

Existing SBIC Program and Proposed New Markets Equity Investment Programs



COMPARISON OF PROGRAMS

Key Program Characteristics		Existing SBIC Program	SBIC LMI Investments	New Markets Venture Capital
Characteristics of Targeted Small Businesses	Size of Business	Small	Small	Very Small
	Growth Targets	Oriented toward very high growth firms, often low tech, whether for later stage or early stage financings	Oriented toward modest growth firms, usually low tech, whether for later stage or early stage financings	Serves businesses that may not have strong market niches or modest growth prospects, plus service businesses
	Maximum After Tax Profit	\$6M	\$6M	\$2M
	Maximum Net Worth	\$18M	\$18M	\$6M
	Geographic Restrictions	Anywhere in U.S. – Limited Foreign	LMI Zones or 35% of employees reside in LMI Zones	80% in LMI Zones
	Employee Requirements	None		None
Small Business Management's Familiarity with Equity Financing	Management's Experience with Equity-Type Financing	Businesses have some understanding of the financing process, and can pay consultants, accountants and lawyers to prepare for a financing	Businesses may or may not have some understanding of the financing process, probably cannot pay consultants, accountants or lawyers to prepare for a financing	Businesses unfamiliar with financing process and cannot pay consultants, accountants or lawyers to prepare for a financing
	Management's Experience in Growing Companies	Modest to High Experience	Modest Experience	Low Experience

Key Program Characteristics		Existing SBIC Program	SBIC LMI Investments	New Markets Venture Capital
Role of Fund Manager	Funding for Technical Assistance Support	Not Required	Not Required	Raise at least \$1.5M for Technical Assistance, payable over 5 years
	Assistance by Fund Managers	Fund managers provide mostly strategic assistance, except when in serious trouble fund managers take over daily management	Fund managers will provide hands-on assistance, but not day-to-day involvement	Fund managers will provide considerable business management assistance before and after financing
	Control by Fund	No control except for startups & to rescue investments	Control permitted for term of financing, up to 5 years	No Restrictions
Size and Terms of Investment	Investment Size	Targeted investment size: \$300,000 to \$5,000,000	Targeted investment size: \$150,000 to \$1,000,000	Targeted investment size: \$50,000 to \$300,000
	Minimum Term of Investment	5 years	1 year	No Restrictions
IRRs & Exit Mechanisms	Methods of Achieving IRRs	A principal component of IRR is achieved through sales of equity investments to strategic acquirers or in IPOs	Investment returns will usually be generated from the business's internal profitability rather than through sale to strategic acquirers or in IPOs	Investment returns will usually be generated from the business's internal profitability rather than through sale to strategic acquirers or in IPOs
	Goals of Investors	Optimal Profits	Optimal profits with community development benefits	"Double Bottom Line"- Focus on community development, plus profits

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Capital Structure & Fees	Minimum Private Capital Requirements	\$5M for Debentures; \$10M for Participating Securities	Same as SBIC	\$5M for Debentures; \$1.5M for Technical Assistance
	Government Role	Government Provided Leverage	Government Provided Leverage	Government Provided Leverage & Technical Assistance Grants
	Leverage Securities Available	Debentures and Participating Securities	Debentures including 7 & 5 Year terms/ 5 year zero coupon; Participating Securities	Debentures: 10 Year term/ 5 year zero coupon
	Amount of Leverage Possible	Up to 300%, Approx. \$105M Maximum	Up to 300%, Approx. \$105M Maximum	Up to 150% based on face amount of debenture (Approx. 100% based on cash from debenture).
	Leverage Rate	Approx. 70-200 b.p. over 10 Yr. Treasury	Approx. 70-200 b.p. over 10 Yr. Treasury	Approx. 70-200 b.p. over 10 Yr. Treasury
	Leverage Fees	1% Commitment Fee, 2% User Fee, 100 b.p. Annual Charge, 50 b.p. Underwriting Fee	1% Commitment Fee, 2% User Fee, 100 b.p. Annual Charge	No Annual Charge, No Underwriting Fee
	Annual Operating Expenses	Almost all SBICs are limited to 2.5% of total assets for management fees	Same as SBIC	Anticipate annual fund operating expenses up to 8.0% of total assets, including management fees

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Program Size	Authorized Program Level	\$2.2B (FY00 SBIC Debentures and Participating Securities)	Included within SBIC Program	\$150M (Projected)
	Current Outstanding & Committed Government Assets	\$3.71B*	Included within SBIC Program	\$150M (Projected Program Level) + \$30M Technical Assistance (Projected)
	Total Committed Private & Government Assets	\$12.48B*	Included within SBIC Program	\$310M (Projected)
Participation	Relationship with SBA	Licensed	Licensed	Contractual

* As of 1/14/00