

U.S. Small Business Administration Office of Investment and Innovation

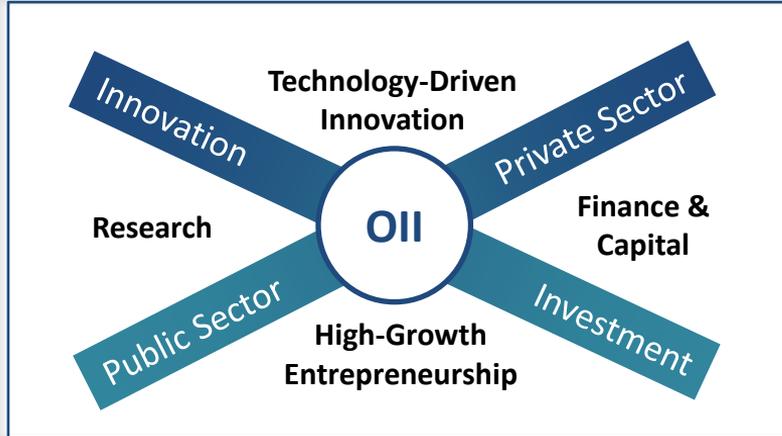


SBIC Overview

Office of Investment and Innovation @30,000 Feet

SBA's Office of Investment and Innovation (OII) leads programs that provide the high-growth small business community with access to two things: financial capital and R&D funds to develop commercially viable innovations.

Our work is underpinned by public-private partnerships that operate on or along a very dynamic and economically important intersection.



Small Business Investment Company (SBIC) Program is an investment program that increases access to capital for growth stage businesses
\$4 billion authorization per year | \$26 billion of assets under management | 303 active SBICs

Small Business Innovation Research (SBIR) and Small Technology Transfer Research (STTR) programs support the R&D and financing of cutting-edge technologies
~\$42 billion since inception | ~\$2.5 billion annual set aside | >150,000 awards granted | ~10 patents per day

Innovation Programs - Support the American high growth entrepreneurial ecosystem
Multi-million dollar Accelerator and Incubator Competition | Start-Up America | Crowdfunding

SBIC Program → Broad Impact Across U.S. Economy

The SBIC is one of the largest fund-of-funds in the United States and can invest up to \$4 billion annually. The SBIC program issues debt to venture capitalists, private equity funds and other vehicles that invest in America's small, but scaling, businesses. Over the past five years, the program has channeled more than \$21 billion of capital to more than 6,400 U.S. small businesses spanning a variety of industries across the country. Some of America's most iconic brands, including those you see below, have received funding from SBICs.

Launched in 1958 the SBIC Program has:

- Deployed more than \$67 billion of capital
- Made more than 166,000 investments in small businesses
- Licensed more than 2,100 funds

Today the SBIC Program has:

- 303 licensees managing over \$26 billion in assets
- Provided \$6.2 billion in financing to 1,200 small businesses in 2015
- Helped to sustain 130,000 jobs just in the past year



SBIC Program → How it Works

The SBIC Program leverages the full faith and credit of the U.S. government to increase the pool of investment capital available to small businesses.



Role of Private Investors:

- Participate as “Limited Partners” in the SBIC
- Invest the matching funds needed for the fund to access SBA-guaranteed leverage

Role of SBA

- Assesses fund manager qualifications, SBIC application and issues SBIC licenses
- Generally provides up to \$2 of government-guaranteed debt for every \$1 of private capital, up to a maximum of \$150 million

Role of SBIC Fund Managers

- Manages all aspects of the fund, including LP relations and compliance with SBA regulations
- Establishes investment strategy
- Monitors and exits investments

SBIC Program → Three Distinct License Types

Reaching Underserved Markets

Most applicants to the SBIC Program seek a Standard License, which accommodates a wide range of investment strategies. But for those funds investing in market segments that face unique challenges in accessing capital, SBA offers two additional license types.

Standard SBIC Fund

Most applicants to the SBIC Program seek a Standard License, which accommodates a wide range of investment strategies.

- All SBICs must invest in “small” businesses, which are defined as those with less than \$19.5 million in tangible net worth AND average after-tax income for preceding two years of less than \$6.5 million; OR, businesses qualifying as “small” under SBA’s Industry Code standards (generally based on annual sales or number of employees)
- Up to 2x private capital and a \$150 million cap

Impact Investment Fund

Commitment of \$200 million annually to funds dedicated to generating social, environmental or economic impact alongside financial return.

- Impact SBICs commit to invest at least 50% of their capital into “impact investments”
- Impact SBICs may make SBA-Identified impact investments as well as Fund-Identified impact investments
- Applications from Impact SBICs receive expedited processing
- Up to 2x private capital and a \$150 million cap

Early Stage Initiative

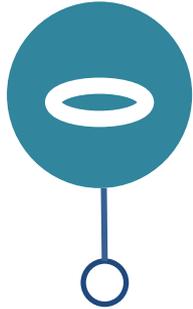
A \$1 billion initiative to help high-growth businesses obtain their first round of institutional financing.

- Investment funds that apply for an Early Stage SBIC License commit to invest at least 50% of their capital into SBA-defined “early stage” companies.
- The Early Stage application process occurs once a year through FY2016.
- Deferred payment on interest up to 5 years
- Up to 1x private capital with a \$50 million cap

SBIC Program → Benefits and Opportunity

Rapid Deployment of Funds:

The potential to capitalize as much as two-thirds of a fund with SBA leverage means managers spend less time fundraising and more time investing.



Flexible Terms:

The duration of SBA's financing instruments can be easily matched up with short or long term investments.



Exemption from SEC Registration:

SBICs are exempt from SEC registration, yet LPs benefit from SBA's careful monitoring of each fund's performance and regulatory compliance.



Exemption from the Volcker Rule:

Bank investments in SBICs are exempt from the 3% cap set forth by the "Volcker Rule" under the Dodd-Frank Wall Street Reform and Consumer Protection Act (PL-111-203).



Increased Financial Scale:

SBA leverage allows funds to scale up their strategies and extend their financings to more businesses.



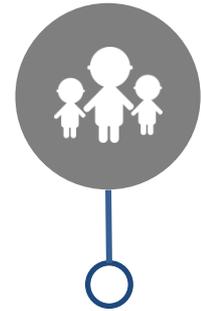
Potential for Enhanced Returns:

SBA-guaranteed capital is low cost and does not participate in profit.



Community Reinvestment Act (CRA):

Investments in SBICs are presumed qualified for CRA credit.



SBIC Program

What it takes

Experienced Manager

- ▶ Two Principals with proven direct investment experience
- ▶ Evidence indicating a cohesive and effective team
- ▶ Principals with strong, positive reputations

Strong Investment Strategy

- ▶ Clearly articulated focus and investment thesis
- ▶ Evaluation of targeted transaction size, investment themes and type instruments to be used
- ▶ Clear indications proposed investments will fund eligible “small businesses”

Track Record of Success

- ▶ High quality track record of transactions analogous to those proposed for the SBIC
- ▶ Record of positive realizations
- ▶ Analysis of fund performance measured against peer funds

Appealing Fund Structure

- ▶ Structure of LP preferred return
- ▶ GP carry, management fees and vesting schedules in line with industry norms
- ▶ Evidence of fundraising traction

SBIC Program → From Start to Finish

Average time from application submission to green light letter is 4-6 weeks



Pre-Screening call (available on request)

Initial Application Submitted



Start



SBA Due Diligence

Investment Committee Votes on Application

Vote



Applicants are given 18 months to raise the private capital needed to be viable. Once raised, the License Application may be submitted.



License Application Submitted



SBA Administrator's Approval

Vote

Two levels of SBA review and voting

SBA Reviews of License Application and Legal Documentation



Raise Funding (18 months)

Green Light Letter Issued

Vote

Fund Interviews

Fund Interviews

Once SBA Leverage has been fully repaid, the SBIC will wind-down the fund and return its SBIC License to SBA



SBIC License Issued

SBIC Investment Period (~5 years)

SBIC Harvest Period (~5 years)

Wind Down

Finish



SBIC License Issued

Contact Us

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For Questions about the SBIC Program:

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