



Statement for the Record

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

The House Committee on Small Business
Subcommittee on Agriculture, Energy, and Trade

November 7, 2017

Chairman Blum, Ranking Member Schneider, and Members of the Subcommittee, thank you for the opportunity to testify today and for holding this hearing, “Investing in Small Business: The SBIC Program.”

This hearing is important for highlighting the United States Small Business Administration’s (SBA) Small Business Investment Company (SBIC) Program and the impact it is having on growing domestic small businesses and creating American jobs. Access to capital is a tremendous issue for small businesses across the country. This program effectively resolves that issue. I am eager to provide you my perspective as an SBIC fund manager and past member of the Small Business Investor Alliance board.

My name is Thies Kolln. I am a partner of AAVIN Private Equity, a private equity firm based in the heart of the Midwest. Our central office is in Cedar Rapids, Iowa, but we also have regional offices in Kansas City, Missouri and Madison, Wisconsin. I joined AAVIN in 2002, and prior to joining the firm I practiced corporate law in Chicago, representing venture capital and private equity funds.

At AAVIN, we stay true to our roots by focusing on helping small, regionally-based businesses grow. We specialize in late-stage and expansion-stage financings, and we partner with strong management teams that seek long-term business growth. Our focus is on smaller investment opportunities – small businesses seeking financings less than \$10 million, with most needing less than \$5 million. Further, our activities are concentrated mostly in the upper Midwest, such as Iowa, which is an area of the country traditionally underserved by capital. We are also weighted toward small businesses in manufacturing and business services, but are diversified in other sectors such as healthcare, technology, and communications.

AAVIN has extensive private equity investment experience. The seven members of our investment team have made investments in over 300 companies and have held multiple operating roles.

Through our firm’s history, just in Iowa we have deployed \$34 million in capital that helped create or sustain over 6,000 jobs. Those numbers may not mean a whole lot for a place like Manhattan, but they do for Iowa. These investments produced great growth for small businesses as well as returns for our investment partners, which includes repayment in full to the SBA and American taxpayer.

To provide technical insight into the SBIC Program, my testimony today will focus on three main areas: 1) AAVIN’s involvement in, and strong support for, the SBIC Program; 2) AAVIN’s investment process in small businesses through the SBIC Program; and 3) AAVIN’s impact on growing domestic small businesses and creating American jobs through the SBIC Program.

SBIC Program Involvement

AAVIN has substantial historical involvement with the SBIC Program.

A hallmark of the SBIC Program is its rigorous licensing process for prospective SBIC funds, ensuring taxpayer protection and safeguarding the program's reputation. One requirement for licensing is that management team applicants have extensive prior investment experience and good investment track records. AAVIN meets that demand. Our firm's experience base dates back to the start of the SBIC Program in 1959. We have a long-term commitment to small business.

In its present-day iteration, AAVIN is currently on its second Debenture SBIC fund, which became licensed in 2015; however, our seven principals have successfully managed five prior SBICs, with over 40 years of continuous Debenture SBIC management. We have over 120 cumulative years of lending and mezzanine investing experience. Such repeats of licensure as an SBIC is a good thing, as it demonstrates to prospective small business partners our previous funds' successes; demonstrates our commitment to serving this undercapitalized market; and demonstrates to the taxpayer that we are good stewards of American tax dollars. Notably, we have a history of on-time payments to SBA and overall compliance, with clean examinations without findings.

AAVIN strongly supports the SBIC Program because it provides the opportunity to supplement our private capital with up to two times more capital to deploy to small businesses to support their growth. This augmented growth capital helps small businesses grow even more than AAVIN's private capital alone could. Given the increasing concentration of capital among large funds and institutions and the resulting difficulty in finding capital with a dedicated strategy of investing in small funds and small businesses, it is questionable whether many of the small funds like AAVIN could even continue to fund small businesses at all without the program. Importantly, our private capital—and any private capital of any other SBIC fund—is always in the first-loss position when making investments. So, despite being leveraged with capital other than our private capital, our interest is always in making sound investments knowing that our private capital, which includes significant personal investments by our management team, would be burned through by an underperforming investment before any taxpayer capital would lose even a dollar.

SBICs like AAVIN are usually providers of the first institutional capital into a small business. Because of this, the program is helping to professionalize small businesses, as SBICs ensure the business's operations are fundamentally solid along with their financials during the investment. This not only primes businesses for greater growth but also gives them greater long-term viability by strengthening their ability to respond to changing economic cycles, management team transitions and other unforeseen events. AAVIN's investment process works to that end.

Investment Process

While the SBIC Program makes available additional capital to augment private capital, the actual act of investing in small businesses itself is, and always will be, incumbent upon the SBIC fund.

AAVIN's investment process not only protects the interests of the American taxpayer and the firm's own investment partners, but also that of the small businesses it partners with to grow.

AAVIN receives over 500 to 1000 inquiries annually for small business financings. Approximately 50 to 100 of those inquiries we whittle down through our preliminary diligence, then even further from there, eventually landing at approximately 4 to 6 financings actually being conducted through the fund annually.

Our deal flow is from significant proprietary sources that we have developed over 40 years by focusing on a consistent investment profile using our regional offices. Again, this informs our geographic investment preferences. Notable among those deal flow sources are local and regional banks, many of which are too small to be called on by other funds and which also cannot practically deploy their capital to small businesses without an SBIC.

Our investment underwriting is rigorous and credit-based. Characteristics of small businesses that we look for before investing in are a positive cash flow; financial ratios, such as total funded debt to Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA); a complete management team with strong financial and operation leadership; a defensible market position; and ultimately a growth opportunity.

This is all to say that the rigorous licensing process and continuous ongoing oversight of funds that the SBA applies to the SBIC Program likewise applies to our processes in financing small businesses.

A typical transaction for AAVIN provides under \$2 to 5 million in financing to a small business. This is mostly debt in the form of loans, but we usually take an equity stake in the small business in conjunction with the loan. We partner with the management teams and always make sure that management holds equity interests in the businesses they operate – active managers will usually own a greater stake in the business after our investment than before.

Following the initial investment, AAVIN, as generally the first institutional investor, supports the small business for anywhere between three to eight years before. In that time, we are repaying the SBA and providing returns to our investors.

We provide significant value over the life of our investments through active involvement with the respective small businesses. We provide assistance to our small business management teams in many areas including strategic planning, finance, marketing, recruiting, analyzing and closing acquisitions or divestitures, developing treasury strategies and assessing financial markets. These are the acts of professionalizing the small business I mentioned as a core outcome of the SBIC Program. To that end, we are truly partners with small businesses.

Impact on Small Businesses

Through the SBIC Program, AAVIN helps small businesses solve their need for capital, along with operating assistance that aids professionalization. The upper Midwest is traditionally lacking in alternative sources of capital, particularly for smaller businesses. Unlike other fund managers, AAVIN has not moved up-market to manage ever larger funds that no longer focus on small business investing. We have been able to keep our focus and strategy because of the continued availability of the SBIC program.

When it comes to securing growth capital, equity financing is often too expensive or unavailable for small businesses. To finance their continued growth through equity alone, small business owners would have to give up large amounts of control of their businesses, if they could even find such capital at all. Most private equity capital is focused either in specific regions and industries such as Silicon Valley IT or Boston area medical companies or in very large multibillion dollar funds that aren't set up to make small investments. Small businesses are also limited in their ability to get traditional bank loans, which are often limited to a portion of the assets the business has as collateral or the owners can provide through personal guarantees. The SBIC Program fills this gap by enabling these businesses to access a more flexible source of debt that is focused on meeting their capital needs.

The small businesses AAVIN invests in through the SBIC Program may have many possible uses for capital, such as expansion by purchasing equipment or facilities, hiring additional employees to grow the business, acquiring other small businesses, or providing operating capital.

Because of our location and our firm's investing principles, we have a particular impact on small businesses in Iowa. In our firm's history, we have made 26 investments in Iowa small businesses, one as recently as the end of October in Happy Joe's Pizza & Ice Cream.

Happy Joe's is a family-run chain pizza parlor that was founded in 1972. The business also provides franchise opportunities and has 54 locations across Iowa and other states in the Midwest. We have an ambitious growth plan for this company and have already made new hires into the organization to carry this out. Our management team is currently looking for more space for our expanded operations, which will enable them to make additional hires. Our involvement with the business will help it to create a larger geographic footprint, expand its product offerings, and—most importantly—create more jobs.

Another example of our investment in small local businesses is RuffaloCODY, headquartered in Cedar Rapids, Iowa. RuffaloCODY provides fund raising, consulting, enrollment and donor based management services to non-profit organizations; primarily colleges and universities. The company manages on-campus fund raising campaigns and telefund campaigns, where RuffaloCODY hires students to perform the telemarketing process for its clients. RuffaloCODY is the market leader in fund raising services for non-profit organizations.

After an 8-year involvement that included a total investment of \$3.25 million, AAVIN exited RuffaloCODY. AAVIN's investment helped the company grow from just over 100 to more than 500 permanent employees, build out new facilities in Cedar Rapids and provide thousands of students across the country with part-time work raising money for their colleges and universities. In 2014, the business announced it acquired another business, forming Ruffalo Noel Levitz, to better partner with colleges and nonprofit organizations to help them enroll their classes, graduate their students, and engage their donors. Our involvement with the company helped establish a foundation for their growth into what the business is today.

We are proud of these investments because of the impact the small businesses have on their communities by creating jobs and spurring the local economy, not least because we ourselves live in these communities.

Conclusion

But for the SBIC Program, AAVIN would not have its successful history of deploying growth capital to American small businesses, the backbone of our economy. The SBIC Program effectively helps us leverage the private capital we are able to raise for this purpose.

Conversely, but for the SBIC Program, American small business access to capital would be worse. Without the program, an enormous capital access gap would exist for small businesses that traditionally lack alternative capital sources for growth.

Thank you to the Subcommittee for holding this hearing on the SBA's SBIC Program and how it enables access to capital for small businesses. I encourage the Committee and this Congress to continuing fully supporting the program so that it may expand, support more domestic small businesses, and create even more American jobs. I look forward to answering any questions you may have.