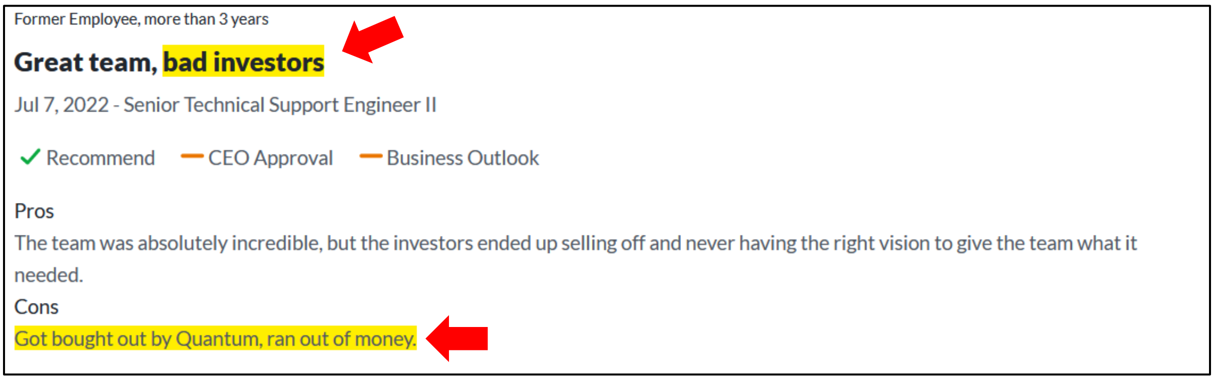

Figure 9 Glassdoor review on Pivot3 by former employee, source: NINGI Research, Glassdoor, Inc.

[63] Runway Growth Finance Corp. (2021), quarterly report, p. 7, https://www.sec.gov/Archives/edgar/data/1653384/000155837021014567/rgc-20210930x10q.htm
[64] Runway Growth Finance Corp. (2021), annual report, p. 92, https://www.sec.gov/Archives/edgar/data/1653384/000155837022002804/rgc-20211231x10k.htm
[65] Runway Growth Finance Corp. (2021), annual report, p. 92, https://www.sec.gov/Archives/edgar/data/1653384/000155837022002804/rgc-20211231x10k.htm
[66] Mellor, Chris (2021), Pivot3 gives up ghost as Quantum buys its assets to go deeper into video surveillance, https://blocksandfiles.com/2021/07/19/pivot3-gives-up-ghost-as-quantum-buys-its-assets-to-go-deeper-into-video-surveillance/
[67] Runway Growth Finance Corp. (2021), quarterly report, p. 49, https://www.sec.gov/Archives/edgar/data/1653384/000155837021014567/rgc-20210930x10q.htm
[68] Runway Growth Finance Corp. (2021), quarterly report, p. 5, https://www.sec.gov/Archives/edgar/data/1653384/000155837021014567/rgc-20210930x10q.htm
[69] Runway Growth Finance Corp. (2022), annual report, p. 97, https://www.sec.gov/Archives/edgar/data/1653384/000095017023005814/rway-20221231.htm
[70] G2 Capital Advisors LLC (2021), Pivot3, https://g2capitaladvisors.com/transaction/pivot3/
[71] Glassdoor, Inc. (2022), Employee Review - Great team, bad investors, https://www.glassdoor.com/Reviews/Employee-Review-Pivot3-RVW66428878.htm

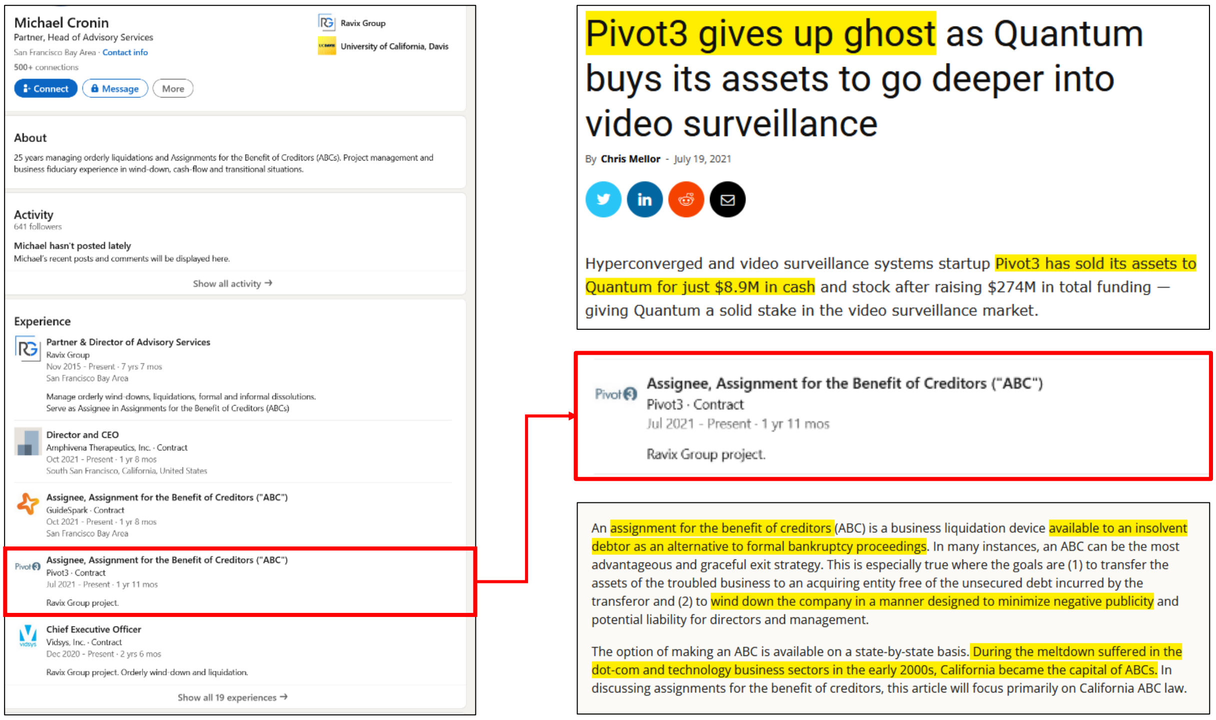

Figure 10 LinkedIn profile of Pivot3's contracted assignee to wind down the company, headline of Pivot3's sale and ABC explanation, source: NINGI Research, LinkedIn Corp., American Bar Association, blocksandfiles.com

However, it appears that Pivot3 could live on forever. That is because instead of filing for Chapter 7 bankruptcy, **Pivot3 was restructured as an "assignment for the benefit of creditors" ("ABC")** as the M&A advisory firm's case study and the LinkedIn profile of the ABC's contractor indicate (see Figure 10).[72] ABC – that is a popular Sesame Street song but also a very popular restructuring vehicle. **Essentially, the assignment for the benefit of creditors (ABC) is a process similar to bankruptcy.** It is considered a less formal and quicker method of liquidating a company and its assets compared to a formal Chapter 7.[73] [74] Instead of years of bankruptcy proceedings, with an ABC it takes about 6 months for a company to be liquidated.[75] **A company within ABC does not have to file for bankruptcy and can liquidate its assets informally.**[76] Exactly what Pivot3 did by selling its assets to Quantum. As the American Bar Association highlighted, **ABCs can "wind down the company in a manner designed to minimize negative publicity".**[77] **This may explain why we believe Runway Growth chose this approach.** In our opinion, Runway achieved exactly that because **neither shareholders nor sell-side analysts know that Pivot3 ceased operations years ago.** By doing so, RWAY can maintain the appearance that Pivot3 is still operational, allowing them to assign a fair value to the loan (as shown in Figure 12). **We think Runway Growth is even inflating the Pivot3 loan's fair value to offset other impaired investments.**

We think RWAY and its external advisor Runway Growth Capital LLC **deceived shareholders and investors by not properly accounting for Pivot3's fair value, the losses from this investment, and the net asset decrease in the income statement.** We believe RWAY should have impaired the loans and realized the losses on its Pivot3 loans in the third quarter of 2021. Instead of a realized gain of $4.2

[72] G2 Capital Advisors LLC (2021), Pivot3, https://g2capitaladvisors.com/transaction/pivot3/
[73] Kupetz, David S. (2015), Assignment for the Benefit of Creditors: Effective Tool for Acquiring and Winding Up Distressed Businesses, https://www.americanbar.org/groups/business_law/resources/business-law-today/2015-november/assignment-for-the-benefit-of-creditors/
[74] G2 Capital Advisors LLC (2023), Assignments for the Benefit of Creditors (ABCs): an Exit Option for Troubled Companies, https://g2capitaladvisors.com/assignments-for-the-benefit-of-creditors-abcs-an-exit-option-for-troubled-companies/
[75] G2 Capital Advisors LLC (2023), Assignments for the Benefit of Creditors, https://g2capitaladvisors.com/abc/
[76] G2 Capital Advisors LLC (2023), Assignments for the Benefit of Creditors, https://g2capitaladvisors.com/abc/
[77] Kupetz, David S. (2015), Assignment for the Benefit of Creditors: Effective Tool for Acquiring and Winding Up Distressed Businesses, https://www.americanbar.org/groups/business_law/resources/business-law-today/2015-november/assignment-for-the-benefit-of-creditors/

million for 2021, **RWAY should have reported a total realized loss of $15 million based on its cost basis and a $9.6 million net realized loss based on its fair value estimate.**

To date, **RWAY uses the non-accrual loan of Pivot3 to whitewash its unrealized depreciation** because they mark up the fair value of the Pivot3 loan to offset unrealized depreciation from other, mostly equity investments and warrants, portfolio companies.[78]

The Quantum shares that RWAY received as part of the sale back in 2021 have been marked down by 80% since then.[79] But **Pivot3's imaginary fair value – or as we believe 'ghost value' – has been thriving so far (see Figure 11 and Figure 12).**

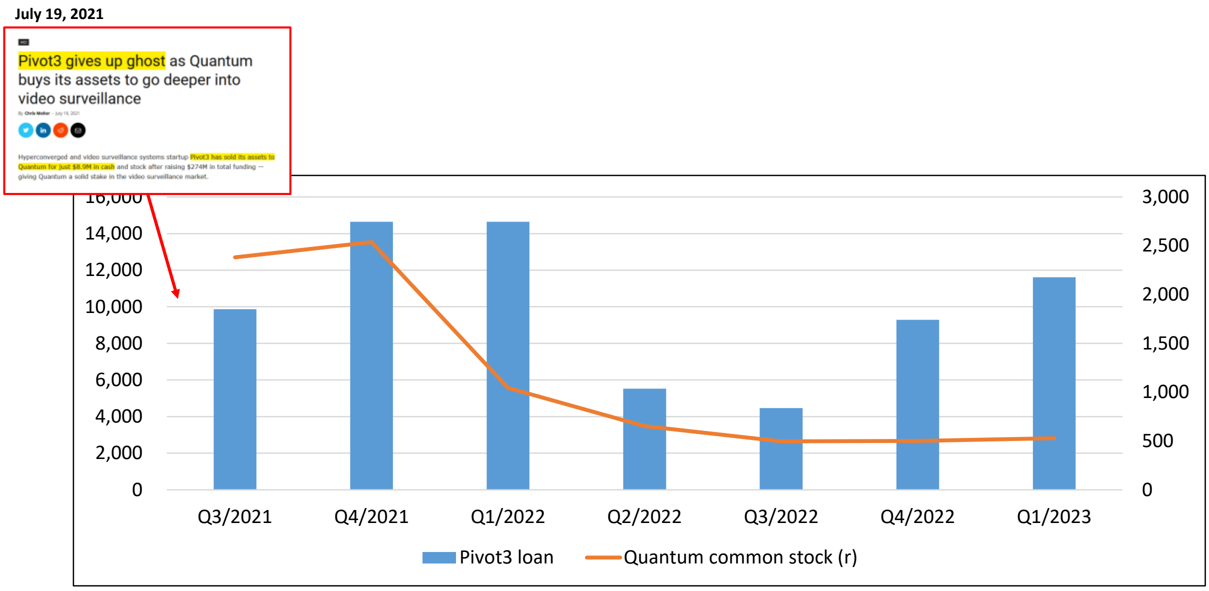

Figure 11 Reported fair value of Pivot3 investment and Quantum Corp. comm stock after the sale of Pivot3 assets to Quantum, source: NINGI Research, company data

Could it be that Pivot3's new destiny is to live forever and help RWAY offset any losses or unrealized depreciation from other portfolio investments? **Runway Growth went as far as extending the loan maturity twice.** The original maturity date was Mid-November but in the annual report, the new maturity date was reported as Mid-January.[80] [81] In the latest 10-Q ending March 31, the maturity date for the Pivot3 loan was reported as Mid-April.[82] **We think it is dubious that the loan is extended twice so that it matures right after the end of a quarter's reporting period.** Loan extensions normally signal a possible struggle to repay the principal due. Therefore, we think, **it is very odd that the loan's fair value was marked up after each extension (see Figure 12).** We believe the company just extends the maturity date of this loan to doctor its fair value and offset other unrealized depreciation of its portfolio companies (see Figure 12). **In our opinion, RWAY marked up the fair value of Pivot3 in the fourth quarter of 2021 and the fourth quarter of 2022 to whitewash its full-year income statement (see Figure 12).**

[78] Runway Growth Finance Corp. (2023), quarterly report, p. 57, https://www.sec.gov/Archives/edgar/data/1653384/000095017023019606/rway-20230331.htm
[79] Runway Growth Finance Corp. (2022), annual report, p. 92, https://www.sec.gov/Archives/edgar/data/1653384/000095017023005814/rway-20221231.htm
[80] Runway Growth Finance Corp. (2022), annual report, p. 95, https://www.sec.gov/Archives/edgar/data/1653384/000095017023005814/rway-20221231.htm
[81] Runway Growth Finance Corp. (2022), annual report, p. 104, https://www.sec.gov/Archives/edgar/data/1653384/000095017023005814/rway-20221231.htm
[82] Runway Growth Finance Corp. (2023), quarterly report, p. 11, https://www.sec.gov/Archives/edgar/data/1653384/000095017023019606/rway-20230331.htm

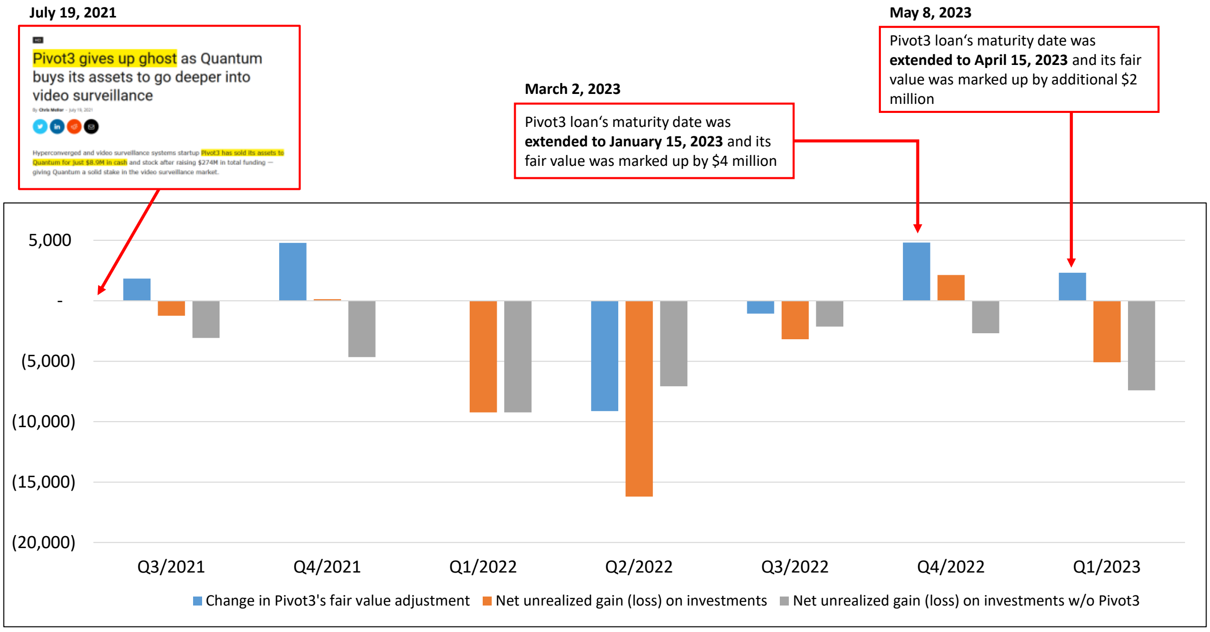

Figure 12 Pivot3's fair value change and change in net unrealized gains and losses with and without Pivot3 adjustment since Pivot3's asset sale, source: NINGI Research, company data

Instead of reporting an unrealized loss of $4.6 million for Q4/2021, **the company slightly reported an unrealized gain of 128,000 dollars due to marking up Pivot3's loans by $4.7 million (see Figure 12).** The same happened in Q4/2022, in which the **Pivot3 loans were marked up $4.8 million and RWAY reported an unrealized gain of 2.1 million dollars** instead an unrealized of $2.6 million (see Figure 12).

The investing public can see that the loan's fair value was changed and marked up in the last two quarters (see Figure 12). **In the first quarter of 2023, the markup offset RWAY's disastrous debt-to-equity swap in Gynesonics (see Figure 12 and Figure 13).[83]** The company even highlighted the offset in its 10-Q:[84]

Net Change in Unrealized Appreciation (Depreciation) on Investments

Net change in unrealized depreciation on investments of $5.1 million for the three months ended March 31, 2023 was primarily due to decreases in the fair value of our senior secured loan to Gynesonics, Inc. and preferred stock in Gynesonics, Inc., partially offset by an increase in the fair value of our senior secured loan to Pivot3, Inc. The net change in unrealized depreciation on investments of $9.2 million for the three months ended March 31, 2022 was primarily due to decreases in the fair value of our investment in the common stock of Brilliant Earth Group, Inc. and preferred stock in CareCloud, Inc.

Figure 13 Pivot3 fair value increase offset the unrealized losses from Gynesonics, source: NINGI Research, company filings

We think that it is very strange that a company is marking up ghost assets that magically offset losses from other investments. **In the past, Pivot3 loans helped whitewash Runway's GAAP net income by 4.8 million dollars in 2022 and 2021 and in the last quarter by $2.3 million (see Figure 14)**

Net income w/o Pivot3 investment, in thousand USD	Q1/2023	Q4/2022	Q3/2022	Q2/2022	Q1/2022	Q4/2021	Q3/2021
Net increase in net assets resulting from operations	11,984	19,025	11,722	(817)	2,853	19,305	10,231
Net increase w/o Pivot3 marked-up fair value	9,661	14,202	11,722	(817)	2,853	14,518	10,231
Delta	**(2,323)**	**(4,823)**	-	-	-	**(4,787)**	-

Figure 14 Pivot3's fair value adjustment affects RWAY's net income, source: NINGI Research, company data

In our opinion, net income for Q4/21 and Q4/22 is exactly 25% lower than reported. In the RWAY's portfolio update for its second quarter, the company disclosed that there was a partial repayment of

[83] Runway Growth Finance Corp. (2023), quarterly report, p. 57, https://www.sec.gov/Archives/edgar/data/1653384/000095017023019606/rway-20230331.htm
[84] Runway Growth Finance Corp. (2023), quarterly report, p. 57, https://www.sec.gov/Archives/edgar/data/1653384/000095017023019606/rway-20230331.htm

Pivot3's senior secured loan of $1.2 million. If you remember, in 2021 RWAY sold Pivot3's asset for 8.9 million dollars. The company reported that it got $5 million in cash and $2.6 million in Quantum stock in Q3/2021.[85] **However, about 1.3 million dollars was missing and we believe that this is the announced "partial repayment" of the loan that RWAY reported in the company's portfolio update** for the second quarter of 2023.[86] **The question will be if RWAY is still reporting any fair value for its Pivot3 investments and keeps the ghost alive. If not, this would lead to a $10 million write-off for the second quarter of 2023.**

Anyway, in our opinion, **Pivot3's offsetting nature is just a bonus for RWAY's management and external advisor and is purely opportunistic.** At the time of Pivot3's liquidation, RWAY was just months away from its IPO.

We think the true losses were concealed because they would have torpedoed the planned IPO of Runway Growth Finance. In our opinion, **such a significant loss**, just months before RWAY's initial public offering in October 2021, **would have been devasting for Runway Growth's price discovery process.** We believe the losses on Pivot3 would have not fit into the company's narrative of a successful venture lender.

We believe Pivot3's reported fair value on Runway Growth's books is zero and should have been written off in 2021. In our opinion, if the company would have recognized the losses on its Pivot3 investment we estimate at about $21.1 million, RWAY's external advisor would not have been entitled to its incentive fee for the third quarter of 2021.

Next to the false accounting for this specific loan, we believe the broader issue is that loopholes and a lack of supervision by Runway's board of directors enable the company's external advisor to rake in bonuses even if investments go wrong.

6. Gynesonics – ill-advised debt-for-equity swap

As already mentioned, in Q1/2023 RWAY used the Pivot3 loans to offset the unrealized losses from its investment in Gynesonics. **That investment turned out to be another failure.**

In Runway Growth's latest 10-Q and during the earnings call the company reported a restructuring at one of its portfolio companies called Gynesonics.[87] [88] It's a biotech company with a focus on bringing the world's first and only intrauterine fibroid ablation system to the market.[89] First off, that does seem compelling but after a quick web search Gynesonics' claim of "first and only" falls apart because other companies, like the medical technology powerhouse Hologic, offer such an ablation system as well.[90] There are already procedures in place for treating intrauterine fibroid if needed and there is likely no further demand. The intrauterine fibroid is a noncancerous fibroid of the uterus which are not lethal, **more than half of all patients with uterine fibroids have no symptoms and most of them do not**

[85] Runway Growth Finance Corp. (2021), quarterly report, p. 7, https://www.sec.gov/Archives/edgar/data/1653384/000155837021014567/rgc-20210930x10q.htm
[86] Runway Growth Finance Corp. (2023), Runway Growth Finance Corp. Provides Second Quarter 2023 Portfolio Update, https://www.sec.gov/Archives/edgar/data/1653384/000110465923079830/tm2321008d1_ex99-1.htm
[87] Runway Growth Finance Corp. (2023), quarterly report, p. 57, https://www.sec.gov/Archives/edgar/data/1653384/000095017023019606/rway-20230331.htm
[88] Seeking Alpha Ltd. (2023), Runway Growth Finance Corp. (RWAY) Q1 2023 Earnings Call Transcript, https://seekingalpha.com/article/4604056-runway-growth-finance-corp-rway-q1-2023-earnings-call-transcript
[89] Gynesonics, Inc. (2023), website, https://gynesonics.com/us/
[90] Hologic, Inc. (2020), Hologic to Acquire Acessa Health, Innovator in Minimally Invasive Solutions for Treatment of Fibroids, https://investors.hologic.com/press-releases/press-release-details/2020/Hologic-to-Acquire-Acessa-Health-Innovator-in-Minimally-Invasive-Solutions-for-Treatment-of-Fibroids

require any treatment in the first place.[91] **Therefore, we believe Gynesonics is neither the first nor only company offering a solution.**

In 2020, RWAY committed to originate $50 million to Gynesonics, and the first $30 million were funded immediately.[92] In the third quarter of 2022, Gynesonics drew the rest of the committed funding.[93] At the end of 2022, the reported fair value of Gynesonics' loans was valued $22,000 higher than the $50 million principal.[94] **What's important is the release of year-end fair value figures for Gynesonics in Runway's 2022 annual report on March 2nd, 2023.** [95] Furthermore, an earnings call took place on the same day to discuss the current status of Runway's investments.[96] **Notably, on March 1st, 2023, a day before RWAY's earnings call, Gynesonics underwent a restructuring process that resulted in a complete loss for its former equity holders.**[97] [98]Additionally, Runway exchanged 50% of its senior secured loan, approximately $25 million, for unsecured preferred equity (see Figure 15). [99] [100] But management kept their mouth shut during the Q4/22 earnings call and did not disclose the restructuring of one of RWAY's top 5 borrowers that happened a day earlier.[101]

At the time, it should have been evident to both Runway Growth and its external advisor that the reported fair values of Gynesonics' loans were significantly inflated. **However, Runway Growth surprisingly did not assign a risk rating higher than three to the Gynesonics loans,** despite Gynesonics undergoing a restructuring process.[102] Months later, during the First Quarter Earnings Call, Runway disclosed that former Gynesonics equity investors experienced a complete loss, indicating a decline in enterprise value. **These events, namely the restructuring and decline in enterprise value, are specific factors considered in defining a risk rating of 4 or 5 (see Figure 15).** We believe that the investment should have been classified as a four, or even possibly a five, but such a classification may have raised concerns among investors and analysts. **This clearly demonstrates that the risk rating reported by Runway does not accurately reflect the true risk of its investments and should not be relied upon**.

Investment Rating	Rating Definition
1	Performing above plan and/or strong enterprise profile, value, financial performance/coverage. Maintaining full covenant and payment compliance as agreed.
2	Performing at or reasonably close to plan. Acceptable business prospects, enterprise value, financial coverage. Maintaining key covenant and payment compliance as agreed. Generally, all new loans are initially graded Category 2.
3	Performing below plan of record. Potential elements of concern over performance, trends and business outlook. Loan-to-value remains adequate. Potential key covenant non-compliance. Full payment compliance.
4	Performing materially below plan. Non-compliant with material financial covenants. Payment default/deferral could result without corrective action. Requires close monitoring. Business prospects, enterprise value and collateral coverage declining. These investments may be in workout, and there is a possibility of loss of return but no loss of principal is expected
5	Going concern nature in question. Substantial decline in enterprise value and all coverages. Covenant and payment default imminent if not currently present. Investments are nearly always in workout. May experience partial and/or full loss.

Figure 15 Runway's investment rating and rating definitions, source: NINGI Research, company filings

Despite the Gynesonics investment accounting for 4.4% of RWAY's total fair value investments and the restructuring happening before filing the annual report, **Runway Growth did not even disclose**

[91] Wikimedia Foundation, Inc. (2023), Uterine fibroid, https://en.wikipedia.org/wiki/Uterine_fibroid
[92] Runway Growth Finance Corp. (2022), annual report, p. 90, https://www.sec.gov/Archives/edgar/data/1653384/000095017023005814/rway-20221231.htm
[93] Runway Growth Finance Corp. (2022), Runway Growth Finance Corp. Provides Third Quarter 2022 Portfolio Update, https://www.sec.gov/Archives/edgar/data/1653384/000110465922106771/tm2227676d1_ex99-1.htm
[94] Runway Growth Finance Corp. (2022), annual report, p. 90, https://www.sec.gov/Archives/edgar/data/1653384/000095017023005814/rway-20221231.htm
[95] Runway Growth Finance Corp. (2022), annual report, p. 90, https://www.sec.gov/Archives/edgar/data/1653384/000095017023005814/rway-20221231.htm
[96] Finsight Group, Inc. (2023), Runway Growth Finance – Q4 Earnings call transcript, https://capedge.com/transcript/1653384/2022Q4/RWAY
[97] Seeking Alpha Ltd. (2023), Runway Growth Finance Corp. (RWAY) Q1 2023 Earnings Call Transcript, https://seekingalpha.com/article/4604056-runway-growth-finance-corp-rway-q1-2023-earnings-call-transcript
[98] Runway Growth Finance Corp. (2023), quarterly report, p. 11, https://www.sec.gov/Archives/edgar/data/1653384/000095017023019606/rway-20230331.htm
[99] Seeking Alpha Ltd. (2023), Runway Growth Finance Corp. (RWAY) Q1 2023 Earnings Call Transcript, https://seekingalpha.com/article/4604056-runway-growth-finance-corp-rway-q1-2023-earnings-call-transcript
[100] Runway Growth Finance Corp. (2023), quarterly report, p. 11, https://www.sec.gov/Archives/edgar/data/1653384/000095017023019606/rway-20230331.htm
[101] Runway Growth Finance Corp. (2022), annual report, p. 90, https://www.sec.gov/Archives/edgar/data/1653384/000095017023005814/rway-20221231.htm
[102] Runway Growth Finance Corp. (2022), annual report, p. 68, https://www.sec.gov/Archives/edgar/data/1653384/000095017023005814/rway-20221231.htm

the restructuring in the filings section called "Subsequent events" or discussed it in its Fourth Quarter 2022 earnings call that took place on March 2, 2023.[103] Shareholders were left in the dark.

Portfolio Company	Investment Description (1),(5),(9)	Acquisition Date	Maturity Date	Principal ($) / Shares	Cost ($)	Fair Value ($) (2),(6)
Affiliate Investments						
Senior Secured Term Loans						
Health Care Technology						
Gynesonics, Inc.	SOFR+8.75%, 8.00% ceiling, 5.00% ETP	3/1/2023	11/30/2026	25,595	25,664	23,146
Total Health Care Technology - 4.06%*					25,664	23,146
Total Senior Secured Term Loans - 4.06%*					25,664	23,146
Preferred Stocks						
Health Care Technology						
Gynesonics, Inc.	Series A-2 Preferred Stock	3/1/2023	N/A	3,266,668	25,000	21,821
Total Health Care Technology - 3.83%*					25,000	21,821

Figure 16 Gynesonics stock was marked down by $2.9 million in the first 30 days, source: NINGI Research, company filings

Only months later, investors were informed that RWAY converted 50% of its loan into preferred equity.[104] On the company's First Quarter 2023 earnings call, Runway's management discussed the restructuring and highlighted the significant upside potential of the preferred equity.[105] A venture lender converts a significant portion of its loan into preferred equity and paints that as a win for its investors. **How bad this decision was,** can be seen in the reported fair value of Gynesonics preferred equities on Runway Growth's books: **in the first 30 days of owing the equity RWAY already marked it down by 13 percent, leading to an unrealized loss of 3.2 million dollars (see Figure 16).[106]**

It is up to debate if swapping a senior secured loan for equity should be considered a loss of principal. We think so because the initial investment objectives were changed for a riskier position in the capital stack. **The lost interest income from the swap should also be considered: an annual $3.27 million. In total RWAY lost about 10 million in future interest income.**

Runway's management said several times in its Q1 earnings call **that they had a seat at the table** on March 1, 2023, but it looks like **Runway Growth did not seem to feel obliged to disclose Gynesonics' restructuring** during the Q4 earnings call the following day.[107] [108] We think the swap was not in the shareholder's best interest. We believe the swap was ill-advised because the upside from equity does not justify the risk of holding unsecured equity instead of senior secured debt. Especially after the previous equity holders were wiped out as discussed in the earnings call.[109]

Furthermore, **we believe that there is no potential for a positive outcome regarding the preferred equity.** Gynesonics' operations are less advanced compared to other players in the industry, such as Hologic, and the company's product addresses a non-lethal condition that often goes unnoticed by those affected. **Gynesonics' future growth is limited.** In our opinion, the chances of a successful exit or loan repayment are slim, and **we anticipate that Runway Growth's investment will be completely lost, similar to the fate of the previous equity holders.**

Like the situation with Pivot3, Gynesonics serves as yet another example of Runway Growth's management failing to adequately disclose issues at portfolio companies, accurately evaluate the

[103] Finsight Group, Inc. (2023), Runway Growth Finance – Q4 Earnings call transcript, https://capedge.com/transcript/1653384/2022Q4/RWAY
[104] Seeking Alpha Ltd. (2023), Runway Growth Finance Corp. (RWAY) Q1 2023 Earnings Call Transcript, https://seekingalpha.com/article/4604056-runway-growth-finance-corp-rway-q1-2023-earnings-call-transcript
[105] Seeking Alpha Ltd. (2023), Runway Growth Finance Corp. (RWAY) Q1 2023 Earnings Call Transcript, https://seekingalpha.com/article/4604056-runway-growth-finance-corp-rway-q1-2023-earnings-call-transcript
[106] Runway Growth Finance Corp. (2023), quarterly report, p. 11, https://www.sec.gov/Archives/edgar/data/1653384/000095017023019606/rway-20230331.htm
[107] Finsight Group, Inc. (2023), Runway Growth Finance – Q4 Earnings call transcript, https://capedge.com/transcript/1653384/2022Q4/RWAY
[108] Seeking Alpha Ltd. (2023), Runway Growth Finance Corp. (RWAY) Q1 2023 Earnings Call Transcript, https://seekingalpha.com/article/4604056-runway-growth-finance-corp-rway-q1-2023-earnings-call-transcript
[109] Seeking Alpha Ltd. (2023), Runway Growth Finance Corp. (RWAY) Q1 2023 Earnings Call Transcript, https://seekingalpha.com/article/4604056-runway-growth-finance-corp-rway-q1-2023-earnings-call-transcript

fair value of investments, and assign appropriate risk ratings. In our view, this lack of transparency and mismanagement raises doubts about the trustworthiness of the company's management.

We believe Runway Growth invests in late-stage companies that have no future growth and are in terminal decline.

7. Marley Spoon – a distressed meal delivery company

Runway Growth extended the lifespan of another venture, known as Marley Spoon AG ("Marley" or "Marley Spoon"). In 2021, Runway Growth provided Marley Spoon with loans totaling $34.9 million, split into two tranches, and an additional $11.7 million loan in 2022 (see Figure 17).[110] Marley Spoon is a German meal delivery company operating in Germany and Australia. The company is based in Berlin, Germany but is listed on the Australian Securities Exchange.[111] **Since its initial public offering (IPO) in June 2018, Marley Spoon's share price has plummeted by 94 percent,** resulting in a current market capitalization of approximately $33.7 million.[112] The company's shares are trading at AUD 0.13, equivalent to approximately $0.09.[113] Consequently, **Runway Growth's loans to Marley Spoon amount to more than the company's current market capitalization of $34 million.**

Marley Spoon AG	SOFR+8.50%, 1.25% PIK, 9.26% floor	6/30/2021	6/15/2025	26,780	26,567	26,567
	SOFR+8.50%, 1.25% PIK, 9.26% floor	12/29/2021	6/15/2025	8,199	8,158	8,158
	SOFR+8.50%, 1.25% PIK, 9.26% floor	6/14/2022	6/15/2025	11,775	11,775	11,775

Figure 17 Fair value of Marley Spoon has not been adjusted and is valued at cost, source: NINGI Research, company filings

All loans were originated well after Marley Spoon's IPO which raises questions on Runway's side and on Marley Spoon's side:

- Why did Runway Growth lend money to a non-qualifying company in accordance with the 1940 Act as Marley was already publicly listed and a foreign company?
- Why was Marley Spoon not able to access debt capital markets and was forced to approach a venture lender?

The loans provided to Marley Spoon carry a high level of risk, as evidenced by the fact that even Runway Growth's counterparties did not accept the Marley Spoon loans as collateral for Runway's credit facility.[114] In addition, Marley Spoon had been refinancing different loans and credit facilities through 2022, funneling cash from one creditor to another.[115]

In our opinion, the reported fair value in RWAY's quarterly report and latest quarterly report is highly overvalued because Marley Spoon's public filings show a company in distress.[116] Marley Spoon's total liabilities exceeded its total assets and the company's equity has been negative for two consecutive years.[117] We estimate Marley Spoon's annual burn rate for 2022 and 2021 at EUR 32 million and EUR 26 million respectively.

[110] Runway Growth Finance Corp. (2022), annual report, p. 90, https://www.sec.gov/Archives/edgar/data/1653384/000095017023005814/rway-20221231.htm
[111] ASX Operations Pty Limited (2023), Marley Spoon SE, https://www.asx.com.au/markets/company/mmm
[112] ASX Operations Pty Limited (2023), Marley Spoon SE, https://www.asx.com.au/markets/company/mmm
[113] ASX Operations Pty Limited (2023), Marley Spoon SE, https://www.asx.com.au/markets/company/mmm
[114] Runway Growth Finance Corp. (2022), annual report, p. 104, https://www.sec.gov/Archives/edgar/data/1653384/000095017023005814/rway-20221231.htm
[115] Marley Spoon SE (2022), annual report, p. 43.
[116] Marley Spoon SE (2022), annual report, p. 33.
[117] Marley Spoon SE (2022), annual report, p. 32.

At the end of 2022, the company had only EUR 19 million in cash left – equaling a net debt of EUR 145 million.[118] At the same time, **Marley Spoon's interest payments amounted to EUR 19 million.[119]** The company was never profitable or cash-flow positive and its cash burn rate is an estimated EUR 32 million.

But the situation gets even messier. On April 25, Marley Spoon announced a de-SPAC merger with a German-listed SPAC called "468 SPAC II SE" for AUD 0.21 a share.[120] The SPAC will buy Marley Spoon in a stock-for-stock transaction at a valuation of about $55 million.[121] **The transaction values Marley Spoon at 0.2x sales multiple. We believe the multiple signals of severe distress of Marley Spoon.** In addition, since the merger announcement, Marley Spoon's share price declined further instead of approaching the purchase price of AUD 0.21 per share.[122] Marley Spoon's and 468 SPAC's shareholders approved the merger in June 2023. The shares started trading on July 13, 2023, and in the first two days, the share price declined by 6.5 percent.[123]

However, RWAY was generous enough to sweeten the SPAC transaction by extending the loan maturities and allowing Marley Spoon to pay interest as payment-in-kind.[124] On the company's Q1 earnings call, RWAY's management was caught off guard by an analyst's questions about the deal. We think RWAY's management thought that no one would notice this distressed play but even the sell side caught wind of it. **Even more concerning is the fact that Runway Growth (RWAY) failed to disclose in its SEC filings or Q4 earnings call that it had granted an extension to Marley Spoon's interest-only period in December 2022.[125] [126]** Marley Spoon disclosed this fact in its 2022 annual report.[127] **What other crucial details might RWAY be withholding from investors if they only disclose material information when confronted?**

Despite Marley Spoon being 1) in a workout/restructuring phase, 2) receiving PIK interest relief, and 3) experiencing a decline in enterprise value since the loan was originated, Runway Growth surprisingly did not assign a risk rating higher than 3. This is yet another instance where Runway Growth appears to have downplayed its own risk rating system, concealing the true financial risks associated with its investments.

We believe the investing public should consider the investment's operational structure. A German company listed in Australia borrowed money from an American venture lender. In our opinion, enforcing any rights in the event of default through several jurisdictions will be close to impossible.

We believe the **fair value of Marley Spoon's loans reported on RWAY's book is well below its principal and that repayment is doubtful.** Especially as this SPAC business combination leads to a restructuring of a distressed company. In our opinion, it is unlikely that RWAY will receive a loan prepayment triggered by the SPAC merger. Prior to the merger, Marley Spoon raised EUR 32 million in additional capital but this barely offsets the negative equity. In our opinion, this could be due to regulatory requirements to list in Germany. **Anyway, Marley does not have the funds to pay RWAY in full.** We believe another debt-to-equity swap could be possible. However, we think any deal in

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118 Marley Spoon SE (2022), annual report, p. 32.
119 Marley Spoon SE (2022), annual report, p. 35.
120 Marley Spoon SE (2023), Proposed Equity Raise and Business Combination - 468 SPAC II, https://ir.marleyspoon.com/DownloadFile.axd?file=/Report/ComNews/20230426/02657621.pdf
121 Marley Spoon SE (2023), Proposed Equity Raise and Business Combination - 468 SPAC II, https://ir.marleyspoon.com/DownloadFile.axd?file=/Report/ComNews/20230426/02657621.pdf
122 ASX Operations Pty Limited (2023), Marley Spoon SE, https://www.asx.com.au/markets/company/mmm
123 CNBC LLC (2023), Marley Spoon Group SE, https://www.cnbc.com/quotes/MS1-DE
124 Seeking Alpha Ltd. (2023), Runway Growth Finance Corp. (RWAY) Q1 2023 Earnings Call Transcript, https://seekingalpha.com/article/4604056-runway-growth-finance-corp-rway-q1-2023-earnings-call-transcript
125 Runway Growth Finance Corp. (2022), annual report, p. 90, https://www.sec.gov/Archives/edgar/data/1653384/000095017023005814/rway-20221231.htm
126 Finsight Group, Inc. (2023), Runway Growth Finance – Q4 Earnings call transcript, https://capedge.com/transcript/1653384/2022Q4/RWAY
127 Marley Spoon SE (2022), annual report, p. 44.

which RWAY gets stock in the merged company is not in the Runway shareholders' interest. The SPACmania ended last year and we believe any shares in the new company will be worthless.

We estimate the fair value of the loans originated to Marley Spoon and any future shares in the merged company at zero.

In our opinion, the Marley Spoon investment also highlights RWAY's risky and aggressive underwriting which is the opposite of what the company claims in its investment presentation and during earnings calls.

8. Circadence Corporation- running out of contracts

One investment that RWAY seldom discusses is the loans it provided to Circadence Corporation, a Colorado-based government contractor specializing in educational products for government agencies. Founded in 1995, **Circadence received a $20 million loan from RWAY in 2018.[128]** The loan originated to Circadence has experienced **a significant fair value markdown of over 20 percent, while the accompanying equity has been marked down by 99 percent.[129] [130]** This makes **Circadence Corporation RWAY's investment with the most substantial reported fair value impairment.** Adding to the concern, the loan provided to Circadence takes the form of a payment-in-kind (PIK) interest-only loan, reportedly at a rate of SOFR+9.5% PIK.[131] This translates to an annual interest exceeding 14%, paid in the form of additional debt rather than cash. Surprisingly, despite the markdown, there has been no apparent alteration in Circadence's risk rating.[132] **Our investigation into government documents reveals that Circadence has struggled to secure new government contracts since 2014,** and its largest contract only has a remaining backlog of $1.4 million until 2025.[133] [134] **We question if Circadence is able to repay its loan due at the end of the year and if the fair value is not significantly lower than reported.** We believe RWAY and its management will keep their mouth shut until the loan defaults or they are confronted with questions about the status of Circadence.

9. Questions for Runway and the company's management that are of interest to the investing public

- Why is the actual LTV significantly higher at 24% compared to the claimed low LTV of 17% and why hasn't the LTV been disclosed in Runway's SEC filings?
- How does Runway justify the valuation designation used, potentially circumventing SEC rules, and how does the board ensure that the fair value is determined in good faith if the inputs are sourced from a conflicted party?
- Who is responsible for determining the fair value in good faith?
- What is the name of the undisclosed third-party firm and are any company insiders or board members considered related parties in this case?
- How does the distribution of cash dividends exceeding net investment income by 121% in Q1/23 affect the company's ability to fulfill future dividend obligations?
- How do the lackluster originations and net repayments instead of net originations impact the company's performance and ability to generate interest income?

[128] Runway Growth Finance Corp. (2022), annual report, p. 89, https://www.sec.gov/Archives/edgar/data/1653384/000095017023005814/rway-20221231.htm
[129] Runway Growth Finance Corp. (2022), annual report, p. 89, https://www.sec.gov/Archives/edgar/data/1653384/000095017023005814/rway-20221231.htm
[130] Runway Growth Finance Corp. (2022), annual report, p. 92, https://www.sec.gov/Archives/edgar/data/1653384/000095017023005814/rway-20221231.htm
[131] Runway Growth Finance Corp. (2022), annual report, p. 89, https://www.sec.gov/Archives/edgar/data/1653384/000095017023005814/rway-20221231.htm
[132] Runway Growth Finance Corp. (2022), annual report, p. 68, https://www.sec.gov/Archives/edgar/data/1653384/000095017023005814/rway-20221231.htm
[133] HigherGov (2023), GS35F0873R, https://www.highergov.com/idv/GS35F0873R/
[134] HigherGov (2023), Circadence Corporation, https://www.highergov.com/awardee/circadence-corporation-10035358/

- Why was the liquidation of Pivot3 Holdings concealed, and why does RWAY's balance sheet still include "ghost value" despite the sale of assets at a lower value?
- Why wasn't Gynesonics' restructuring and the conversion of senior secured loans into unsecured preferred equity promptly disclosed?
- At what point in time was the board of directors informed about Gynesonics' restructuring and why did the board not adjust its fair value and risk rating?
- Why was Gynesonics equity marked down by 13% in the first thirty days after acquiring the shares?
- What measures are being taken to address the potential risks and doubtful repayment prospects associated with loans to Marley Spoon, given its financial distress and negative equity?
- How do the substantial fair value markdown and Circadence's PIK interest-only loan impact the likelihood of loan repayment and the accuracy of fair value?
- Why has the company or its board of directors not changed the risk rating of investments after management became aware of a company's distress?
- Why were material information and distress-related details not disclosed to investors?

10. Conclusion

The above-mentioned investments can be disregarded as anecdotal evidence but we believe this is evidence for a broader issue at Runway Growth Finance Corporation. In our opinion, Runway Growth Finance Corporation's investments, particularly in Pivot3, Gynesonics, Marley Spoon, and Circadence, raise serious concerns about the company's financials, management practices, and transparency. We think that Runway Growth has engaged in questionable accounting techniques, circumvented SEC rules in the determination of its investment's fair value, and failed to disclose crucial information to shareholders and investors. In our opinion, these practices have inflated the company's reported income and masked the true risks and losses associated with its investments.

We believe the high share of PIK loans and the ever-increasing PIK interest since the IPO raise doubt about the sustainability of Runway's dividends. The distribution of cash dividends exceeding the collected income by 21% raises questions about the underlying cash support and the company's ability to sustain its dividend payments. Especially, because about $140 million in aggregated principal appears to be in distress or a distressed-like status.

Moreover, Runway Growth's declining deal pipeline and accelerated repayments further contribute to the doubts surrounding the company's future prospects. The lackluster originations and increased repayments impact the company's revenue stream, profitability, and risk diversification, potentially jeopardizing its operations and ability to generate interest income. We believe RWAY's balance sheet is morphing into a high-risk PIK loan portfolio.

Overall, our findings suggest a pattern of inadequate risk assessment, questionable accounting practices, and a lack of transparency at Runway Growth Finance Corporation. We doubt the company's ability to effectively determine fair value in good faith, manage its investments and protect shareholder interests. As the company's deal pipeline stalls and its financial risks become more apparent, there is a need for greater scrutiny and oversight to ensure the integrity and sustainability of Runway Growth's operations.

For all information presented herein, we are short Runway Growth Finance Corporation (NASDAQ: RWAY).