

4 T H A N N U A L

# Innovative **ALTERNATIVE** **INVESTMENT STRATEGIES**

## **Business Development Companies**

### MODERATOR

**Jeff Schlegel**

Senior Editor

*Financial Advisor & Private Wealth Magazines*

### PANELISTS

**Sean Hickham**

VP of Fund Management

*CNL Financial Group*

**Brody Browe**

Vice President

*Franklin Square Capital Partners*

**Tim Keating**

CEO

*Keating Capital Inc.*



# What is a BDC?

- ◆ Investment company with reduced regulatory burden under the 1940 Act as compared to registered closed-end fund.
- ◆ Must be a reporting company under 1934 Act (transparency through quarterly reporting).
- ◆ Special type of fund that:
  - Provides small, growing companies access to capital.
  - Enables private equity funds to access the public capital markets (debt-focused BDCs).
  - Enables retail investors to participate in the upside of pre-IPO investing (equity-based BDCs).
- ◆ Flow-through tax treatment available as a RIC.



# Types of BDC Structures

## Publicly Traded BDCs

- ◆ Listing: Nasdaq or NYSE
- ◆ Formed either as blind-pool or through acquisition of an existing portfolio
- ◆ IPO: typically through firm commitment underwritten offering
- ◆ Liquidity: Closed-end fund providing investors with complete liquidity



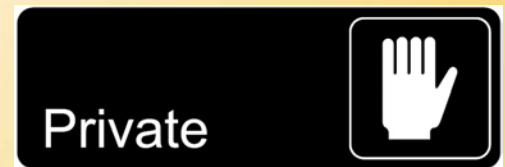
## Non-Traded BDCs

- ◆ Listing: none
- ◆ IPO: through continuous offering of shares up to a maximum amount
- ◆ Liquidity: periodic repurchase offers
- ◆ Fixed 5-7 year period before exchange listing or IPO



## Private BDCs

- ◆ Listing: none
- ◆ Shares sold through private placement
- ◆ IPO: intention to conduct in near term
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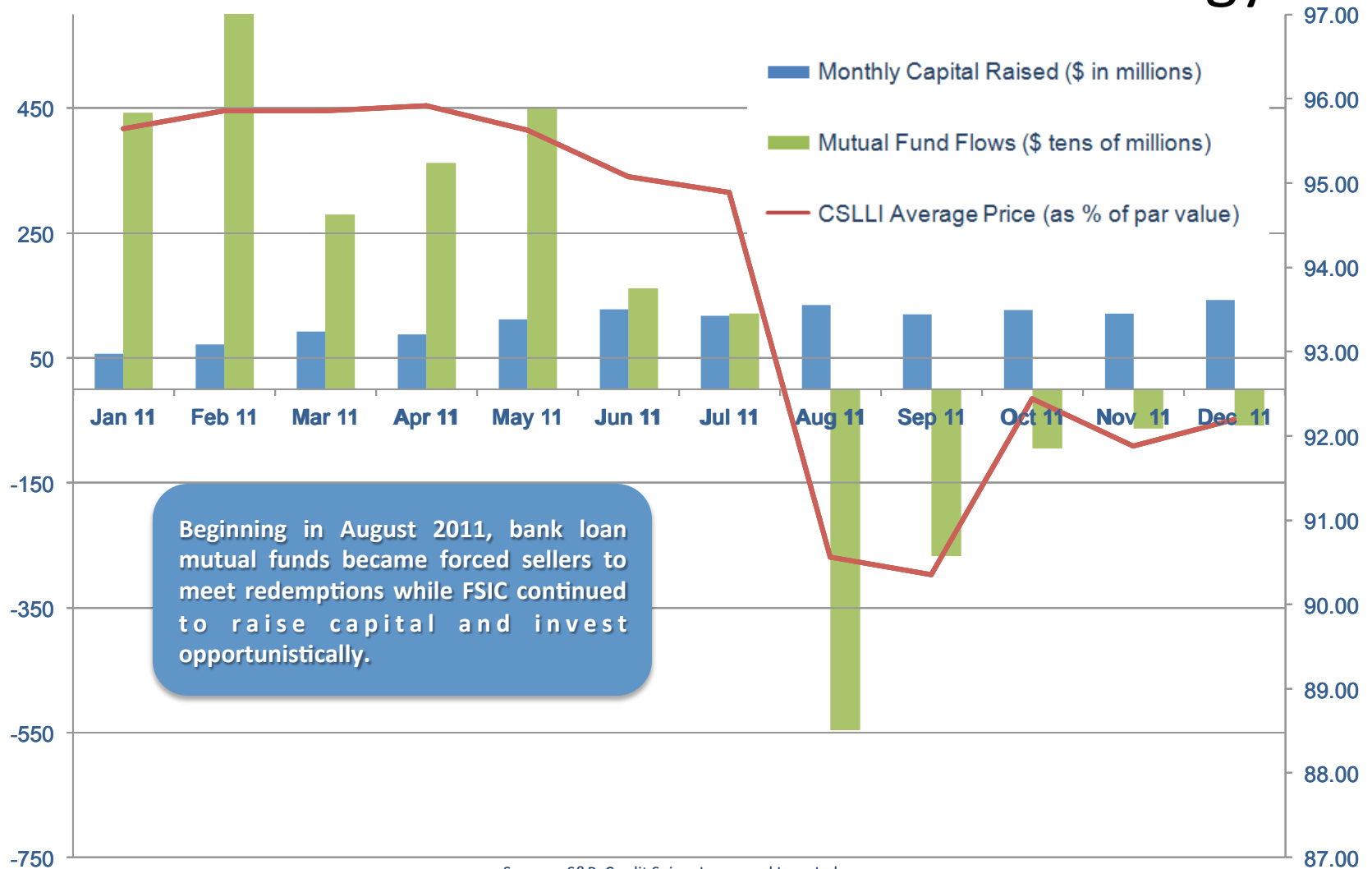
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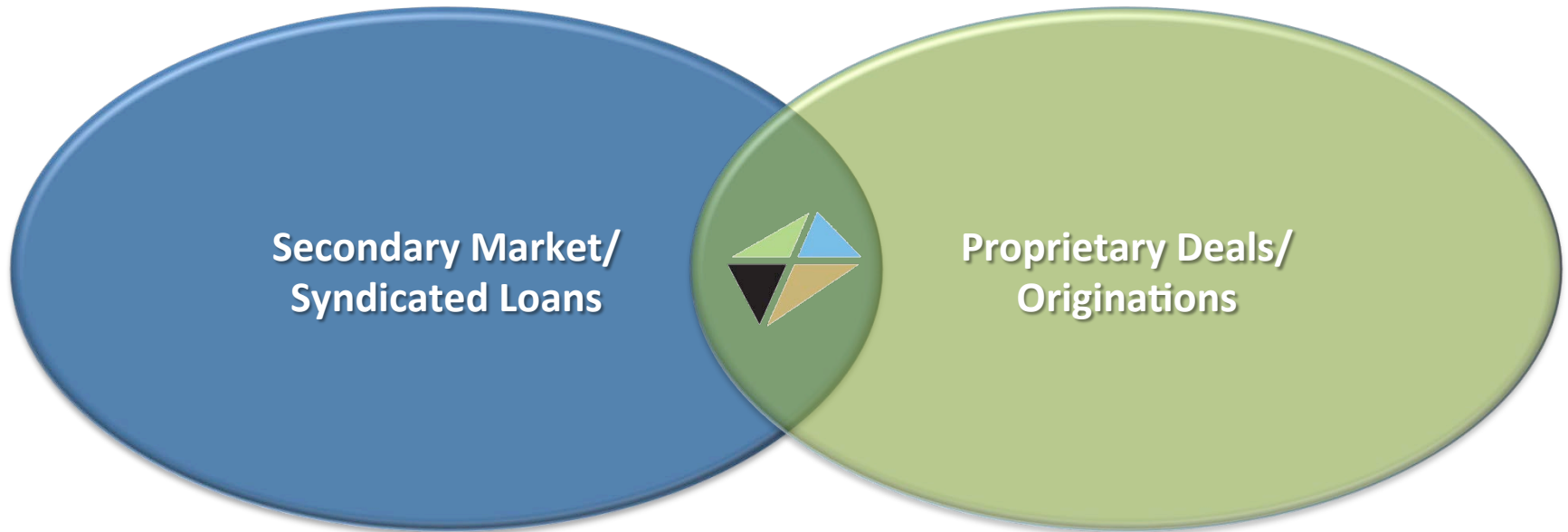


# Franklin Square's Model: The Optimal Way to Execute the Senior Secured Loan Strategy



Sources: S&P, Credit Suisse Leveraged Loan Index

# Proprietary vs. Syndicated Deals



**Attributes**  
Liquid market  
Large issuers  
More participants (and competition)

**Keys to Success**  
Scale of Fund & Adviser/Sub-Adviser  
Execution  
New Issues Access  
Outsized Allocations

**Attributes**  
Less liquid  
Better yields  
Fewer participants

**Keys to Success**  
Track Record  
Relationships with P.E. Firms  
Proven Proprietary Pipeline  
Successful Prop Deal Exits

# FSIC CASE STUDY:

## Klune Proprietary Deal



<b>Industry:</b>	Aerospace & Defense
<b>EBITDA<sup>(1)</sup>:</b>	\$17.7 million
<b>Security Type:</b>	Unitranche 1 <sup>st</sup> Lien Senior Secured
<b>Rate:</b>	L+700bps and 1.5% LIBOR Floor
<b>Maturity:</b>	6 years
<b>Leverage:</b>	3.9x through tranche
<b>Purchase Price:</b>	98.0
<b>Return on Debt:</b>	12%
<b>Return on Equity:</b>	3.25x

Klune is a highly diversified provider of parts, assemblies and components for commercial and military aircraft and missile systems.

FSIC invested approximately \$60mm to finance Klune's acquisition of North American Aerospace. Preferred equity component included.

Klune was acquired by Precision Castparts (NYSE: PCP) in August 2012. As a result, FSIC received full repayment of principal, a 2% pre-payment fee on the term loan plus a 3.25x return on its preferred equity investment.

(1) Pro Forma Earnings Before Interest, Taxes and Depreciation for the 12 months ended June 30, 2011.

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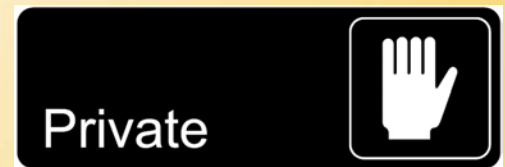
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# IPOs of “Yield-Oriented” Companies

## Still Going

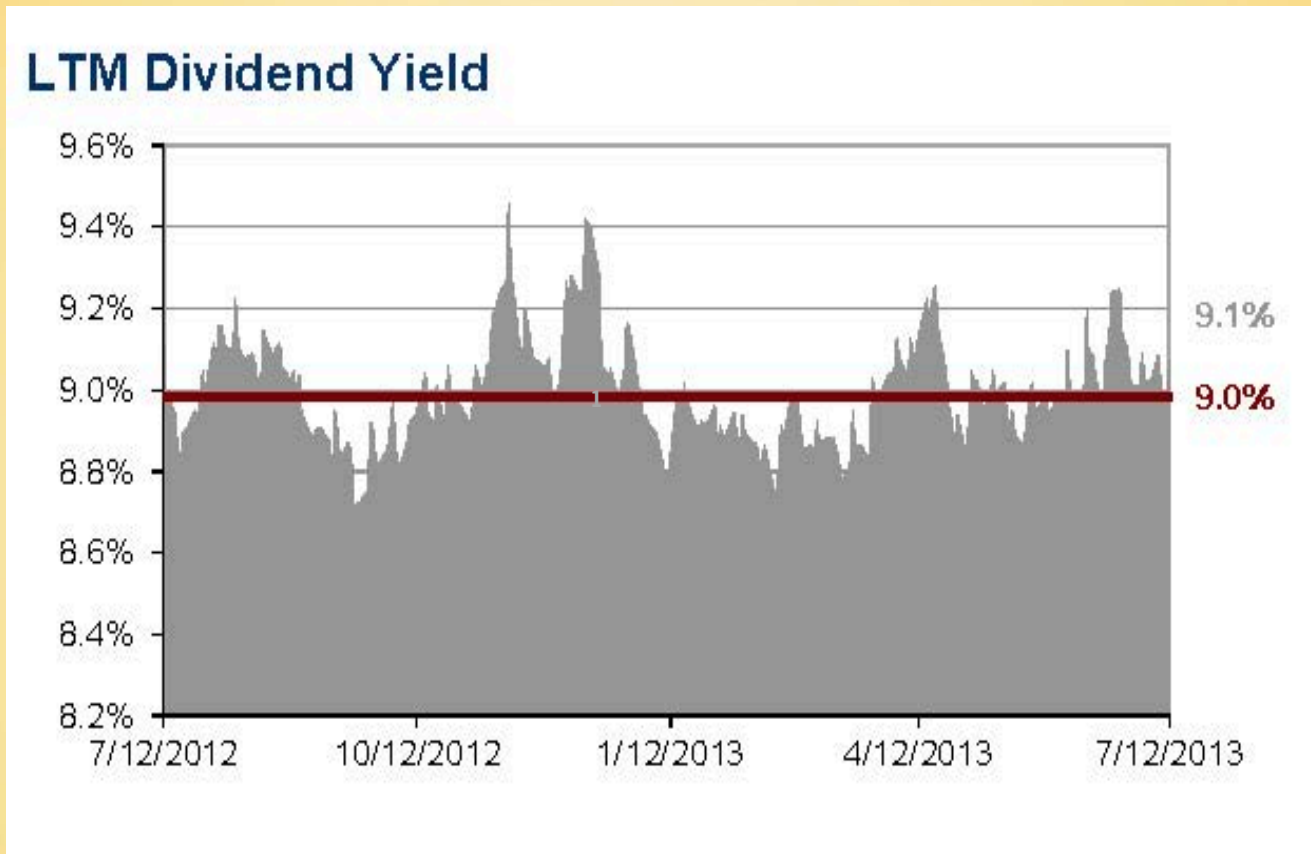
Despite the recent selloff among stocks that pay out generous dividends, investors still have some appetite for high-yielding shares.



<sup>1</sup>“Yield-oriented” issuers include REITs, MLPs, business development companies and issuers with a 3% or greater dividend yield.  
Source: *The Wall Street Journal* (July 2, 2013)



# Current BDC Dividend Yield



\*LTM dividend yield equals dividends declared in the last twelve months divided by price. Includes 41 debt- and equity-focused BDCs.  
Source: KBW Investment Banking Group – Weekly BDC Market Overview (July 12, 2013)



# Publicly Traded, Capital Appreciation Focused BDCs

Name	Ticker	Mgmt	Market Cap (MM)	Price/ NAV Per Share	Dividend Yield (LTM) <sup>1</sup>
Capital Southwest Corp.	CSWC	Internal	\$565	86 %	2.4 %
Firsthand Tech. Value Fund, Inc.	SVVC	External	175	88	0.0
G SV Capital Corp.	GSVC	External	156	64	0.0
Harris & Harris Group, Inc.	TINY	Internal	96	76	0.0
Keating Capital, Inc.	KIPO	External	56	77	8.3

<sup>1</sup>LTM dividend yield equals dividends declared in the last twelve months divided by price.  
Source: KBW Investment Banking Group – Weekly BDC Market Overview (July 12, 2013)



# Private to Public Value Accretion Opportunity

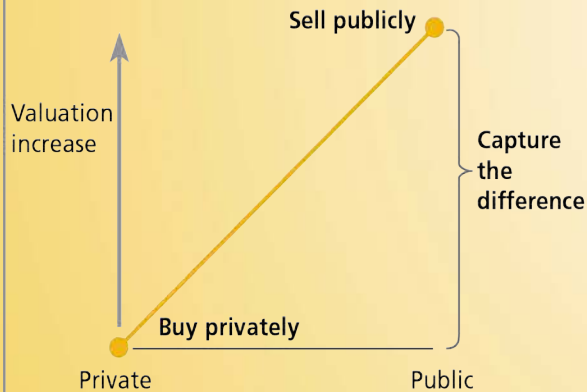


Buy Privately, Sell Publicly, Capture the Difference™

## Private to Public Valuation Differential

We believe that public companies are typically valued 2x higher than private companies,<sup>1</sup> which creates an opportunity to...

### Private to public valuation arbitrage



## Pre-IPO Investment

...invest in the final round of private financing before a company goes public (expected within 2 years after our investment)...



## Targeted 2x Return Over 4 Years

...from which Keating Capital targets a 2x return on its investment over a targeted 4-year investment horizon<sup>2</sup>



<sup>1</sup> Based on its experience, Keating Capital believes that publicly traded companies have the potential to be, and have historically been, valued 2x higher than comparable private companies with similar sales, expenses and profits because investors are generally willing to pay a premium for the liquidity associated with a stock that can be sold immediately.

<sup>2</sup> There is no assurance that our portfolio companies will be able to complete an IPO or other liquidity event or that we will be able to realize any net capital gains from the sale of our publicly traded portfolio company investments. In the event the expected investment horizon is less than 4 years, the targeted return may be correspondingly reduced.



Private Wealth