

U.S. House Small Business Committee

Subcommittee on Economic Growth, Tax, and Capital Access

Review of the Small Business Investment Company Program

Statement of

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Subcommittee Chair Davids, Ranking Member Meuser, and members of the Subcommittee, thank you for inviting me to testify on behalf of the Small Business Investor Alliance (“SBIA”) at this oversight hearing. I am Holly Huels, Founder and Managing Partner at Holleway Capital Partners, a Small Business Investment Company —or SBIC— headquartered in St. Louis, Missouri, with an office in Kansas City, Kansas. I am also a former Chair of the SBIA, the national organization that represents small business funds and their investors in the lower middle market.

Holleway Capital focuses on investing in small manufacturers, and distributors throughout the Midwest, High Plains, Rocky Mountains and Southern regions of the United States. Our investment strategy targets small businesses with annual sales between \$10 million to \$75 million, and annual earnings before interest payments, taxes, depreciation and amortization, or “EBITDA” of between \$2 million to \$10 million. Holleway specializes in working with business owners who want to sell. We help these small business sellers align with buyer management teams to tailor an ownership transition and investment structure to each company’s needs, market position, and future opportunity. With Holleway’s investment, these small businesses are able to modernize, grow, and build a brighter future for their employees and communities.

I am happy to report that the SBIC program is fulfilling its mission. As this Subcommittee knows, the program had several years of suboptimal management, but thanks, in part, to bipartisan congressional oversight and a new Associate Administrator, the SBIC program is helping more small businesses than ever before.

On behalf of SBIA’s membership, thank you for your critical role.

I hope my testimony today demonstrates that the SBIC program, administered by the U.S. Small Business Administration (“SBA”), is largely working well. But I would also point out, as with any federal program, targeted improvements can help strengthen the program’s ability to expand the benefits of free enterprise to more people and places. Three potential areas include:

- Information Technology (IT) is in need of investment. This is a \$34 Billion program running on Microsoft Office (Excel and Access).
- SBICs’ primary regulators are called “operations analysts”. These analysts are supposed to handle 10-12 SBIC funds. Staffing shortages currently have analysts juggling as many as 50 SBICs.
- Small businesses need access to more of the most patient form of capital – equity. Access to equity capital is critical for domestic small businesses to keep the U.S. competitive and strengthen supply chains.

An SBIC Success Story - Holleway Capital

SBICs are an American success story and example of a successful federal public policy that aligns the power of private markets with the public interest of job creation and economic growth.¹

The principals managing Holleway have more than 60 years of combined experience investing in and working with private companies. Over the last 20 years Holleway's principals have partnered with family and entrepreneurial-owned companies, completing over 40 transactions all through the SBIC program. Holleway prefers investments in product-oriented small businesses that manufacture niche, proprietary industrial products or provide value-added distribution. Our team members bring strategic experience and creative thinking, cultivated from years of working with and advising leaders to solve the many challenges entrepreneurs face while growing their companies.

Congress declared in its original authorizing legislation that the SBIC program should “stimulate and supplement the flow of private equity capital and long-term loan funds which small business concerns need for the sound financing of their business operations” while also stimulating the national economy and growth.² Holleway Capital is a new SBIC fund, and we have made some exciting investments that have indeed helped stimulate job and economic growth and support the initial mission of the SBIC program.

Let me highlight a couple of investments we've made in the last three months:

- **Panek Precision Products** in Northbrook Illinois is a precision metal machining company that manufactures tens of millions of parts annually for many US-based customers. Holleway partnered with the Panek family as they were, in part, seeking a financial partner to help shoulder the financial investment in capital equipment and other resources needed to help grow the Company. As a result of the growth the company is experiencing, Panek is currently seeking to add over **20** full-time employees, which is a daunting challenge in today's labor market.
- **T-TEK Material Handling** in Montgomery Alabama is a manufacturer of high-speed palletizing and de-palletizing equipment used primarily by beverage and other companies producing high volumes of canned products. The founders of T-TEK chose to work with Holleway, in part, to help finance the investments required in people, facilities, and equipment necessary to achieve the growth the company is currently experiencing. T-TEK is currently seeking to add over **10** full-time employees as soon as possible.

¹ An independent study prepared for the Library of Congress found that SBIC-backed small businesses created almost 3 million new jobs and supported an additional 6.5 million jobs over the 20-year period of their study. The average administrative cost was approximately \$35 per job created, and about \$11 per job created or sustained.” *Paglia and Robinson, Measuring the Role of the SBIC Program in Small Business Job Creation, Report for the Library of Congress, at 4 (January 2017)* <https://www.sba.gov/sites/default/files/articles/SBA_SBIC_Jobs_Report.pdf>.

² Small Business Investment Act of 1958, Pub. L. 85-699 (Aug. 21, 1958). 15 U.S.C. 661.

Demand for investments from licensed SBICs was very strong throughout fiscal year 2021, which ended on September 30. This was the first year in the program's history that its annual authorized leverage maximum of \$4 billion was reached. As the nation emerges from the pandemic-induced economic downturn, the SBIC program provides a lifeline that helps many domestic small businesses not only survive but thrive. SBIA encourages Congress to consider raising the annual \$4 billion authorization limit for SBIC leverage in anticipation of continued SBIC program growth.

Coming out of the massive economic disruptions caused by the pandemic, small businesses need capital to recover and grow. The SBIC program is doing what Congress tasked it to do and everyone should be proud of the way the program is being run. At the end of FY 2021 there were over \$34 Billion in assets in the program – all of which is for capitalizing American small businesses. The amount of private capital, from Limited Partners, hit an all-time record validating the private market's support for small businesses and the SBIC program. SBICs made over \$7 Billion in investments into small businesses– another record. SBA licensed 32 funds in 2021, 12 of which were first-time funds. When the SBA hit the \$4 Billion annual leverage cap for the first time ever, it represented a 90% increase year over year. Congress should raise this cap to ensure it is not hit again in 2022. Despite being an extraordinarily challenging year, zero SBIC Debenture or Non-Leveraged SBIC funds entered the “office of liquidations” the equivalent of a bank's “workout” group. The program is doing what it was designed to do and small businesses across the country are benefiting. These investments are in real companies with real staying power and real growth potential.

SBA Staffing and IT Technology

The Office of Investment and Innovation (OII) staff that regulate the SBIC program did a remarkable job during the pandemic. As we emerge from the pandemic, small businesses will look for an effective SBA to continue to provide the help they need to grow. As is the case throughout the US economy, OII staffing shortages are severe, and this staff shortage may pose a risk to expanded capital access to small businesses and healthy oversight of the SBIC program.

For example, frontline SBIC regulators typically monitor and regulate about 10-12 SBIC funds per regulator because of the unique nature of each fund. Today, however, the SBA is so short-staffed that the ratio between Office of Investment and Innovation regulator and regulated SBICs is reported at a level of nearly 50 SBICs per operations analyst. Regulated entities do not normally ask for more regulators, but we are. SBIA encourages Congress to provide the necessary resources, both human and technological, to ensure SBA can run this successful program, provide necessary oversight, and remain responsive.

The OII staff have helped deliver strong results for the SBIC program during the pandemic despite using outdated technological tools. While the SBIC program involves capital levels in 2021 that reached \$34 billion, its OII regulators are saddled with rudimentary IT technology that cripples productivity and creates unnecessary risk. SBA has incredible amounts of data but cannot convert it into useful information.

Everyone in the private sector has IT technologies that can give them investment and risk management information with just a few clicks of a mouse. These same tasks can take the SBA

weeks or months to replicate. a challenge that Congress can help alleviate with adequate funding to SBA for IT technology upgrades.

At Holleway we, provide long-term patient capital to small businesses. This longer-term strategy is an incredible advantage to small businesses in surviving the bumps, sometimes jarring bumps, that small businesses face. But SBA discourages equity strategies in large part because the SBA does not have tools tailored specifically for equity investing. We would be able to provide more equity capital to more small manufacturers if the SBA had the tools to allow more equity investing.

Let me also add that the SBIA reiterates its long-standing support of the *Investing in Main Street Act*, a bill designed to increase bank investments in SBIC funds, which was introduced by Senators Duckworth and Young in the Senate and Reps. Chu and Garbarino in the House. The bill currently has passed the House Small Business Committee and awaits a vote by the full House chamber.

This proposed legislation would amend the Small Business Investment Act of 1958, which currently restricts SBICs from taking capital investments from banks that have more than five percent (5%) of their institution's capital and surplus invested in SBICs. Bank regulations currently permit these same banks to invest up to 15 percent of their capital and surplus (with regulatory approval) in SBICs.

This simple change would create symmetry between statute and bank regulation and would increase the amount of capital that banks can deploy into SBICs. Increasingly, SBIC funds are encountering smaller banks who have hit the five percent (5%) statutory cap but want to invest more in job creation that is a hallmark of the SBIC program.

Conclusion

Let me end where I began. The SBIC program is working well. But there are always occasions for improvements.

On behalf of Holleway Capital and the SBIA, thank you for the opportunity to present observations about the state of the SBIC program and recommendations on maintaining the program's critical role to provide much needed capital to domestic small businesses.

I am happy to answer questions from the Subcommittee.

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