

Investing with the SBA

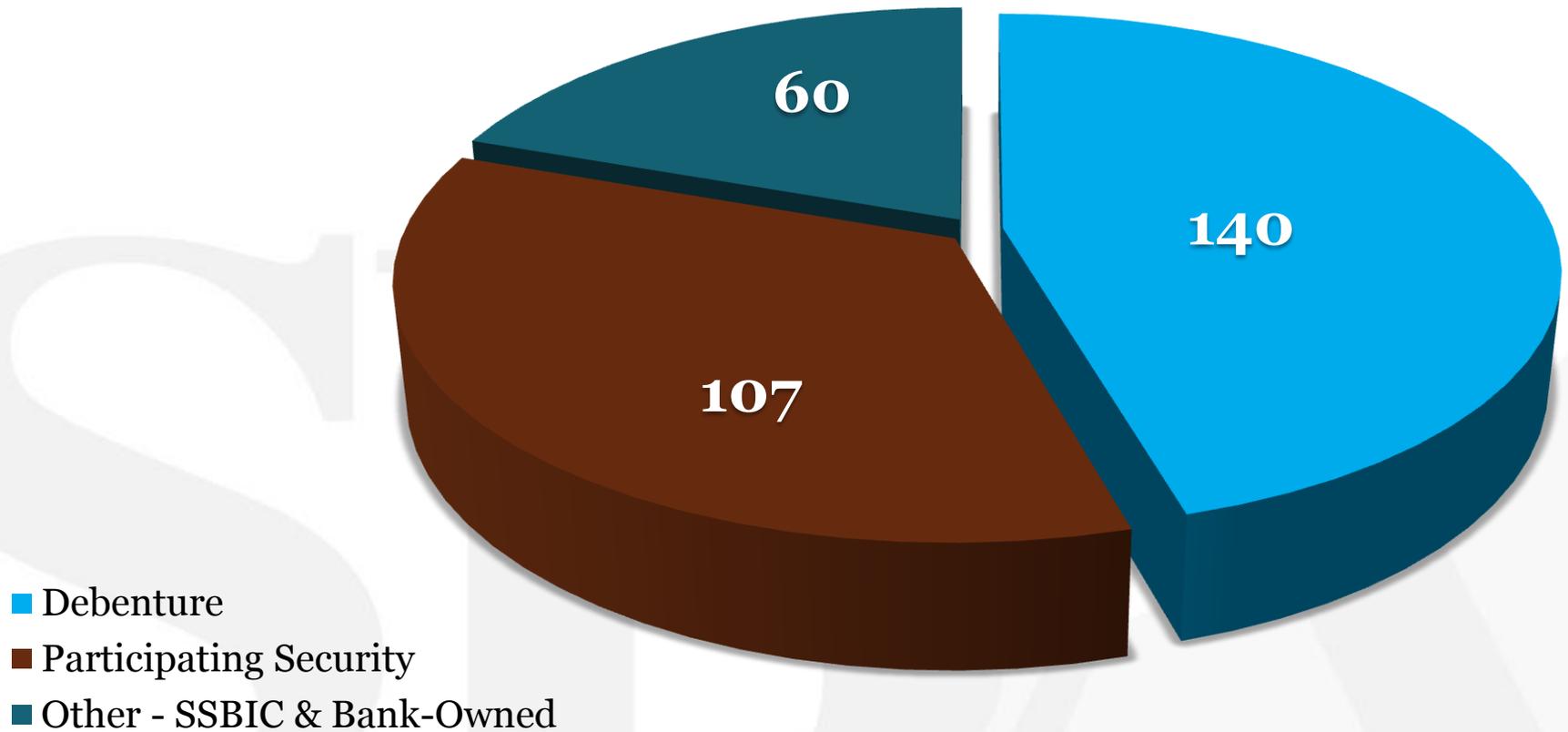
The Small Business Investment Company Program

October 2011



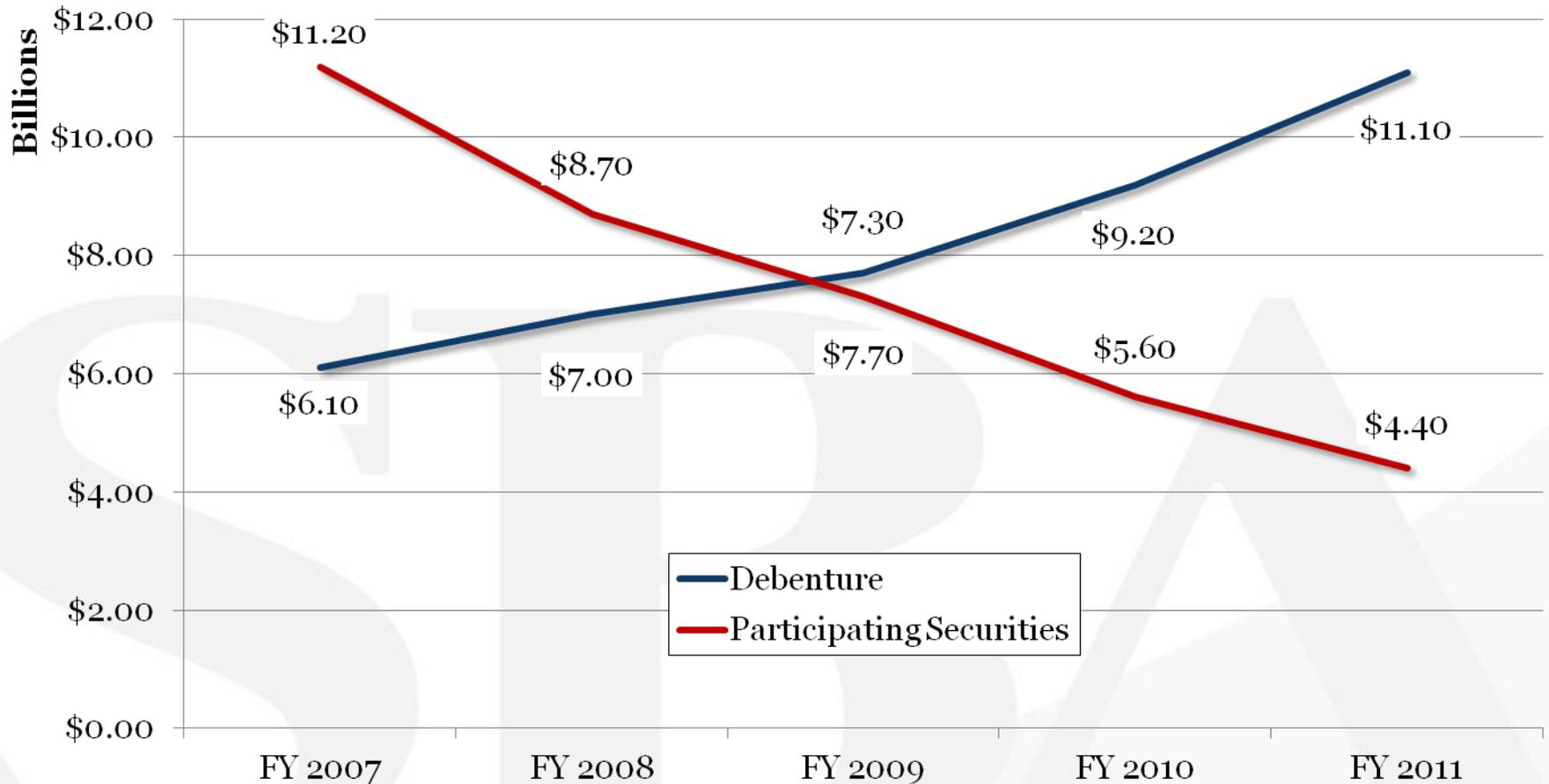
Total Program Data

Number of Licensees at FYE 2010

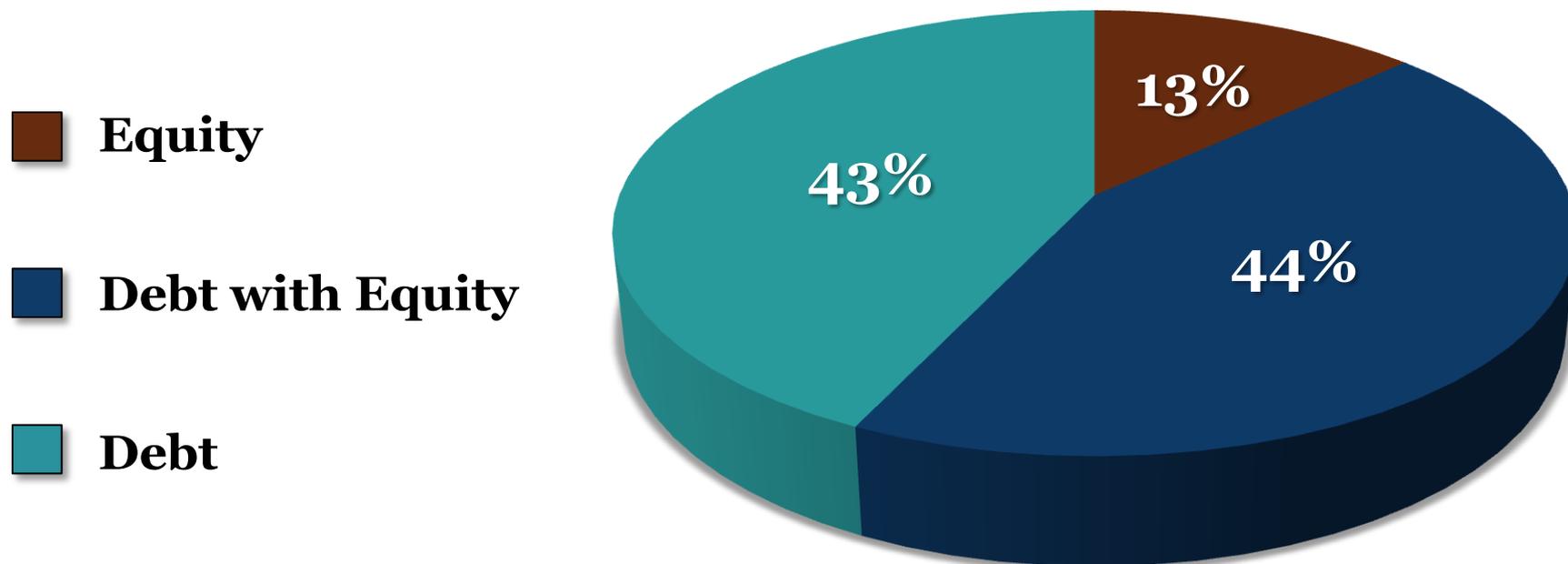


Total Program Data

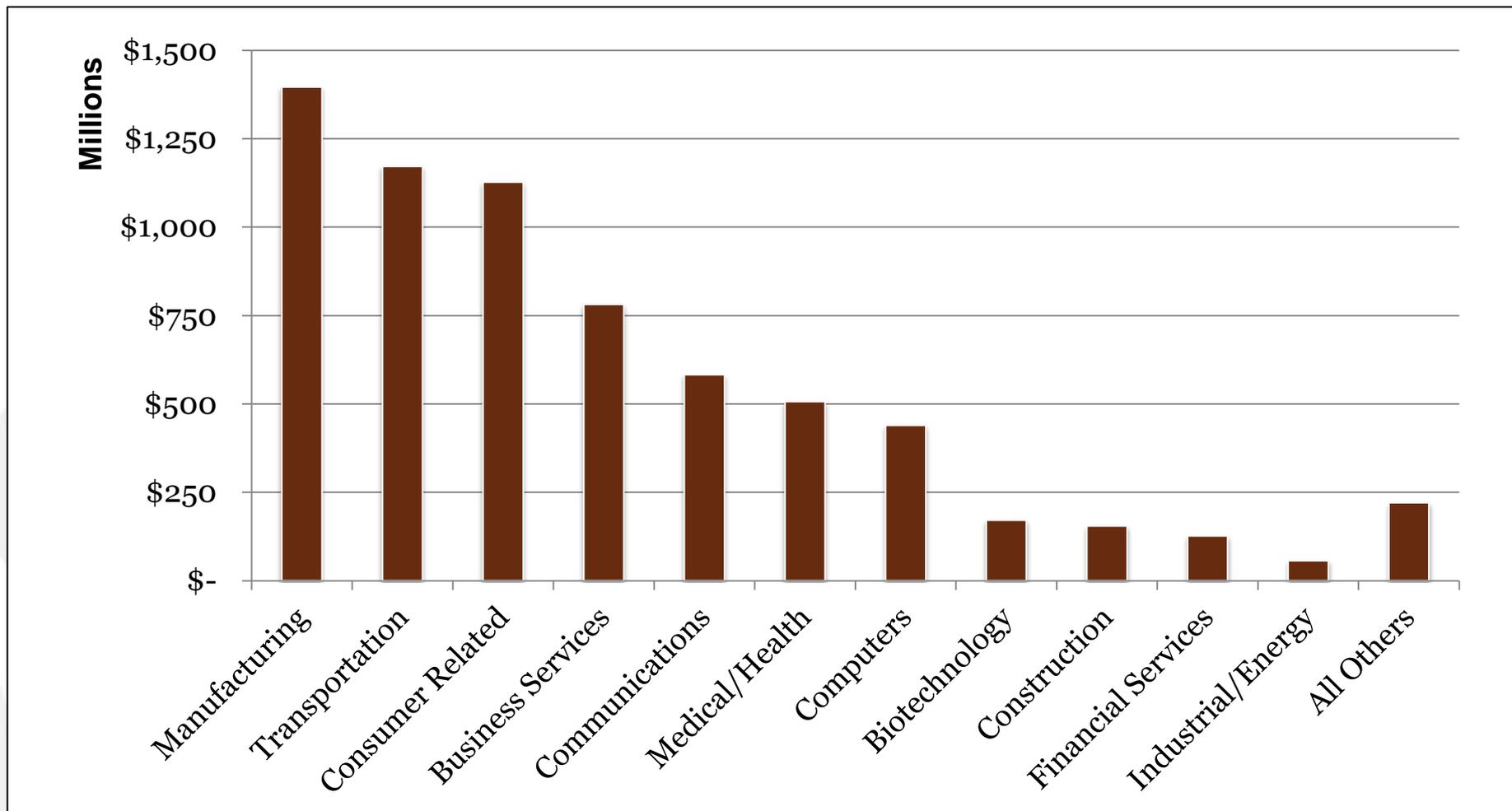
Committed capital: Private and SBA



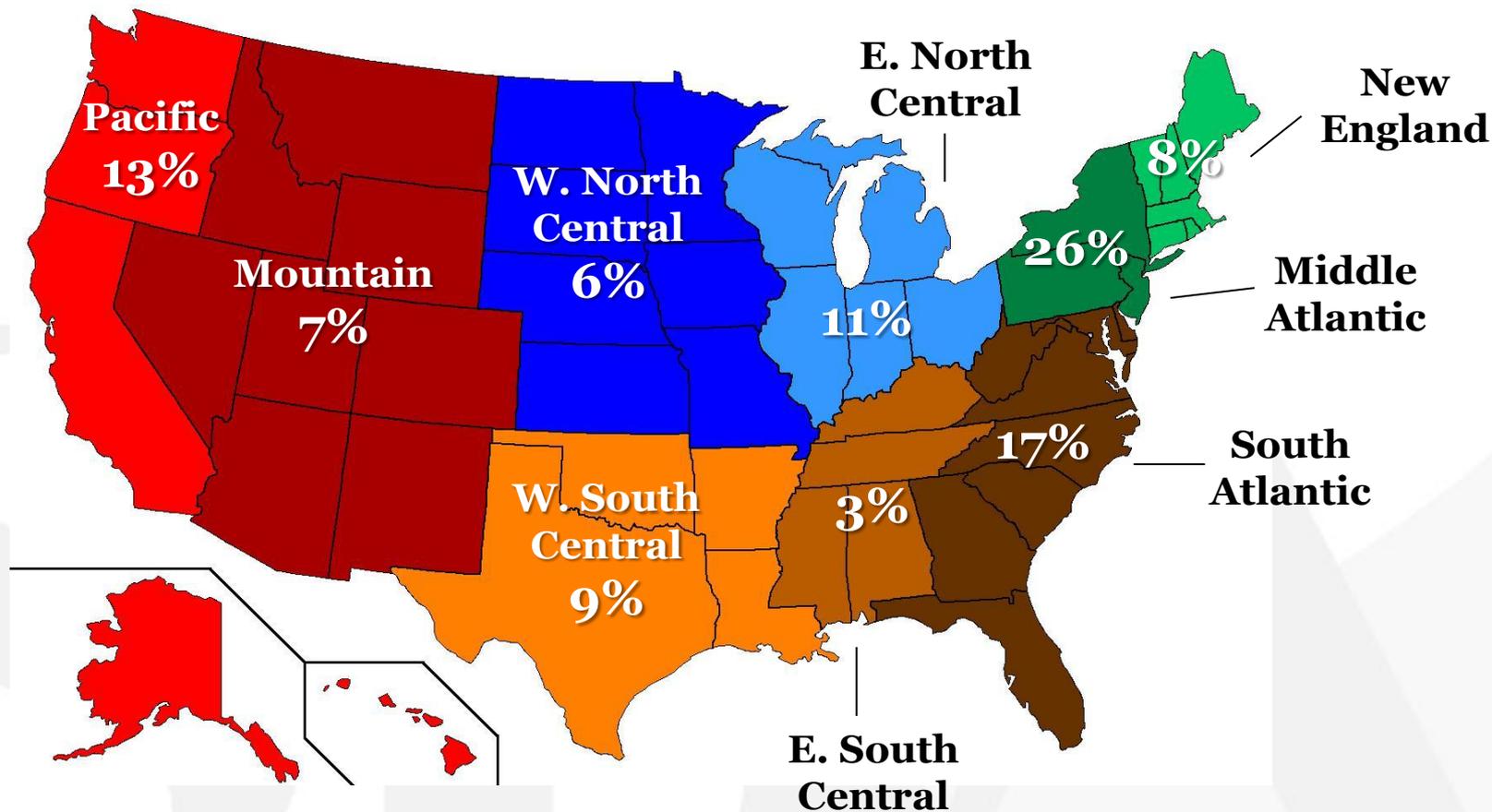
SBIC Program Debenture Portfolio: FY '06-'10



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Application Process for 1st Time Applicants

Screening

The Office of Program Development offers informal feedback to prospective SBIC licensees before they begin the application process. **For each fund that ultimately submits their application, as many as two have been screened.**

Application (MAQ)

100%

To begin the formal application process, each fund must submit a Management Assessment Questionnaire (MAQ) with information on the fund strategy, team history and a detailed investment track record. **The number of MAQs submitted has grown steadily from 19 in 2008 to 29 in 2009 and 51 in 2010.**

Green Light

57%

Following a rigorous evaluation, the SBIC program's investment committee will award a "green light" letter to those funds it believes meet SBA's minimum criteria for the program. **From FY 2005 through FY 2009, the award rate has deviated little from an average of 57%, despite growth in the program.**

License

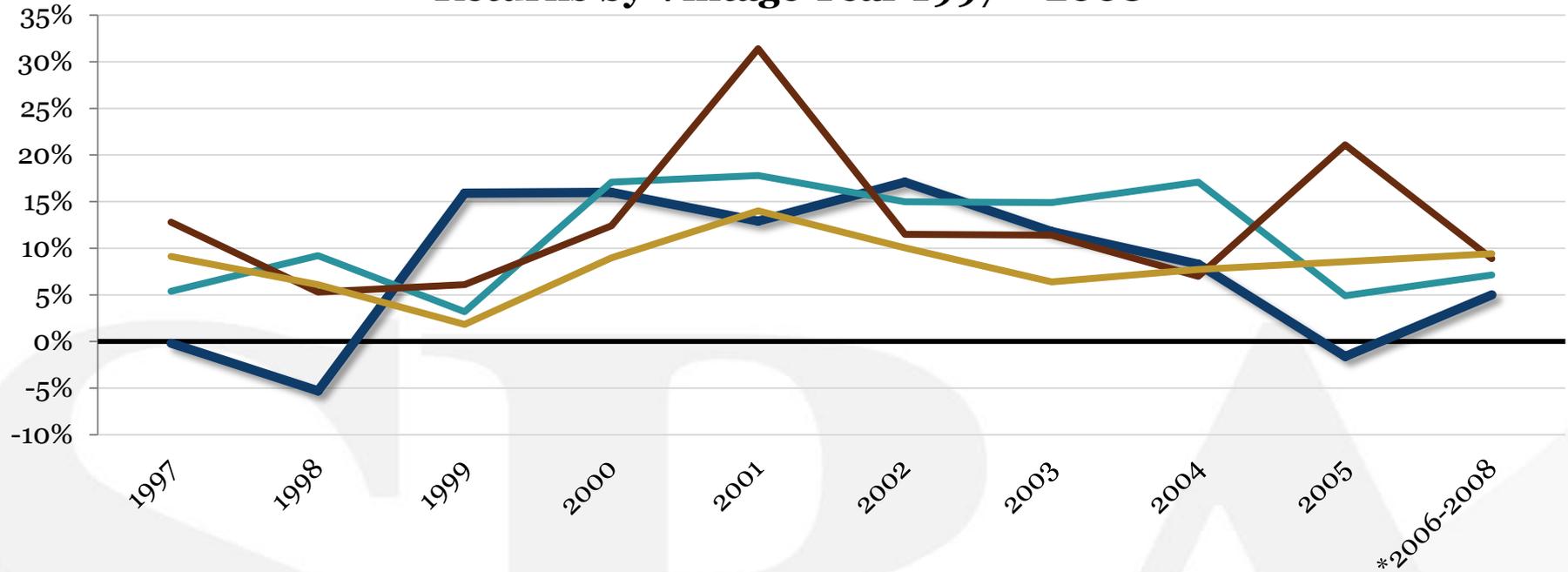
23%

The closing phase of the process requires SBIC applicants to raise private capital before filing a final licensing application. Fundraising remains the greatest impediment to success in this phase as most funds that file receive a license. **From FY 2005 through FY 2009, the average percentage of initial applicants ultimately awarded an SBIC license was 23%.**



Strong Historical Returns

Returns by Vintage Year 1997 – 2008



- SBIC Debenture Funds Pooled IRR (1)
- Preqin US Small Buyout Pooled IRR (2)
- Thomson Buyout, Mezz & Later Stage Pooled IRR (3)
- Preqin US Mezzanine Pooled IRR (2)

* 2006 – 2008 data is presented as an arithmetic mean of IRRs for those years

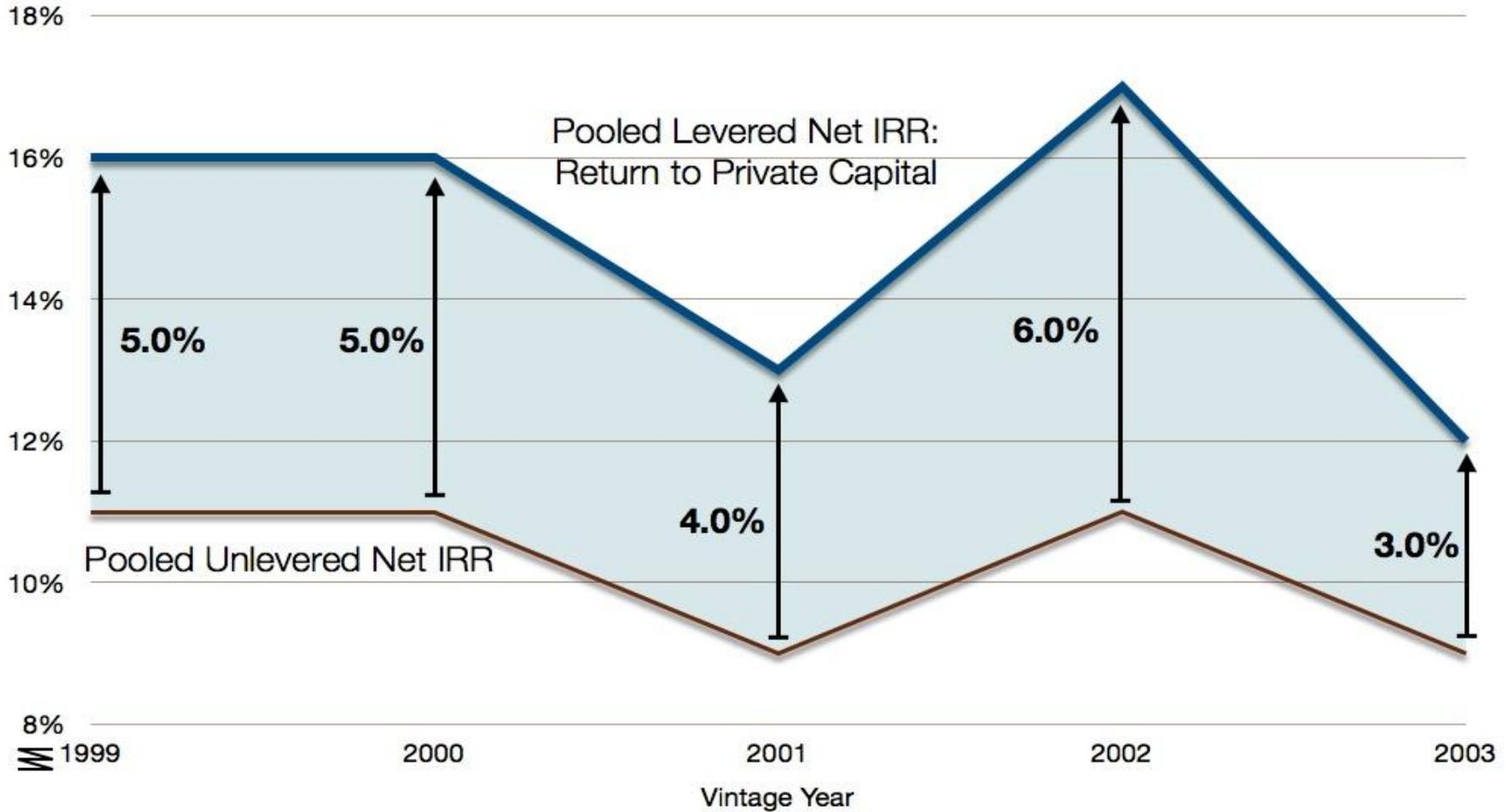
(1) SBIC Vintage Year determined by date of license. Data as of 8/10

(2) Source: Preqin Ltd. www.preqin.com. Data as of 9/13/11; Data may include some funds licensed as SBICs

(3) Source: Thomson Reuters. www.thomsonone.com. Data as of 9/13/11. Data includes US funds from \$5M to \$500M categorized as Small Buyout, Medium Buyout, Later Stage, Turnaround and Mezzanine.



Historical Impact of SBA Leverage

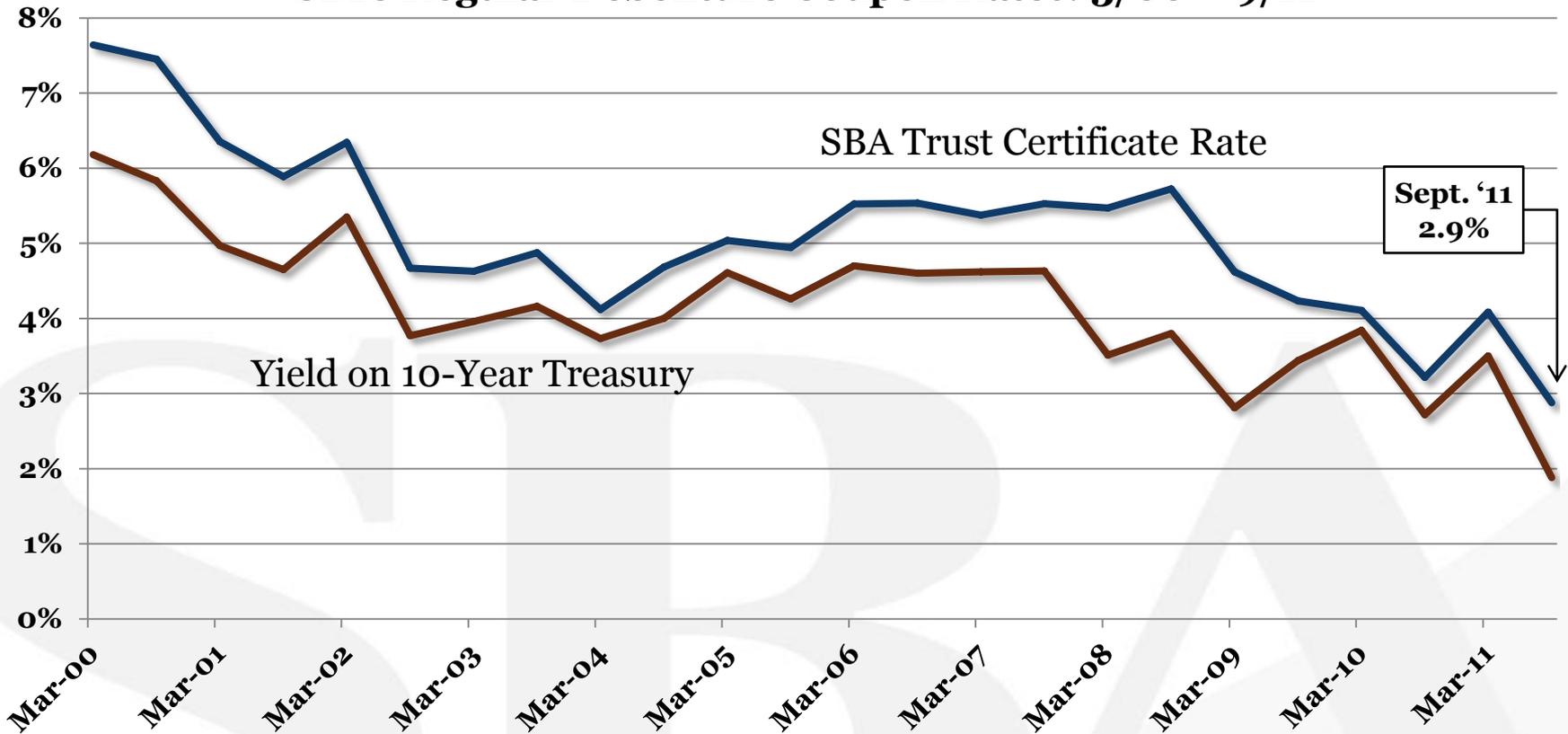


SBIC Vintage Year determined by date of license
 All data is as of 12/31/2009



Financial Data

SBIC Regular Debenture Coupon Rates: 3/00 – 9/11

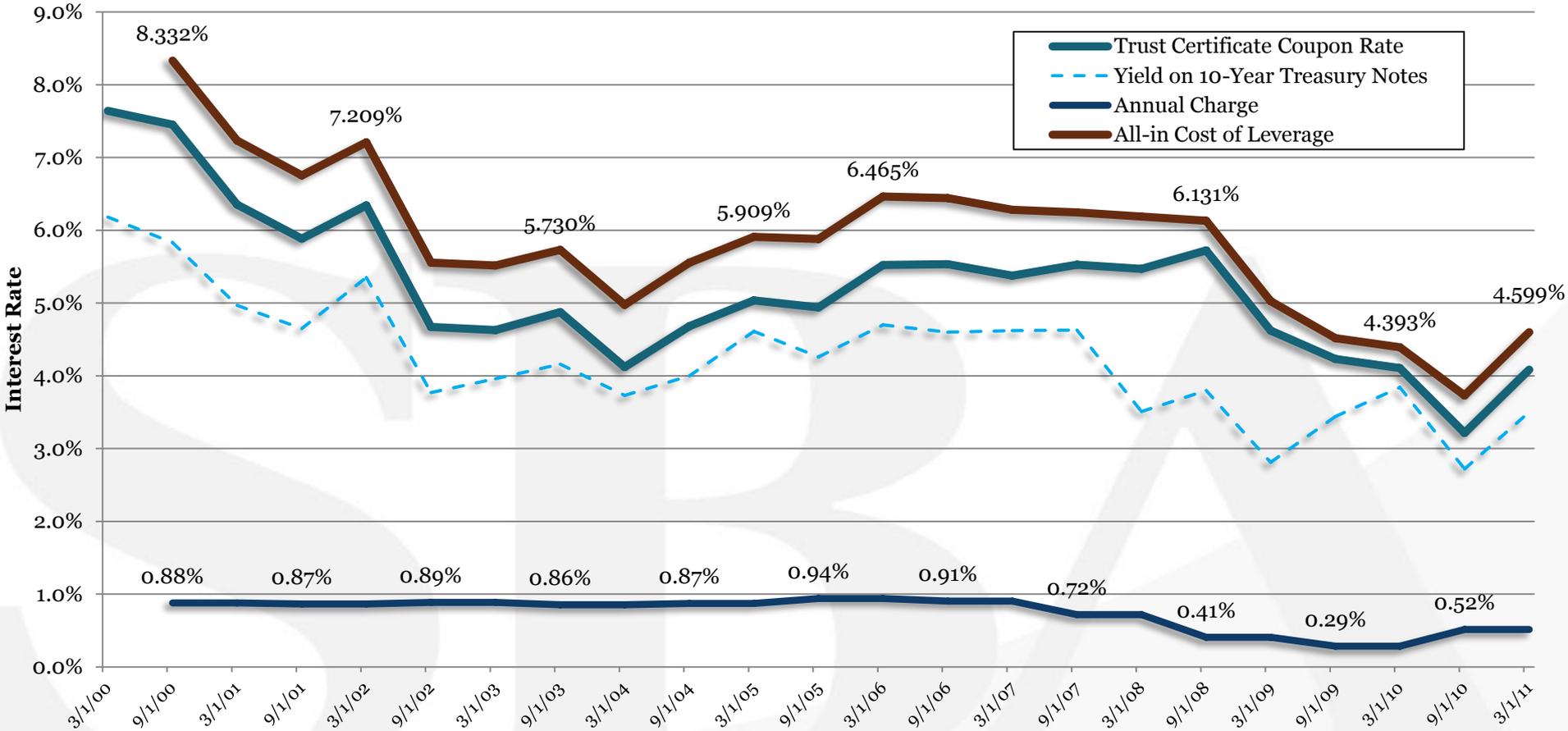


Treasury Rates Data Source: http://www.ustreas.gov/offices/domestic-finance/debt-management/interest-rate/yield_historical_main.stml
 SBA Leverage Rates Source: http://www.sba.gov/idc/groups/public/documents/sba_program_office/inv_pooled.pdf

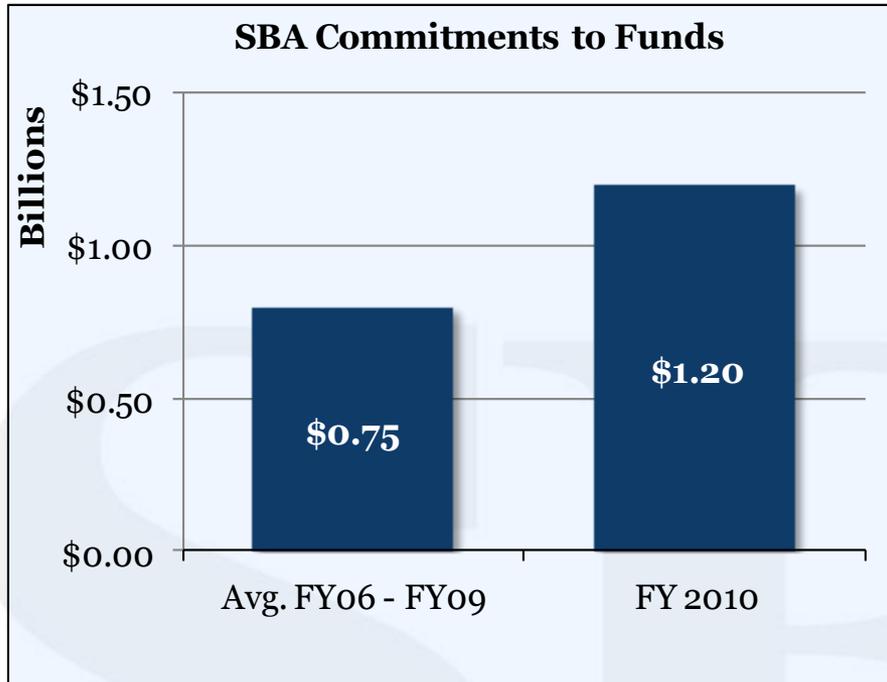


Financial Data

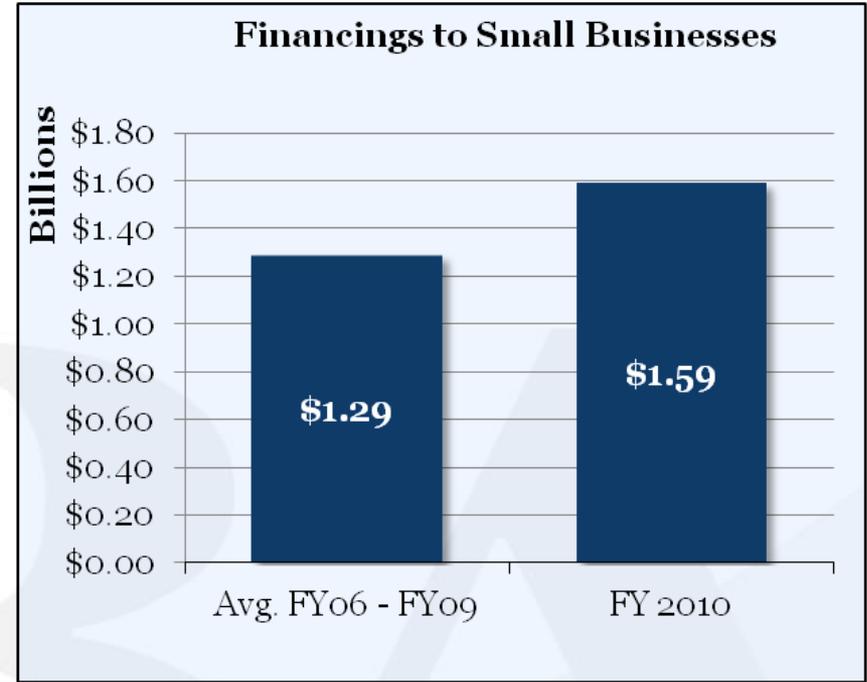
Debenture Program Cost of Leverage (Trust Certificate Rate + Annual Charge)



2010 SBIC Debenture Program Results

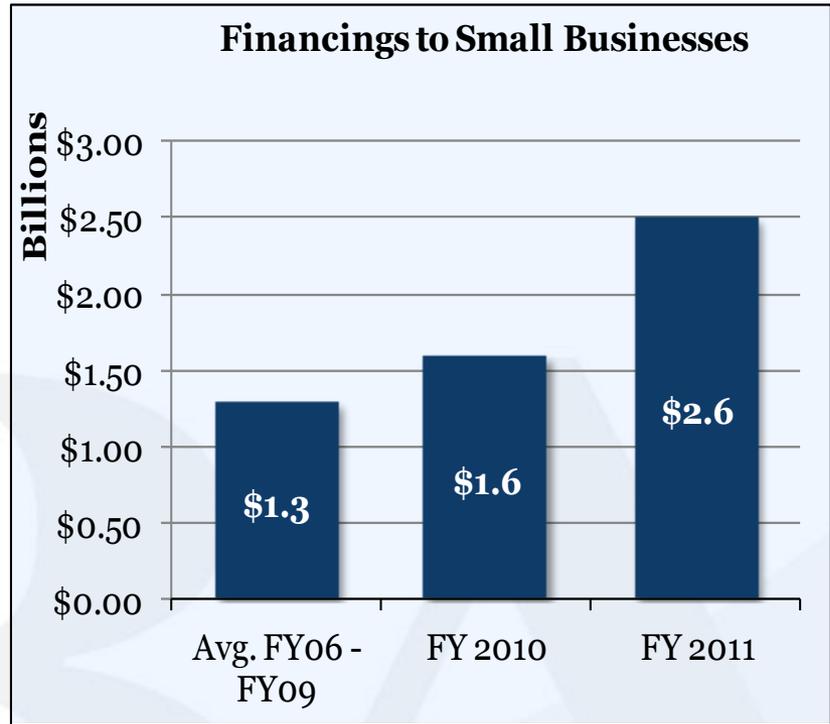
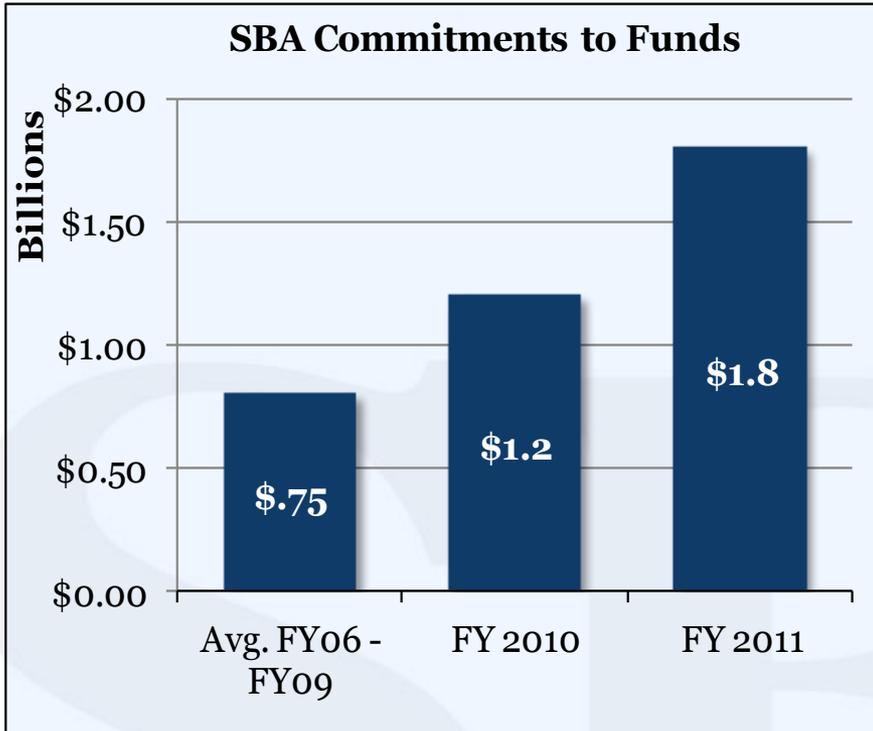


+50%



+23%

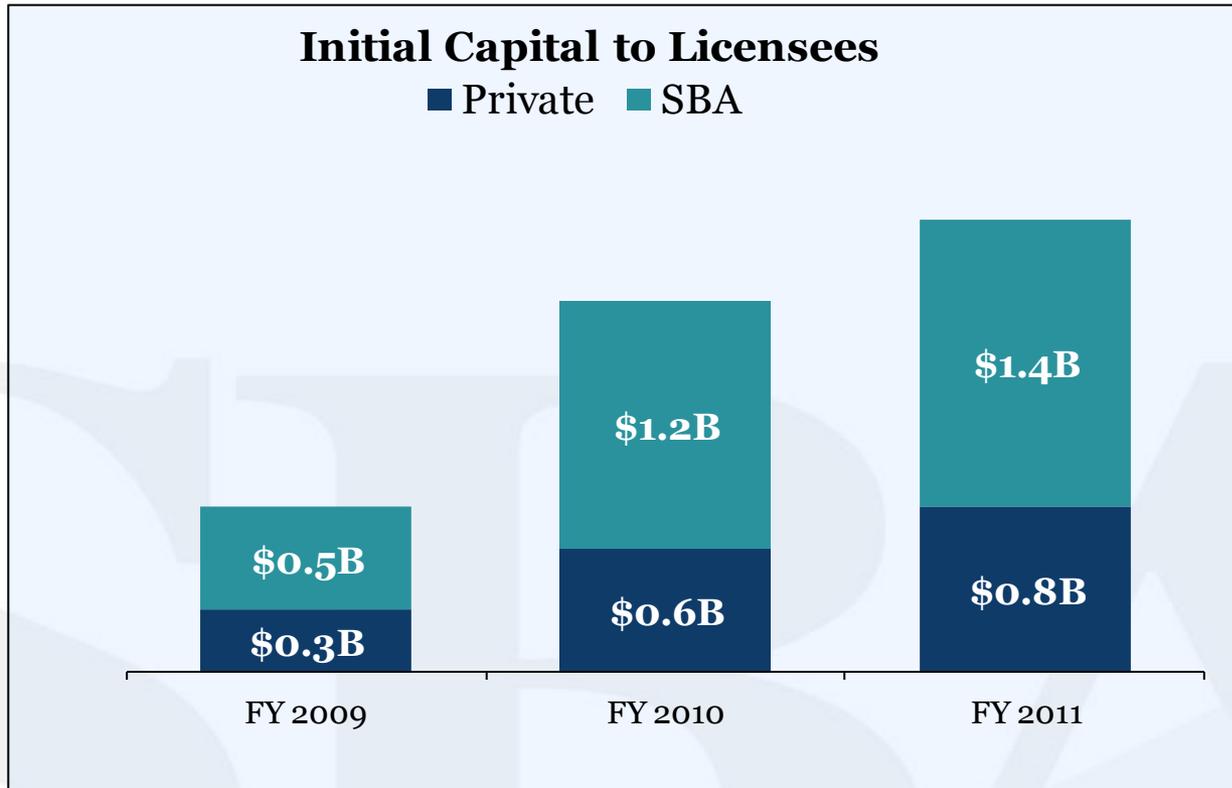
2011 SBIC Debenture Program Results



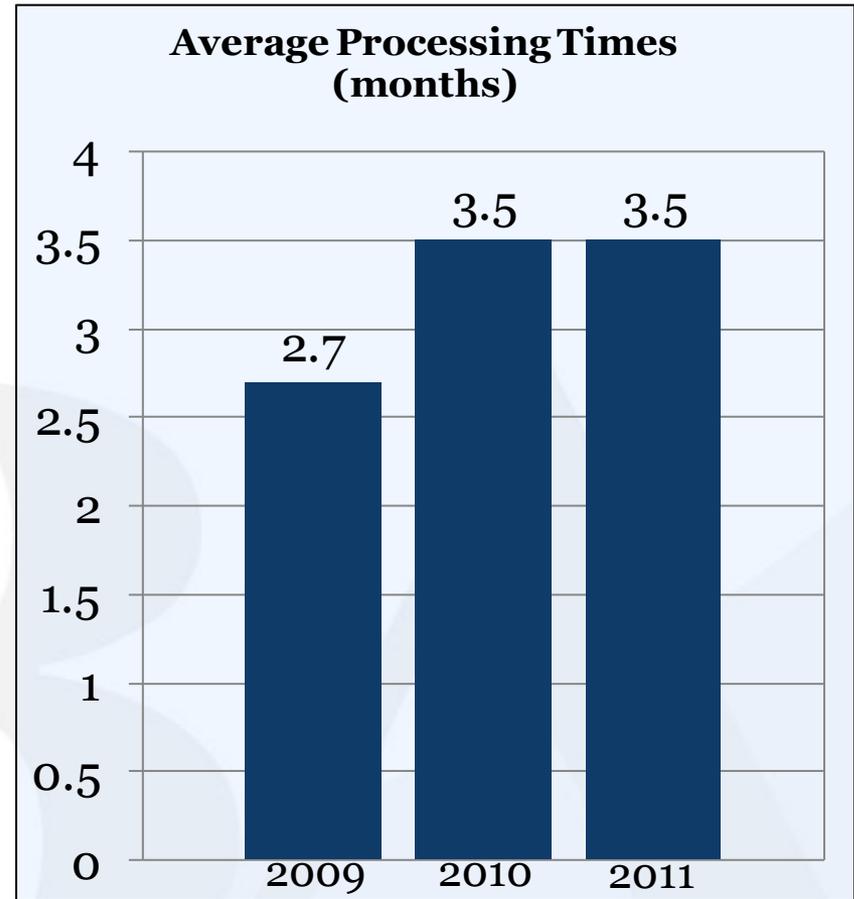
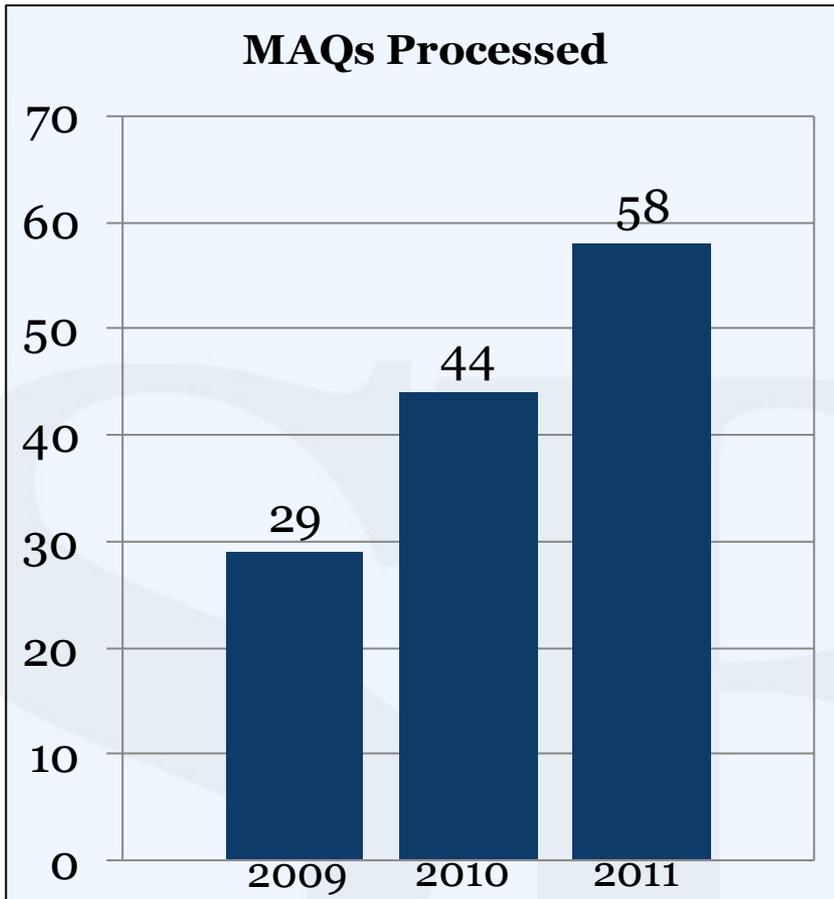
2.4X

2X

2011 Initial Capital to Licensees

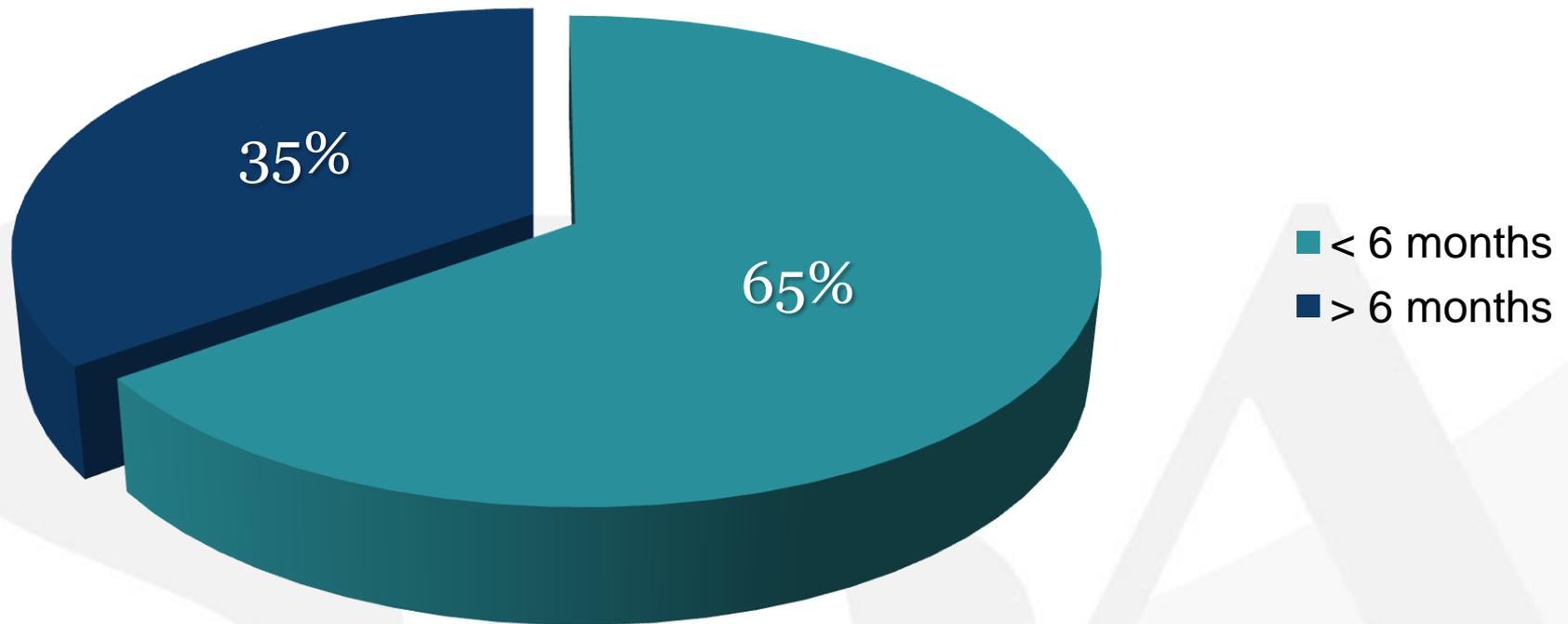


MAQ Processing

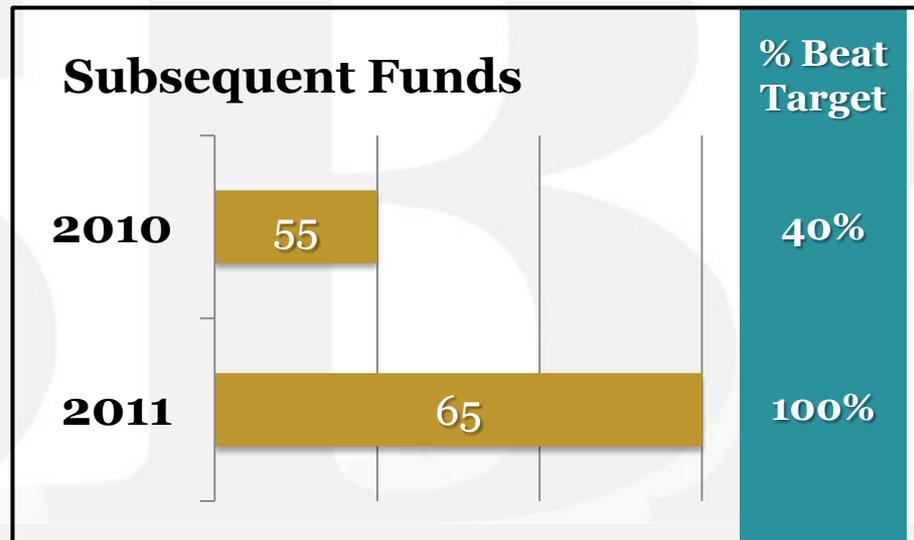
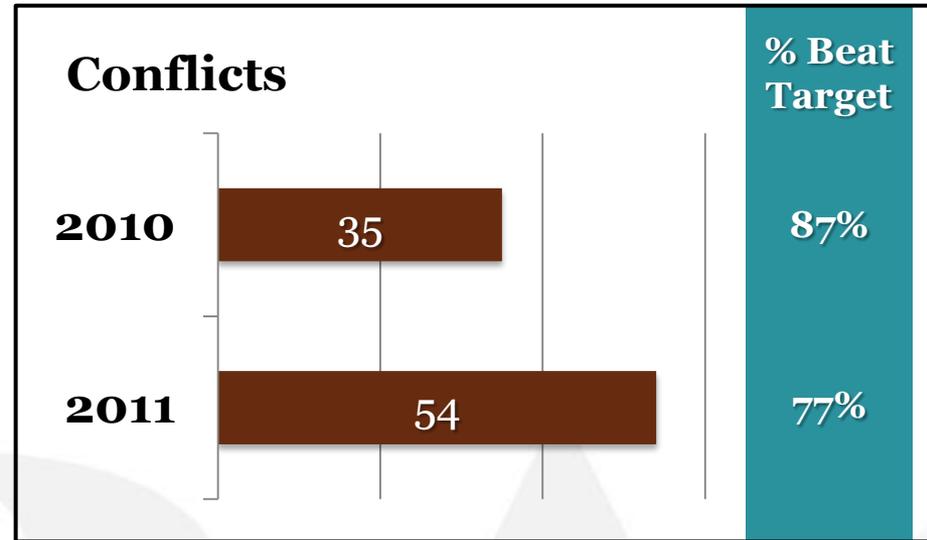
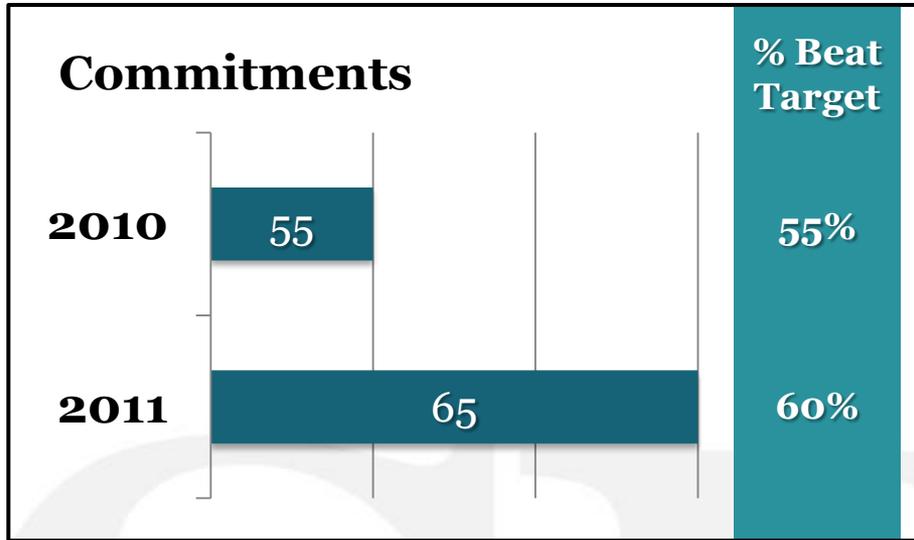


Breakdown of Licensing Times

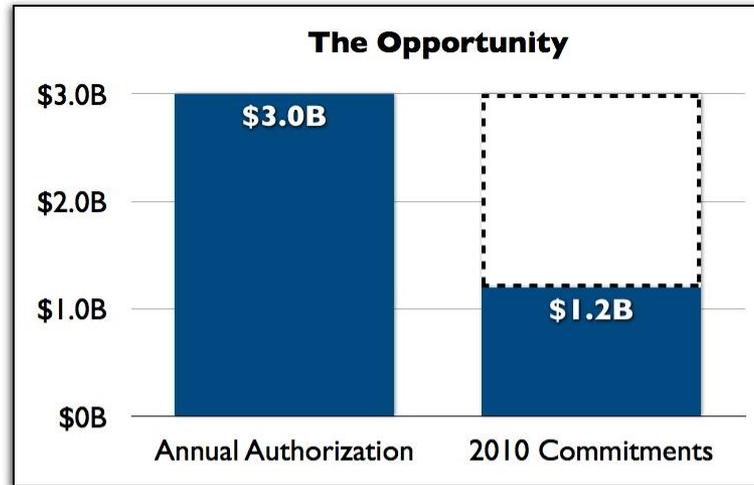
Licensing Processing Time – FY 2010



Operations Turnaround Times



Where We are Going



Internal Improvements

- ▶ Continued focus on speed
- ▶ Technology upgrade
- ▶ Data-driven decision making
- ▶ Communication

Launch **New** Initiatives

- ▶ Energy Savings
- ▶ Impact Investing
- ▶ Evaluate gaps in market and additional opportunities

Better **External** Outreach

- ▶ Better communication w/LPs
- ▶ Make program more LP-friendly
- ▶ Attract broader pool of managers to the SBIC program

LP Focus

- Changes to model LPA
- Single Point of Contact for LPs
- More data
- More proactive outreach

New Initiatives

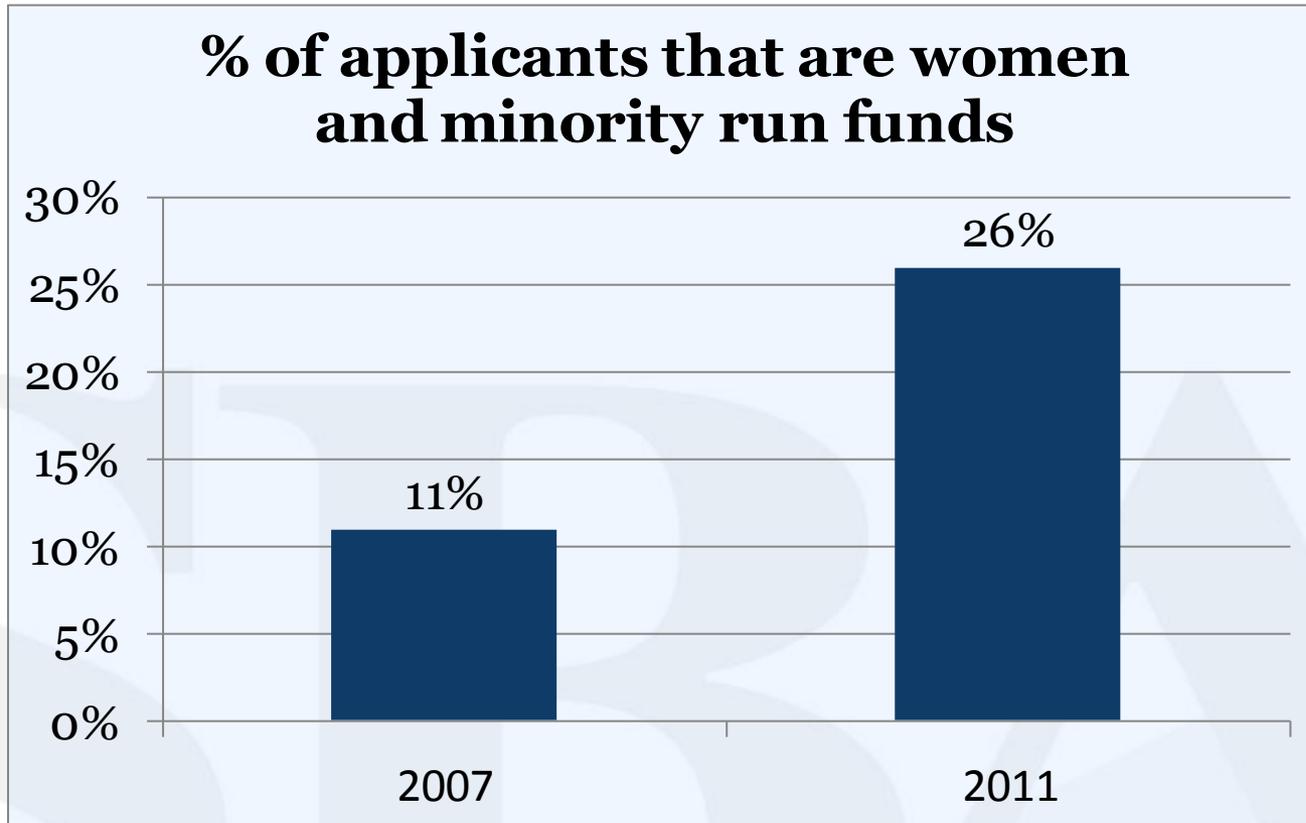
■ Impact Investment Fund

- \$200 million commitment per year
- Focus on financial return + “social return”
 - Place-based focus (LMI, Economically Distressed areas)
 - Emerging sectors (Clean Energy, Education)
- Growth capital – operates fundamentally like debenture program

■ Early Stage Innovation Fund

- \$200 million per year
- Permit early stage equity investing
- Simple changes from debenture platform to mitigate risk of leveraged instrument

Increase in Minority- & Women-run funds



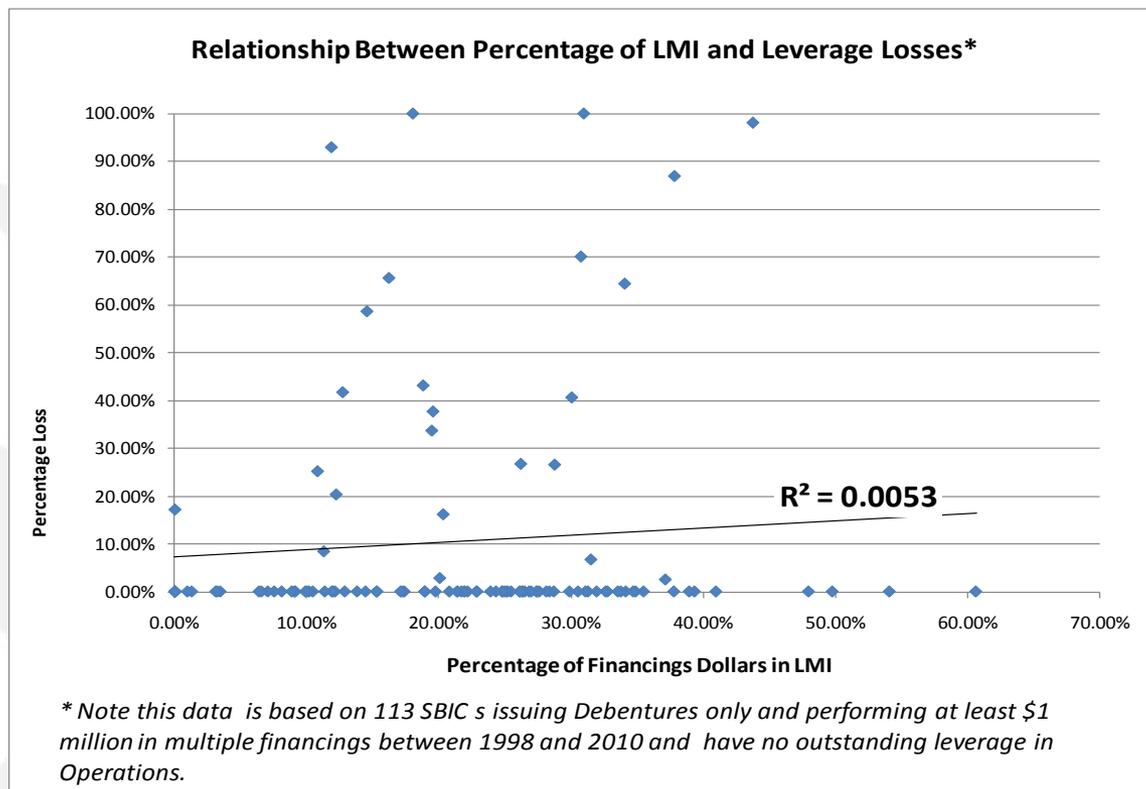
Debenture Performance and LMI Investing – As of FY 2011

R² from Regression of Leverage Lost on LMI Capital Deployed

Percentage of Leverage Lost

0.0053

% of Capital Deployed in LMI



Debenture Performance and LMI Investing – As of FY 2011

SBICs that placed 40% of investment dollars in LMI did no worse than SBICs with less LMI investing.

Leverage Statistics in Millions – SBICs 1998 - 2010

% of Capital Invested in LMI	Leverage Drawn (\$MM)	Leverage Lost (\$MM)	Leverage Lost/Drawn	Number of SBICs
Over 40%	345	1	0.3%	14
20% - 40%	2,637	60	2.3%	91
Under 20%	3,061	63	2.1%	99
Total	6,043	124	2.1%	204

Problem: Equity Gaps

Pre-Seed Stage	Seed/Start-up Stage	FUNDING GAP	Early Stage	Later Stages
Founder's Friends and Family	Angel Investors	Very few angel deals done above \$1 million Very few VC deals done below \$4 million	Venture Capitalists	
\$0	\$250K	\$1.5 million	\$4 million	\$10 million up

5 Year (2006-2010) Average Statistics	Angels Seed	Venture Seed (Funding Gap)	Venture Early Stage	Venture Later Stages
Annual Financings (\$ billions)	\$ 20-25	\$1.6 6% of Venture	\$5.1	\$18
Number of Businesses Invested Each Year	54,245	377 Less than 1% of Angels	904	1,700
Annual Financings Not in CA, MA, NY	Unknown	\$0.5 Less than 1/3 of All Seed	\$1.7	\$6.2
Number of Businesses Not in CA, MA, NY	Unknown	171 Less than half of all Seed	369	723

Source: Kauffman Foundation

Small Business Administration



PS Buyout Policy

- Objective –
 - Facilitate market-driven process for wind down of PS program
- Change:
 - Old: Floor = Leverage + Prioritized + SBA profit participation
 - New: Floor = Leverage repayment; Make us best offer
- Structure: sale of entire assets of fund to a third party
- Process
 - Valuations required
 - “Single Shot” offer
- Evaluate in 9 months and refine