

The Small Business Investor Alliance is the association of senior investment professionals focused on the lower middle market whose members represent the entire private capital ecosystem.



BDC

WHAT IS A BUSINESS DEVELOPMENT COMPANY?

A photograph of four small green plants growing out of stacks of silver coins, arranged in a row from left to right, increasing in height. The background is a soft, out-of-focus light color.

Congress created **Business Development Companies (BDCs)** in 1980 to facilitate capital formation into small- and medium-sized businesses. BDCs give individual retail investors access to investments that were once only accessible to the wealthy (accredited investors). BDCs are investment companies designed to **provide investment and management expertise to growing businesses across the country**. BDCs are structured as pass-through entities for tax purposes (Regulated Investment Company or RIC), register and generally trade on national exchanges (although some BDCs are sold through retail broker-dealer networks and are known as non-traded BDCs). The BDC structure is **one of the most transparent, heavily regulated forms of middle market lending** in the capital markets. By law, **BDCs must invest at least 70% of their assets in private and small-cap U.S. businesses**, creating jobs and helping fill a void in the capital markets. In actuality, 95.2% of BDC investments are made in U.S. entities. There are currently 126 BDCs with over \$180 billion in assets under management investing in small- and medium-sized businesses across the country.

Business Development Company

FAST FACTS

- In 1980, when the U.S. was dealing with high unemployment and an energy crisis, Congress created the BDC structure to boost economic growth by increasing access to capital for American businesses. This was a bi-partisan effort.
- There are approximately 126 BDCs in the U.S. with more than nearly \$180 billion in assets invested in middle market businesses.
- BDCs invest in either debt or equity of small and mid-sized businesses. This financing helps businesses expand and create jobs.
- Growing companies across the country rely on BDCs to purchase land, equipment, and factories. BDCs have provided good returns to investors compared to traditional fixed income investments.
- BDCs allow retail and Main Street investors access to highly-regulated investment opportunities, helping close both the investment opportunity gap and the capital gap.
- BDCs are a job-creating engine that provide access to capital to middle market companies that are not yet large enough to access broad capital markets, but require more capital for growth than banks can provide.
- BDCs are a hybrid between an operating company and an investment company. BDCs must offer managerial assistance to the companies they invest in. BDCs are currently held by the following types of investors:
 - 50% Individuals
 - 30% IRAs
 - 20% Institutions

HOW BDCs INVEST IN DOMESTIC SMALL BUSINESSES

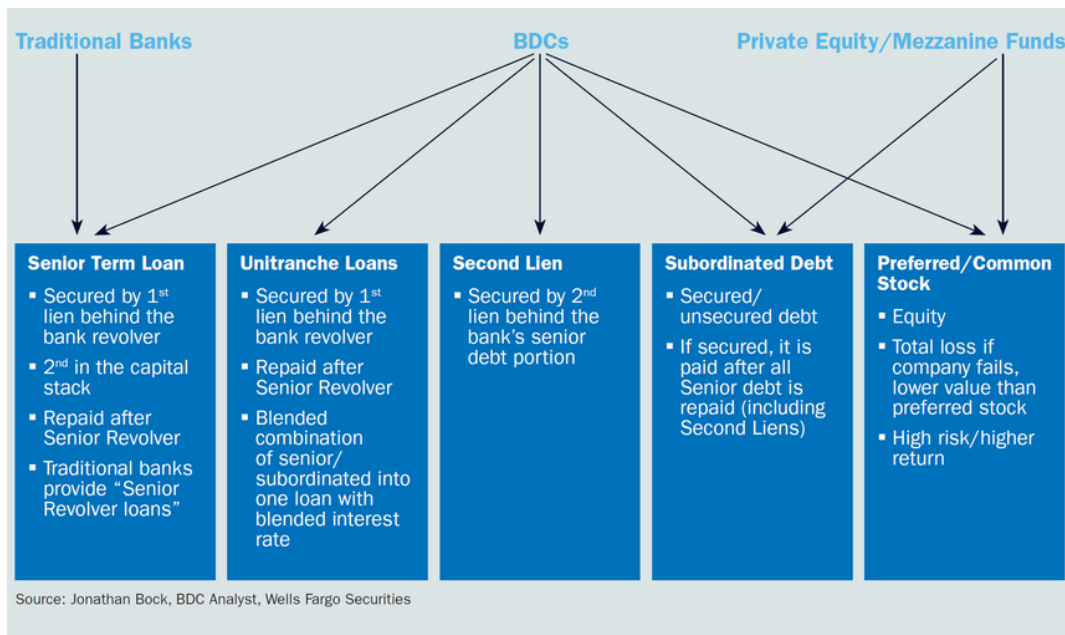
BDCs invest in the heart and soul of America, the companies that employ a large part of the American workforce. BDCs invest in a variety of industries and sectors across America including manufacturing, healthcare technology, restaurants, energy companies, aerospace, media companies, IT companies, web technology, cloud-based computing companies, biotech, healthcare services, educational services, consumer products, and many others. BDCs have various investment strategies that run the gamut from debt to equity. BDCs typically make secured and unsecured loans between \$10 - \$50 million to middle market companies. BDC investment consists of senior secured loans, second-lien term loans, and mezzanine loans. In addition, many BDCs receive a warrant or pure equity as part of the financing.

What is the difference between a BDC and a traditional private equity fund?



Traditional lenders, such as banks, face increasing regulatory burdens and are unable to lend to small and mid-sized businesses, resulting in increased demand for BDC capital. The BDC percentage of leveraged loans is likely to grow significantly given the current regulatory landscape and guidance from federal banking regulators curtailing bank involvement in this area. BDCs, including the amount of capital raised, have grown significantly.

The following illustrates the broad spectrum of lending engaged in by BDCs, as opposed to banks and traditional private equity.



For more information, please contact the SBIA Government Relations team.

Tonnie Wybensing: tonnie@sbia.org

Justin Pelletier: justin@sbia.org