

Statement for the Record

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Hearing Entitled, “Investing in Small Businesses: The SBIC Program”

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Subcommittee on Agriculture, Energy, and Trade

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Chairman Blum, Ranking Member Schneider, and Members of the Subcommittee, thank you for holding this important hearing and for inviting me to testify.

My name is Michael Painter. I am Managing Partner of Plexus Capital—a North Carolina small business focused on supporting the growth of other small businesses throughout the United States. I am excited to talk about the Small Business Investment Company (SBIC) program, which has allowed our team to stay focused on supporting perpetually underserved small businesses since 1996.

Since graduating from the University of North Carolina at Chapel Hill in 1995, I have spent my career focused on providing capital to US-based businesses. My career began with a regional bank in North Carolina, Centura Bank, where our team received its first SBIC license in 1996 as part of a commitment to better support the capital needs of the bank's clients. From Centura Bank I went to Donaldson, Lufkin & Jenrette in New York and eventually made my way back to North Carolina to re-join my colleagues at Centura supporting small businesses through the bank's SBIC fund. The bank eventually sold to RBC Bank in 2000 and in 2004 our team joined together again to form Plexus Capital and successfully closed our first independent SBIC in 2005.

For over 20 years, members of our firm have managed SBICs and witnessed the program's success. Access to capital is one of the most important issues for small businesses nationwide, and for decades, this program has helped fill that void in a perpetually underserved area of the financial markets.

In 2013, we were honored to be awarded the SBIC of the Year by the U.S. Small Business Administration (SBA). At the time, SBA administrator Karen Mills stated that "Plexus Capital's hard work, innovative ideas and dedication" were factors in us receiving the award. We remain committed to those same values as we seek to invest in growing small businesses.

Investment Process and Criteria

At Plexus we have stayed focused for more than two decades on supporting small businesses. We provide low-cost capital that supports growth and helps support the necessary transition of primarily baby-boomer owned small businesses to the next generation of owner-operators. There are more than 100,000 small businesses with \$10 – 100 million in sales and roughly 50% are owned by baby boomers. The continuity of these businesses and the millions of jobs they support are dependent on successfully transitioning the estimated \$2 trillion of ownership to the next generation of owner-operators.

We are currently managing our fourth SBIC fund, and to date, have invested \$710 million in 87 small businesses nationwide, successfully managing through all economic cycles. Plexus invests in main-street American small businesses across all industries – including manufacturing, service providers, retail and distribution companies. Below is a summary of our four SBIC funds that highlight the success of the small businesses we've partnered with:

Plexus Fund I: \$80 MM

Closed in November 2005

10.5% net IRR

1.7x multiple through the Great Recession

Plexus Fund II: \$175 MM

Closed in November 2009

21.8% net IRR

2.0x multiple

Plexus Fund III: \$300MM

Closed in March 2013

\$352 million deployed to-date

Plexus Fund IV: \$400 MM

Closed in October 2016

\$82 million deployed to date

Our growth has been driven by doing more of the same investments in small businesses. We invested in 28 small businesses through our first SBIC fund and expect to invest in 40 – 50 small businesses over the life of Plexus Fund IV. While many peers have found great success moving up market to serve larger companies, we have been intentional about staying focused on smaller businesses who have limited access to capital where we can make a meaningful impact on growth.

We review approximately 1,200 opportunities annually and ultimately invest in 12 – 15 small businesses. On average, we invest between \$2 and \$10 million and our capital allows owners to maintain significant ownership and control of the business. We are generally the first institutional partner of the small businesses we invest in and are committed to bringing value beyond the capital need. We have a full-time operating partner focused on supporting our small businesses in the development and execution of their growth plans, and we are committed to expanding this platform in 2018.

We have 56 banks, 130 individuals, 18 family offices and 9 institutions that have invested across our four funds with total private capital raised of more than \$475 million. Their support is the key to why the SBIC program is unlike any other public-private partnership I know of – most programs have public money at risk alongside of (or ahead of) private money. Importantly, the SBIC program is unique and operates at zero cost to the taxpayer because we, along with our partners, put our capital at risk first. This not only provides obvious protection of taxpayer dollars, but also serves as private market validation of the quality of fund managers during the licensing process.

Licensing Process

The SBIC program's licensing process is rigorous—as it should be—to ensure protection of taxpayer dollars. To receive an SBIC license, the management teams of SBIC applicants must have stellar track records in investment management. As mentioned earlier, we are currently on our fourth SBIC fund. Throughout each subsequent licensure process, we have proven to SBA that we have the expertise to be trusted with taxpayer dollars.

We believe strongly that firms with demonstrable success should be encouraged to seek additional licenses. Historically firms who have had success with smaller businesses move up market, perpetuating the lack of capital for small businesses. The program's sole purpose is providing capital to small businesses where it otherwise may not be available – and what better avenue than existing funds with proven track records.

The regulations ensure all investments made by SBICs go to small businesses – irrespective of how long a manager has been in the program. Repeat funds in good standing are known entities that reduce the workload on limited resources at SBA, all while keeping much needed capital at the small end of the market.

How SBICs Are Impacting Communities

The people, jobs and communities behind the small businesses we support are the real story of the SBIC program. While we are often evaluated on financial metrics, the drivers of every return we generate are real people with families who are impacting their communities – including the now 25 Plexus employees and the thousands of employees with our 87 small business partners.

The following is a sample of the 87 small businesses we've partnered with and a brief summary of the people and stories behind them:

- Agility Recovery (Charlotte, NC): Agility provides disaster support services and supports small business across the United States by providing customers with fully-operable office space that is delivered within 24 to 48 hours from the declaration of a disaster. With the help of our growth investment, Agility more than doubled its employment base, growing from 57 to 119.
- Design Shop (Orlando, FL): Design Shop was founded in 2000 by a husband and wife, Doug and Sherri Hughes, and now has 50 employees on its payroll. Design Shop provides full-service support of trade show services for companies across the United States, and our capital is supporting continued growth.
- Florachem (Jacksonville, FL): Steve McAllister founded Florachem in 1988 after spending more than 10 years working for a large chemical company. He established relationships to supply US-based small businesses with specialty

chemicals used in manufacturing processes. At the time of our growth investment, Florachem had 16 employees and served more than 200 small manufacturing customers across the United States.

- Huseby (Charlotte, NC): Huseby was founded in 1989 by Scott Huseby, a 3rd generation court reporter, to professionalize the court reporting industry. Scott comes from a long line of court reporters - including multiple grandparents, both parents, aunts, uncles and cousins. We were Huseby's first institutional partner, and we provided capital to continuing growing the business. In addition to the 50 full time employees at Huseby, they also work with a network of more than 1,800 court reporters across the country. Huseby provides a steady flow of work to professionals in what historically had been an unpredictable "Mom-and-Pop" industry.
- MPD (Trevose, PA): MPD was formed through the combination of Oak Bark Corporation, founded in 1973 by Bill Oakley and Jim Barker, and MPD, founded in 1978 by Dr. Jack Dickstein. The combined company employed 33 people at the time of our investment and grew to 57 employees. MPD manufactures specialty monomers and polymers used in industrial and commercial applications, primarily for use in medical devices.
- TITAN (Charlotte, NC): Founded in 1998 by Michael Vadini, TITAN employed 350 people supporting the technology needs of businesses across United States. The company had been funded primarily by friends and family and various individual investors prior to our investment. Our capital was used for growth that the initial investors didn't have the ability to fund.

Conclusion

The SBIC program is a vital source of capital for small businesses and is a prime example of how the federal government and the private sector can work together to grow the economy and create jobs. I am deeply thankful to the entire committee for its support of this successful program, and I encourage you to pursue ways to strengthen it so more capital can be directed to growing small businesses. Again, I thank the subcommittee for holding this hearing and for allowing me to testify. I welcome your questions.