



Monroe Capital Founder and CEO Ted Koenig explains the widespread appeal of the U.S. Small Business Association's Small Business Investment Company (SBIC) program

Anyone familiar with the Small Business Investment Company (SBIC) program of the U.S. Small Business Administration (SBA) is likely well acquainted with the high-profile success stories, be it FedEx, Intel, Whole Foods, Apple, or even Tesla. Each received SBIC funding early in their lifecycles and have since become the models of what's possible. However, those that operate SBIC funds or receive funding know better that the value of the program is best represented by the thousands of lesser-known companies, smaller businesses that, when they have access to low-cost capital, demonstrate the tenacity and growth that characterize the vibrancy of the small and middle markets.

The SBIC program may be overshadowed in Washington, but many consider it to be an archetype of how public-private partnerships should work. The structure of the program is unique in that SBICs are privately-owned and managed-investment funds, licensed and regulated by the SBA. SBICs use their own capital and funds borrowed, which can amount to as much as 2x the private funding, to make debt or equity investments in qualifying small businesses. In recent years, the program's exemption from the Volcker Rule has rekindled interest from the banks, whose investments in SBICs also qualify under the

Community Reinvestment Act (CRA). Importantly, in a market in which yield is difficult to find, there is growing awareness that the small and middle markets can provide consistent returns. The program, without taxpayer subsidies, was comprised of 294 SBICs as of year-end fiscal 2014, representing over \$23 billion of capital, \$11.4 billion of which was privately funded.

At Monroe, we manage three SBICs and have been active in the program since 2011. Our first fund, Monroe Capital Partners Fund LP, was named the 2015 SBIC of the Year by the SBA, which recognizes the fund's commitment to returns, community involvement, and job creation, among other factors. While honored to receive such esteemed recognition, I only mention this as it highlights the higher-order goals of the program.

Consider, for example, our unitranche credit facility to support the acquisition and growth of Summit Container Corp., a manufacturer of engineered protective packaging. Rather than the standard due diligence as part of underwriting the loan, the SBIC made customer calls to explore potential cross-selling opportunities, and approached prospective clients to identify new business. The credit facility went beyond funding the acquisition, as the financing supports initiatives to target verticals in the food and beverage, cosmetics and pharmaceutical industries.

The SBIC program, in many ways, evens the playing field for small- and middle-market companies. Our SBIC also backed pet-accessories distributor SimplyShe, providing an \$8 million unitranche credit facility in support of an acquisition and growth. The SBIC introduced SimplyShe to one of our partner banks, which provided a revolving credit facility. With the funding in place, SimplyShe can meet the demands of supplying big-box and mass-market

retailers, such as Walmart, Petco, and Ross Stores, while accommodating the heavy seasonality that would otherwise limit growth. Moreover, the credit facility allows SimplyShe to maintain strong relationships with manufacturers and comfortably endure leadtimes that can extend to 12 weeks.

Summit and SimplyShe reflect the growth potential of small- and middle-market companies when low-cost capital is available. Summit, in 2014, logged topline growth of approximately 20%, while SimplyShe's revenues have grown by over 25% since the financing.

To a lender, the small and middle market represents a throwback to the more personal craft of custom-tailored financing. Make no mistake, it requires a unique skillset to work with entrepreneurs, whose businesses are as dynamic as any Fortune 500 company. Lenders must be adept at underwriting, because in this market, loans aren't issued only to be sold off weeks later. And the payback, when you work in partnership with the SBA and entrepreneurs, goes far beyond the interest paid. **TSL**

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