

COMMERCE STREET Capital

Small Business Investment Company (SBIC) Opportunities

The SBIC Program was launched in 1958 to increase access to capital for growth stage businesses.

Deployed more than \$84 billion of Capital
Made more than 174,000 investment in small businesses
\$4 Billion authorized per year
\$28 Billion of AUM
313 Active SBIC funds¹

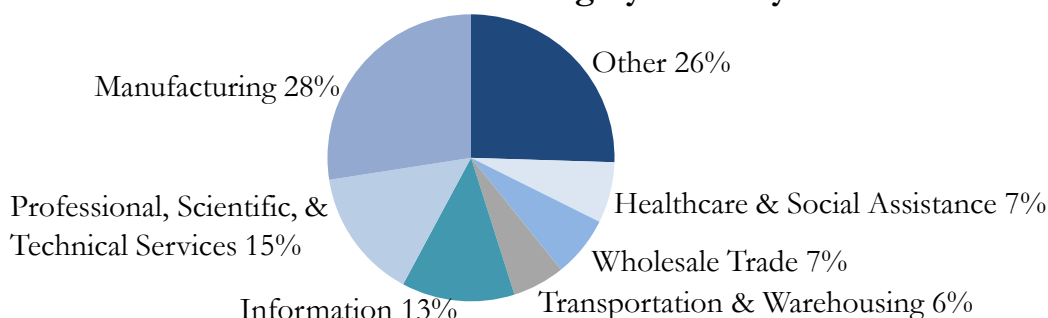
Commerce Street Capital, LLC partners with top quartile SBICs to provide guidance and assistance on regulation, fundraising and investor relations.

Commerce Street has raised **\$757 million** for 8 SBIC funds after reviewing over 150 potential partners.²

SBICs are privately owned and managed investment funds that the SBA³ licenses and regulates. The SBIC license allows SBICs to employ private capital and SBA leverage (funds borrowed at low cost using SBA-guaranteed securities, called debentures), to make investments in qualifying small businesses.

SBICs generally are formed as limited partnerships, with the SBIC managers acting as the GPs. Fund managers applying for an SBIC license must undergo a rigorous licensing and vetting process which typically takes a year or more to complete. Upon receiving a license, the SBIC is subject to annual regulatory audits by the SBA designed to oversee capital investment activities of the fund managers and ensure compliance with required regulatory guidelines.

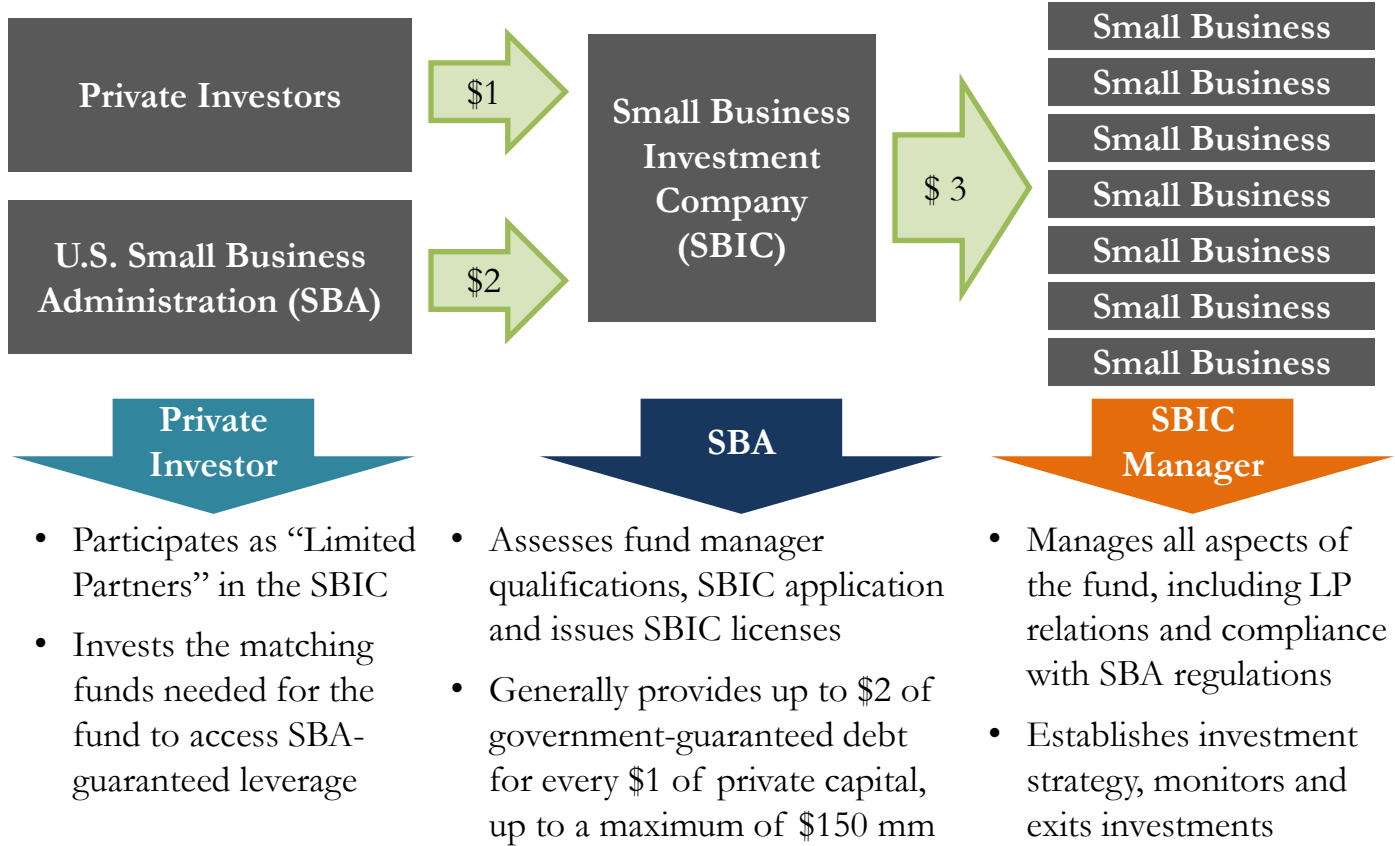
Distribution of SBIC Financing by Industry⁴



1) Source Small Business Administration as of 6/30/2016 2) Source Commerce Street Capital, LLC As of 4/24/2017 inclusive of SBA leverage on capital raised by CSC 3) Small Business Administration (SBA) 4) The Small Business Investment Company Program (SBIC) Annual Report Fiscal Year 2014

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How it Works



Examples of companies that received funding from SBICs



Types of Standard SBICs

Mezzanine Fund

Most common fund structure investing primarily in subordinated debt.

- Often 2x private capital and a \$150 million cap
- Average Net IRR in the mid teens

Hybrid/ Buyout Fund

Less than 1/3 of all debenture SBICs. Invests in a mix of equity and subordinated debt.

- J-curve can be longer than other two structures
- Often only 1x private capital
- Average Net IRR in high teens, low twenties

Senior Fund

Least common fund structure investing in senior equity.

- Up to 2x private capital and a \$150 million cap
- Average Net IRR in the high teens and low twenties

Benefits of Investing in SBICs for Banks⁵

CRA Consideration

SBICs are qualified investments under CRA.

- Large banks and intermediate small banks receive CRA consideration under the “investment test” or “community development test,” for investments in SBICs when they benefit the bank’s assessment area or a broader statewide or regional area.
- Small institutions can request that examiners review their investments.

Investment Performance

Investments in SBICs allow banks to earn competitive returns on invested capital.

- Because debenture SBICs can supplement their private capital with SBA leverage in amounts of up to three times their private capital, their cost of capital is often lower than might be the case had they depended entirely on private equity capital.
- Debentures are non-amortizing 10-year fixed rate debt securities.

Small Business Development Opportunities

Ability to help attract, serve and retain small business customers.

- SBICs can refer portfolio companies that need commercial banking services to bank LPs
- Banks can refer small-business clients that do not meet bank underwriting guidelines to SBICs to maintain the banking relationship
- Senior loan opportunities

Almost 3 million jobs were created between October 1995 and December 2014 and 9.5 million jobs were created or sustained during the same period. On average, small businesses funded by SBIC programs grew by 45.6%.⁶

Contact Us

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⁵) Office of the Comptroller of the Currency, Community Developments, Community Affairs Department Insights, September 2015.

⁶)Measuring the Role of the SBIC Program in Small Business Job Creation January 2017

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