

Statement for the Record

By Ronda Penn
Chief Financial Officer, Plexus Capital, Raleigh, NC

Hearing Entitled, "SBA Management Review: Small Business
Investment Company Program"

The U. S. House Committee on Small Business

September 26, 2019

Chair Velázquez, Ranking Member Chabot, and Members of the Subcommittee, thank you for holding this important hearing and for inviting me to testify.

My name is Ronda Penn. I am Chief Financial Officer 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 Greensboro in 1996, I spent much of my career working closely with SBICs. My career began with a regional accounting firm in North Carolina, Dixon Hughes Goodman (DHG), where I focused on financial statement audits of SBICs and other small businesses for 17 years. I worked closely with multiple SBICs and SBIC staff during my career at DHG. I began working with Plexus Capital when it was formed and received its SBIC license in 2005 as the firm's audit partner and joined the team in 2012 as Chief Financial Officer.

The Plexus team received its first SBIC license in 1996 when working with Centura Bank as part of a commitment to better support the capital needs of the bank's clients. The bank eventually sold to RBC Bank in 2000 and in 2004 the team joined together to form Plexus Capital and successfully closed its first independent SBIC in 2005.

For over 22 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 \$1 billion in 108 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

\$404 million deployed to-date

Plexus Fund IV: \$400 MM

Closed in October 2016

\$325 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 2020.

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 26 Plexus employees and the thousands of employees with our 108 small business partners.

Plexus has invested in underserved companies as follows:

- More than 80% of Plexus investments have been in companies defined by the SBA as “smaller concerns”
- More than 20% of Plexus investments have been in companies located in low to moderate income (LMI) zones
- More than 40% of Plexus investments have been in companies owned by minorities and veterans
- Overall revenue for all companies invested in by Plexus has increased by more than 30% over the duration of the investment
- Overall jobs have grown for all companies invested in by Plexus by more than 30% over the duration of the investment

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 the entire Plexus team is committed to working with you to pursue ways to strengthen it so more capital can be directed to growing small businesses. Again, I thank the Committee for holding this hearing and for allowing me to testify. I welcome your questions.