A White Paper on

Business Development Companies (Financing Funds)

Submitted By

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1. Executive Summary

SMEs constitute about 90% of registered companies in Saudi Arabia and the GCC as a whole as well, while they contribute about a third to GDP, which is well below the 50-60% contribution in the developed world. SMEs continue to face several challenges in Saudi Arabia with limited access to finance being amongst the top two obstacles to their growth and development. Commercial bank lending to SMEs is significantly low in KSA at 3% of total bank lending, as compared to that in non-GCC MENA countries and other emerging nations, where the average is 20%. This low share of loans to SMEs in Saudi Arabia can be attributed to lack of reliable information and audited financials, lack of an enforceable legal environment in case of default, lack of specialized skills for SME credit appraisal, transparency issues, etc. This has led to a significant credit gap to SMEs in the MENA region to the tune of close to USD 300bn, with a similar trend existing in Saudi Arabia as well. This has necessitated the emergence of non-banking organizations such as Business Development Companies (BDCs), which provide the desired funding to SMEs for development/growth purposes.

BDCs are professionally managed companies, which typically raise capital through equity, convertible bonds or borrow long term at low fixed rates through senior secured debt, and invest or lend the pooled capital to SMEs. While SMEs benefit from the funding provided by BDCs, they also gain from the non-financial support from BDCs in the form of strategic support, management guidance, business development with industry networks, etc., which is critical to scale up the operations of the SMEs, which have an average life span of seven years. Several SMEs fail without the customized support to channelize its business in the right direction, making the role of BDCs even more important. Also, Saudi Arabia is expected to witness an increasing number of start-ups and SMEs, with a variety of sectors offering promising growth prospects such as healthcare and retail, and several government initiatives in place to provide support to them, such as the Kafalah scheme, the Saudi Industrial Development Fund, Saudi Credit and Savings Bank, Taqeem, incubator programs, etc. This further translates into higher funding and business support requirements for the SMEs, which are fulfilled by BDCs.

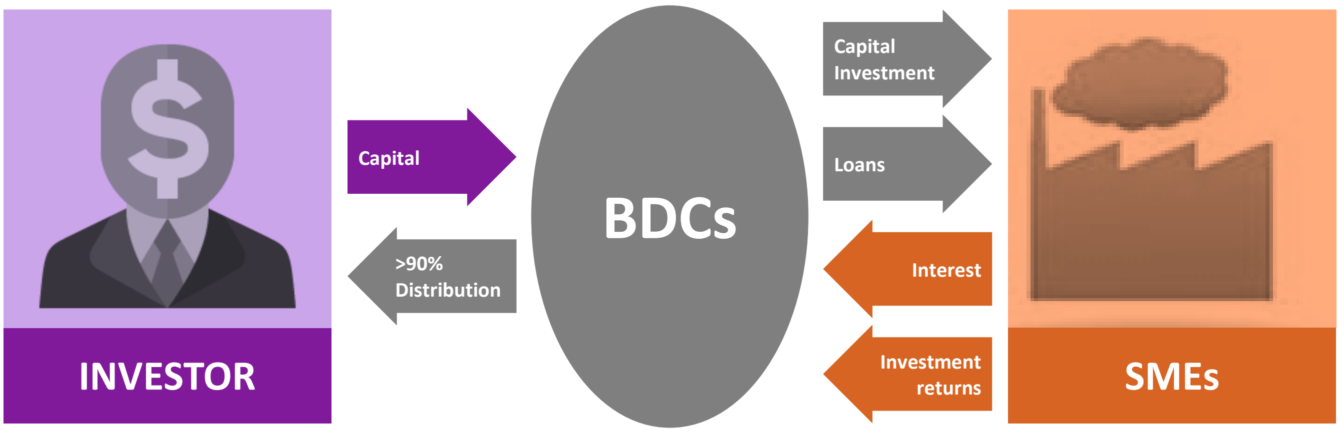
BDCs have been successful in the US with a fair degree of positive correlation between the number of SMEs and both, the number of BDCs and the performance of BDCs (revenue and total asset growth of BDCs). After the 2008 financial crisis in the US, when loans to SMEs steadily declined over the years, BDC loans addressed some of this funding shortfall, with growth in the number of BDCs. BDCs are categorized as regulated investment companies and benefit from virtually no corporate taxes due to a pass-through structure, with dividend distributions of at least 90%, resulting in higher yields relative to other asset classes such as bonds, REITs, S&P 500 and other dividend-yielding sectoral equity indices. They need to adhere to certain regulations in terms of portfolio composition and asset coverage ratios. While BDCs are subject to risks related to interest rates, liquidity and risky SME assets, the taxation and higher-yield benefits to investors along with access to potentially illiquid, high growth private companies through a liquid route (publicly listed BDCs), bode well for investors in BDCs.

Given the dominance of SMEs (in numbers) in Saudi Arabia, their financial health and growth is critical from an economic growth perspective, in line with achieving economic diversification as per the NTP 2020. This coupled with the success of the BDC model in the US, creates a strong case for BDCs to come up in Saudi Arabia for providing the much needed financial and non-financial support to SMEs, which is lacking in the country.

2. BDCs Overview

Concept of BDCs

Business Development Companies (BDCs) are organizations that invest in small and medium enterprises (SMEs[1]) with the goal of supporting growth of these companies in their initial phase of development. BDCs provide financing to organizations that may find it difficult to get bank loans or private equity financing. BDCs typically invest in SMEs, either through equity or debt (lends to SMEs) with the goal of generating income, growing capital or both. BDCs are in a way comparable to REITs (Real Estate Investment Trust) in the sense that they distribute at least 90% of its profits as dividends to investors, which leads to taxation benefits with little or no corporate taxes paid out. BDCs on average, distribute 98% of their taxable income to avoid corporate taxation.



BDCs are managed by professionals, with about 75% managed externally by an external investment adviser in the US. Over 80% of BDCs in the US are debt-focused, while the remaining are focused on equity. In the developed nations BDCs are largely listed on a stock exchange, while few private BDCs also exist. BDCs offer individual investors not only access to private equity as well as private debt, an asset class that typically has been available to only high net-worth and institutional investors, but also offer risk diversification and liquidity through investments in a basket of BDCs. A BDC (in the US) is technically a Regulated Investment Company (RIC), similar to a closed end investment fund (investors can not withdraw money from the fund during the tenure of the fund).

History of BDCs

BDCs were created by the US Congress to stimulate investments in privately owned middle-market American companies in 1970. BDCs are registered with the US Securities and Exchange Commission (SEC) and regulated under the Investment Company Act of 1940. In 1980, amendments was made to the act of 1940 to incentivize the creation and management of publicly offered and traded investment vehicles, to drive the flow of capital to small growing businesses, while also providing new investment opportunities to the public. A category of closed-end investment funds was created that would solely finance and invest in private companies, either through a debt, hybrid or equity structure. With the loosening of restrictions with respect to the manager's compensation and the use of borrowing facilities for private equity funds, BDCs came into existence. There were only 3 BDCs that were publicly listed in 1999. However, since 2000 till date, the number of listed BDCs have grown to over 12x, with total market capitalization having more than doubled.

[1] SMEs are firms employing up to a certain number of employees (between 200-300, depending on the country) and having revenues up to a certain threshold

BDCs - Post financial crisis

Large banks are less likely to lend to SMEs compared to larger established firms, which are relatively more stable with better ‘investment-grade’ ratings. Post the financial crisis of 2008, stricter banking regulations such as Dodd-Frank and Basel III came into effect, requiring banks to hold an increasing proportion of high quality assets on their books. This has given an impetus to BDCs, which do not face such tight regulations, to lend to SMEs.

While similarity exists between BDCs and Private Equity (PE) Funds, with both investing in private businesses across industry sectors, a handful of differences exist:

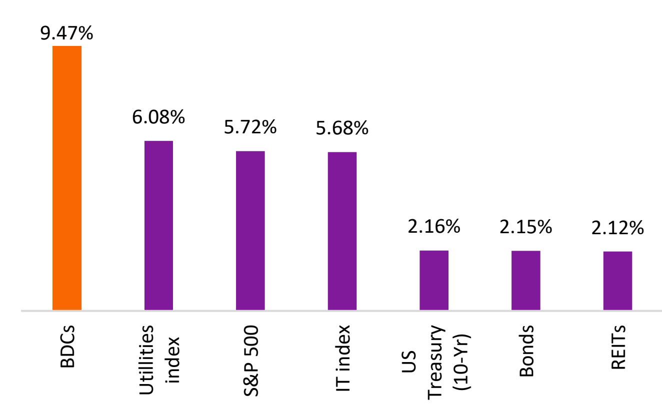
i. BDCs (majority) are publicly listed on exchanges offering liquidity to investors, unlike PE funds which do not offer that kind of liquidity
ii. BDCs raise capital from a wide range of sources, such as long-term debt, convertible debt and equity, while PE funds raise capital from private, institutional investors
iii. BDCs are high-yield investments, with majority cash flows distributed to investors.

Key Benefits and limitations of BDCs for Investors

No.	Benefits to Investors	Limitations/Considerations
1	Liquidity - Provide access to illiquid investments through a liquid structure (listed BDCs) through a larger investor pool - retail and institutional investors	BDCs need to hold at least 70% of its portfolio in qualifying assets (eligible portfolio companies, US government securities, bonds)
2	Access to potentially higher return private equity investments	BDCs not permitted to do transactions with affiliates or advisors
3	Tax benefit – No corporate taxes on BDCs	BDCs are required to maintain a minimum 200% asset coverage for debt securities, bank borrowings, and preferred stock, as per the ’40-Act
4	High yielding assets, given that bulk (over 90%) of BDC profits are distributed as dividends	Meeting the asset diversification and qualifying income tests that are applicable to RICs

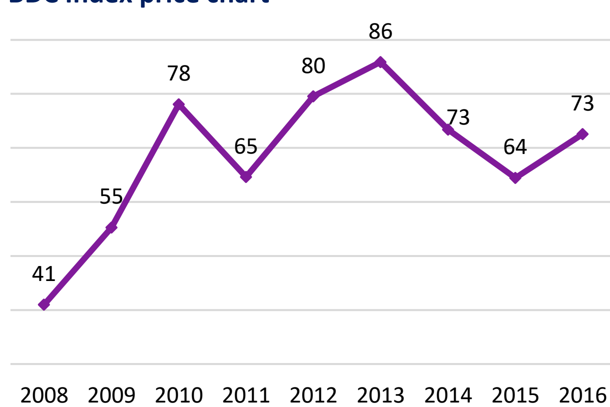
Returns comparison – BDCs vs. Other asset classes

Average 5-Yr Yield (Apr-2012 to Apr-2017)



Source: Bloomberg

BDC Index price chart



BDCs have typically yielded higher returns than other asset classes such as REITs, bonds, stock market indices. Not just the currently yields, but also the historical average yield of BDCs over the past five years has been about 9.5%, significantly higher than the yields of other classes of publicly traded investments, such as bonds, US 10-year treasury, and REITs (2-3%), and the 5-6% yields provided by the S&P 500 index and the Utilities & Technology indices on the S&P 500.

BDC Business Model

BDCs operate a business model very similar to the merchant banks. BDCs raise capital and then lend or invest this capital in private business which is a SME. Their capital comes largely from 3 main sources.

i. Senior secured debt (corporate bonds) - BDCs borrow long term at low fixed rates (200-400 bps above treasuries)
ii. Convertible bonds and other hybrid securities
iii. Equity offerings, typically through an Initial Public Offering (IPO)

They invest in businesses in a variety of structures, most commonly, through convertible bonds. These convertible bonds pay a coupon (fixed or variable), with an option to convert the bond to equity as the company grows.

The coupon payments provide income for the BDC to service its periodic debt (borrowed) obligations and pay investors the distributions required to maintain their 'pass through' taxation structure. As the companies (financed by BDCs) grow and attain a targeted size, BDCs converts the bonds to equity and could exit the company through management buyouts, strategic sales, and IPOs. These exits could be significant, providing cash to BDCs to pay down debt, distributions to investors, or act as collateral to borrow additional investment capital, which in turn allows BDCs to finance more private companies, or increase financing to existing companies in the portfolio.

Types of BDCs

BDCs can be classified based on the industries they invest in, as well as what types of loans they make. For example, Hercules Technology Growth Capital (HTGC) specializes in technology companies, while Pennant Park Floating Rate Capital (PFLT) deals exclusively in floating rate loans, which rise when interest rates do.

BDCs can also be classified as traded or non-traded BDCs. Traded BDCs provide liquidity by virtue of being listed a stock exchange, and are suitable for retail investors. On the other hand, while non-traded BDCs lack the liquidity, they are free from the market vagaries and are suitable for HNIs with a net worth of at least USD 250,000, or a net worth and an annual gross income of at least USD 70,000.

However, BDCs are broadly categorized by the way they are managed.

Externally managed BDCs: They have a higher operating costs as the BDCs are managed by an external financial company (involving performance fees). It also involves risk related to potential conflicts of interest. Typical operating costs of externally managed BDCs are 3-4% of the portfolio assets.

Internally managed BDCs – They have a lower operating cost due to lack of an external manager. Typical operating costs of internally managed BDCs are 1.5-2% of the portfolio assets.

BDCs - Risks/Limitations:

i. **Exposure to risky SME assets** – BDCs (especially, externally managed ones) often lend to distressed companies in search of better yields to cover for their dividend payouts and higher costs, subjecting them to risk of default
ii. **Interest rate risk** – Given that BDCs borrow as well as lend at fixed and/or variable rates, exposes them to interest rate risk. However, as majority of BDCs' borrowing activities are long term (10 years+) at fixed rates, which limits the borrowing risk.
iii. **Liquidity risk** (Equity-focused BDCs) – BDCs investing in equity of privately held SMEs that offer no liquidity, rely on exits through sale to strategic buyers, IPOs, etc. for generating sufficient cash flows to meet its recurring distributions and expenses. Liquidating such investments could be difficult at a short notice, without taking significant losses.
iv. BDCs retain very little earnings due to high dividend payouts (exceeding 90%) and therefore require periodic capital raising from debt and equity markets in order to grow.

Performance of listed BDCs

As of April 2017, there were 54 publicly listed BDCs in the US with a total market capitalization (m-cap) of USD 33.9bn and nearly USD 59bn in total assets under management.

List of publicly Traded BDCs in US

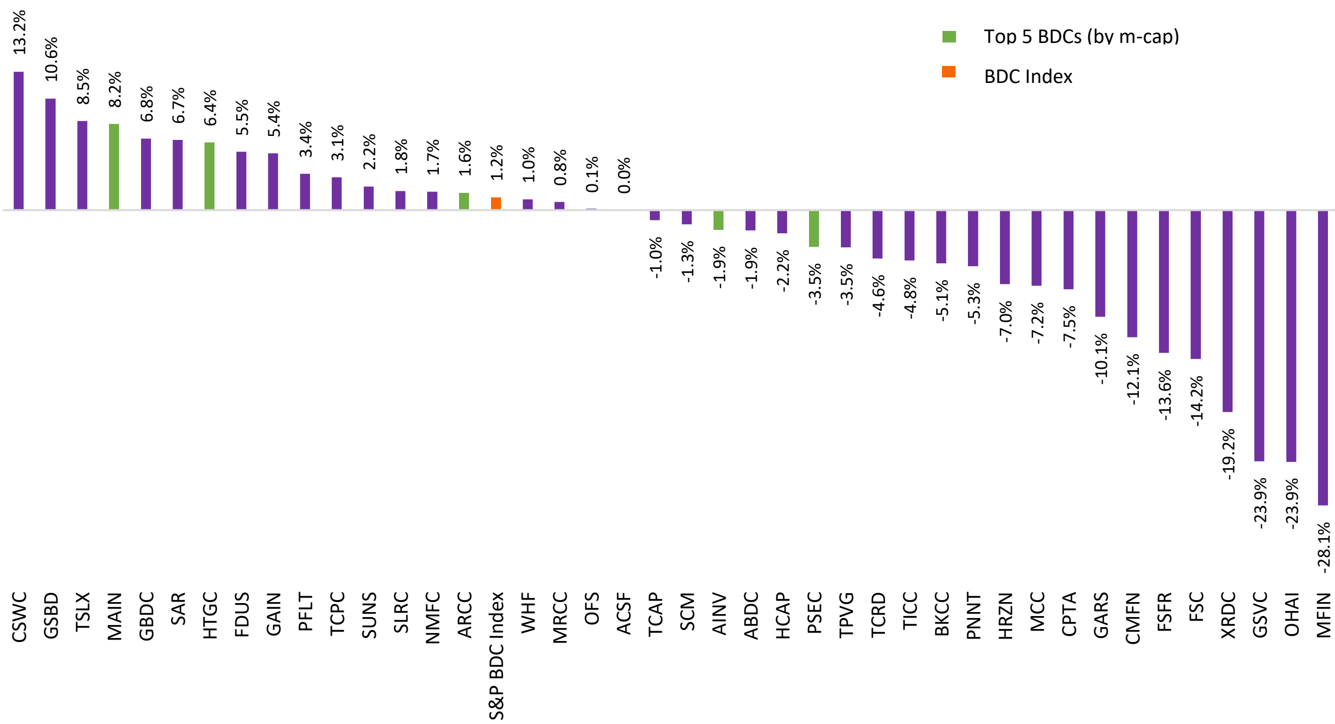
S. No	Ticker	BDC Name	Market cap (USD mn)	IPO Date
1	ARCC	Ares Capital Corp	7,157.6	5-Oct-04
2	PSEC	Prospect Capital Corp	3,305.5	27-Jul-04
3	FSIC	FS Investment Corp	2,378.0	29-Jul-11
4	MAIN	Main Street Capital Corp	2,210.4	4-Oct-07
5	AINV	Apollo Investment Corp	1,452.2	6-Apr-04
6	HTGC	Hercules Capital Inc	1,273.2	9-Jun-05
7	TSLX	TPG Specialty Lending Inc	1,240.9	21-Mar-14
8	GBDC	Golub Capital BDC Inc	1,151.7	15-Apr-10
9	NMFC	New Mountain Finance Corp	1,111.1	20-May-11
10	TCPC	TCP Capital Corp	980.3	4-Apr-12
11	SLRC	Solar Capital Ltd	919.2	9-Feb-10
12	GSBD	Goldman Sachs BDC Inc	908.6	18-Mar-15
13	TCAP	Triangle Capital Corp	885.0	15-Feb-07
14	FSC	Fifth Street Finance Corp	621.6	12-Jun-08
15	PNNT	PennantPark Investment Corp	564.9	19-Apr-07
16	BKCC	BlackRock Capital Investment C	538.2	27-Jun-07
17	PFLT	PennantPark Floating Rate Capi	446.6	8-Apr-11
18	MCC	Medley Capital Corp	417.3	20-Jan-11
19	FDUS	Fidus Investment Corp	400.9	21-Jun-11
20	TICC	TICC Capital Corp	379.9	21-Nov-03
21	TCRD	THL Credit Inc	322.7	22-Apr-10
22	GAIN	Gladstone Investment Corp	291.5	23-Jun-05
23	SUNS	Solar Senior Capital Ltd	287.9	25-Feb-11

24	MRCC	Monroe Capital Corp	267.2	25-Oct-12
25	WHF	WhiteHorse Finance Inc	260.8	5-Dec-12
26	CSWC	Capital Southwest Corp	256.6	1-Jul-61
27	GLAD	Gladstone Capital Corp	249.3	28-Sep-04
28	FSFR	Fifth Street Senior Floating R	236.6	12-Jul-13
29	CPTA	Capitala Finance Corp	223.3	25-Sep-13
30	TPVG	TriplePoint Venture Growth BDC	222.6	6-Mar-14
31	MVC	MVC Capital Inc	202.1	9-May-14
32	OFS	OFS Capital Corp	190.3	8-Nov-12
33	ABDC	Alcentra Capital Corp	189.6	9-May-14
34	SCM	Stellus Capital Investment Cor	181.0	8-Nov-12
35	GARS	Garrison Capital Inc	157.9	27-Mar-13
36	GECC	Great Elm Capital Corp	141.9	N/A
37	CMFN	CM Finance Inc	138.3	6-Feb-14
38	ACSF	American Capital Senior Floati	136.0	16-Jan-14
39	KCAP	KCAP Financial Inc	135.8	12-Dec-06
40	HRZN	Horizon Technology Finance Cor	131.4	29-Oct-10
41	BANX	StoneCastle Financial Corp	130.5	7-Nov-13
42	SAR	Saratoga Investment Corp	126.0	23-Mar-07
43	GSVC	GSV Capital Corp	98.5	28-Apr-11
44	HCAP	Harvest Capital Credit Corp	86.9	3-May-13
45	SVVC	Firsthand Technology Value Fun	61.9	19-Apr-12
46	MFIN	Medallion Financial Corp	51.0	22-May-96
47	EQS	Equus Total Return Inc	34.6	N/A
48	PIAC	Princeton Capital Corp	30.1	N/A
49	OHAI	OHA Investment Corp	29.9	10-Nov-04
50	XRDC	Crossroads Capital Inc	21.4	26-May-10
51	RAND	Rand Capital Corp	18.9	N/A
52	MBDE	Morris Business Development Co	1.0	N/A
53	IDEA	INVENT Ventures Inc	0.7	22-Nov-93
54	AMTCQ	Ameritrans Capital Corp	0.02	17-Apr-02

Source: Bloomberg; Note: Data as of 24 April 2017

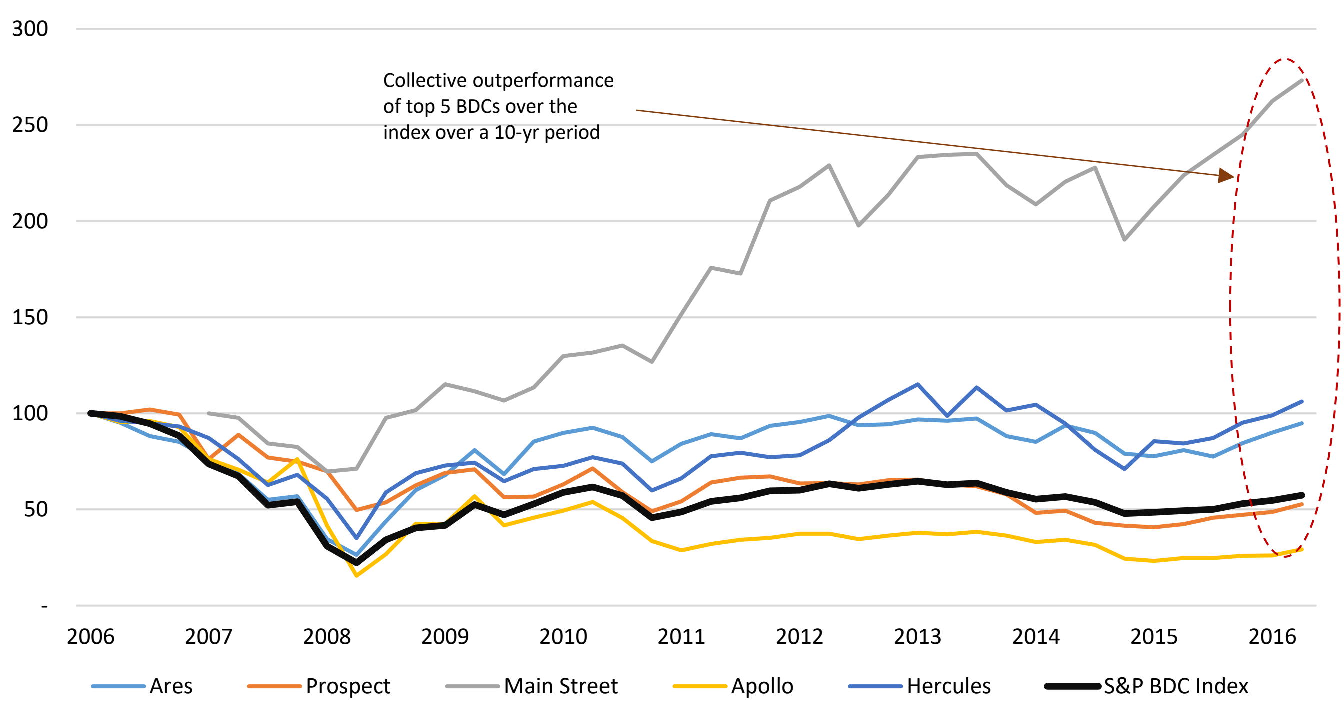
Over the past five years from 2012-16, the top 5 listed BDCs (by m-cap) in the US have collectively outperformed the BDC index, with the overall BDC index delivering a positive CAGR during this period.

Compounded annual returns of all US BDCs over 5 years (Apr-2012 to Apr-2017) - Relative comparison



Source: Bloomberg

Performance of the 5 largest US BDCs (by m-cap) against the BDC Index



Source: Bloomberg

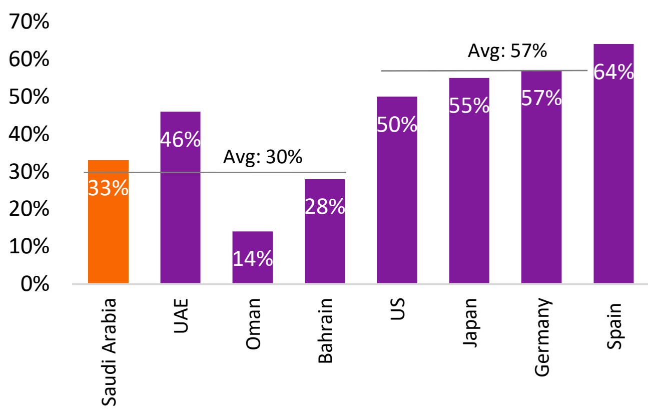
3. Need for BDCs in Saudi Arabia

GCC SME market

As per International Finance Corporation (IFCs) estimates, 675,000 formal SMEs are present in the GCC region, of which about 90% are located in Saudi Arabia (KSA), 5% in the United Arab Emirates (UAE), and the rest in the remaining GCC countries. SMEs comprise the bulk of registered companies in the GCC, constituting about 90% of all companies in most of the member nations. Contribution of SMEs to GDP in the GCC currently is around 30%, which lags the developed economies, where it is well over 50%. There are an average 16 SMEs per 1,000 people in the GCC, which is well below the global average of 30. SMEs in the GCC are dominant in the trading and construction sectors, while the manufacturing sector accounts for 5-15% of total SMEs in the UAE, Saudi Arabia and Bahrain.

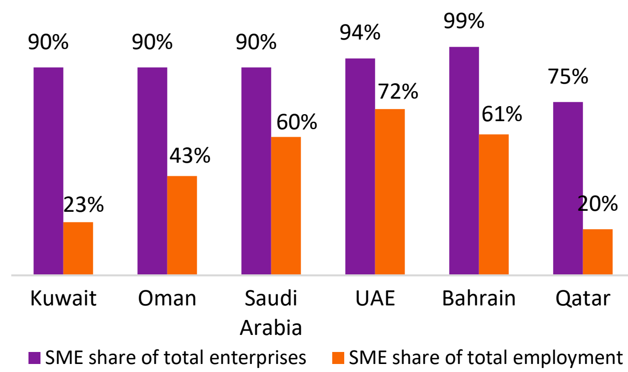
GCC SME trends

Contribution to GDP (2015)



Source: Jeddah Chamber of Commerce & Industry

Share of total enterprises and employment (2015)



Source: Jeddah Chamber of Commerce, bloovo.com, Bahrain LMRA

Limited access to finance is a key obstacle to the growth of SMEs in the GCC economies. In Saudi Arabia nearly 92% of SMEs find it difficult to secure funding for their ventures, compared to 49% in the UAE. The proportion of GCC SMEs having access to credit is an estimated 11%[2], with lack of financial access being reported as a major constraint by about 40% of them.

SME market - Saudi Arabia

SMEs are an integral part of Saudi Arabia's economy, which comprise 90% of all enterprises in the country. SMEs are grouped into the following three buckets:

SME Category	No. of Employees	Annual Revenue
Micro enterprises	1-2	< USD 27,000
Small enterprises	3-49	USD 27,000 - 1.3mn
Medium enterprises	50-200	USD 1.3mn - 13.3mn

Source: SIDF

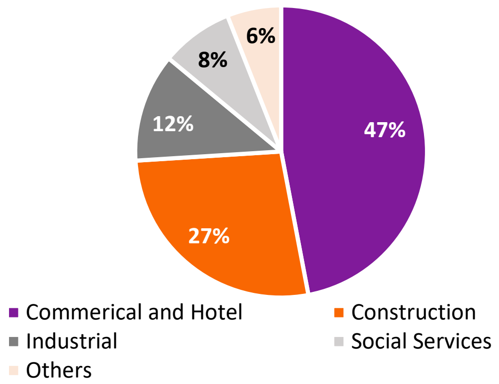
Currently, there are over 1.97mn SMEs operating in Saudi Arabia, employing 4.5mn employees, which constitute 25% of the total labor force. With the commercial (including hotels) and construction sectors accounting for 74% of all SMEs in Saudi Arabia, a large part of the SME workforce is migrant labor, with Saudi nationals constituting not more than 10% of the total workforce employed by SMEs. Hotels and construction sectors remain vital from

[2] World Bank

an economic perspective in Saudi Arabia, on account of religious tourism and a strong pipeline of infrastructure projects going forward.

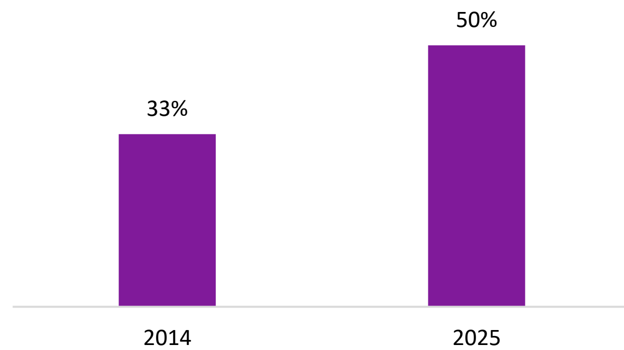
Saudi Arabia SME statistics

SME Distribution by Sector (2015)



Source: Jeddah Chamber of Commerce & Industry – 2016

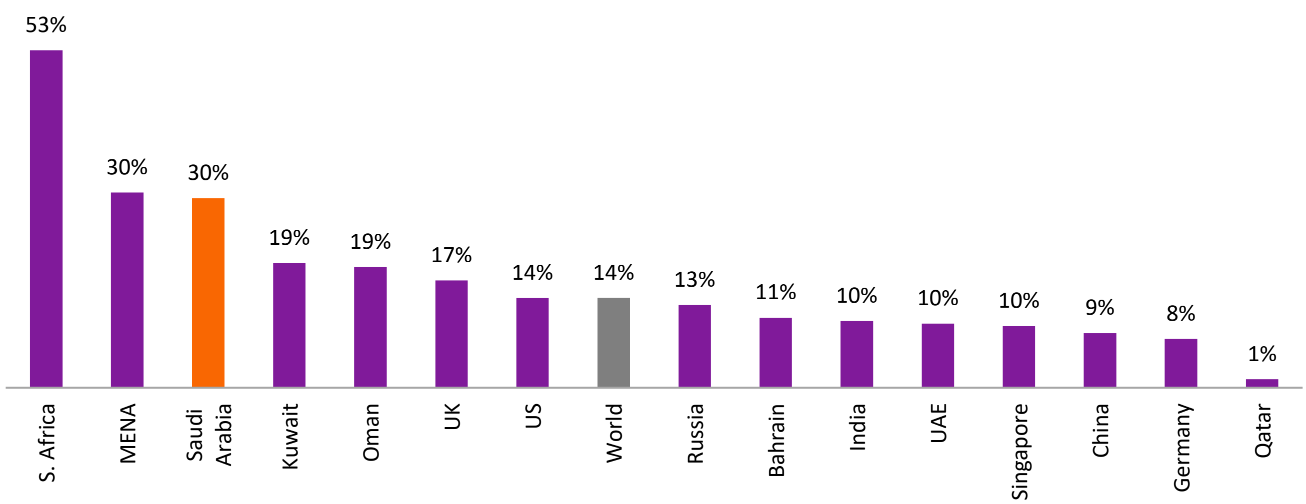
SME Share of GDP



Source: SIDF

The contribution of SMEs to Saudi Arabia's GDP is about 33%, which is well below that of other developed and emerging economies at an average of 47%. The Saudi government is committed to reduce the economy's dependence on oil, a key objective of the NTP (National Transformation Plan) 2020 by boosting the non-oil sector. Among the various initiatives being undertaken, providing a business-friendly environment to encourage entrepreneurship among the individuals and increasing the overall contribution of SMEs to 50% of GDP by 2025. Youth unemployment is the highest in Saudi Arabia among all GCC nations, and is also significantly high compared to the world average. With SMEs comprising the bulk of the companies in Saudi Arabia, prosperity and growth of SMEs is critical for creation of new jobs, and thereby reduce the high level of youth unemployment. BDCs therefore play a key role in supporting the SMEs so that they can flourish and contribute to the society, as well.

Youth Unemployment (% of total labor force between ages 15-24)



Source: World Bank

Current Scenario favourable to BDCs

Majority SMEs in Saudi Arabia (and also in the GCC) continue to face growth challenges, largely due to difficulty in accessing financial resources. The average share of SME lending of total loans is a mere 3% in Saudi Arabia, compared to an average 20% for emerging countries and 25% for developed countries, although it is a tad better than 2% for GCC. While the low share of SME lending reflects the structure of oil-oriented economies such as Saudi Arabia, which are dominated by large enterprises, it creates a potent case for institutions such as BDCs to provide the much needed funding to SMEs. The need for BDCs is further strengthened by the following factors that limit the financial resources available to SMEs:

Reluctance of banks towards funding SMEs

While bank funding is easily available to large businesses, commercial banks are circumspect regarding lending to the SMEs in Saudi Arabia and GCC as a whole, due to the following:

i. Lack of access to reliable information about the SMEs, which prevents regulatory bodies or credit agencies to provide credit ratings or scores to the SMEs.

ii. Lack of relevant business management skills and marketing networks for growing the business

iii. Lack of an enforceable legal environment which would register collaterals and order legal action in case of default.

iv. With over 85% of SMEs in Saudi Arabia being sole proprietorships, transparency issues crop up, blurring the distinction between company and personal assets.

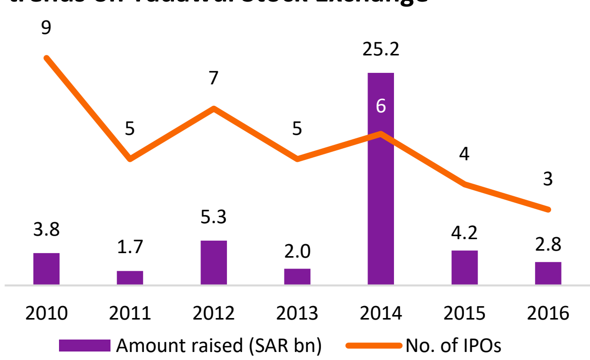
v. With audited financials available for very few SMEs, financial institutions or banks need to spend more resources and time for satisfactory due-diligence, increasing its costs.

vi. Banks require specialized skills to cater to the SME segment, where a critical evaluation of the target companies is required. A decline in availability of such skilled professionals, is leading to further reluctance of banks towards lending to SMEs.

Fewer equity issuances/IPOs on stock market

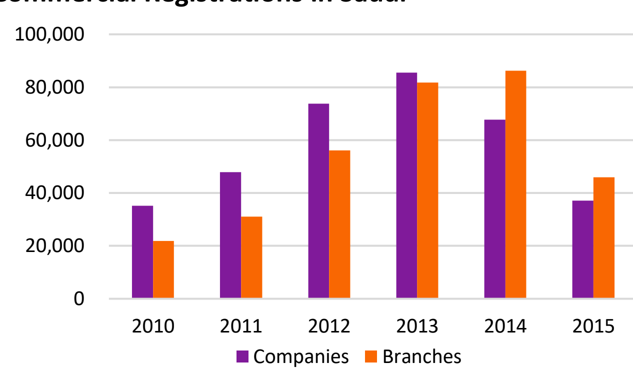
The IPO market in Saudi Arabia has been weak over the past two years with three and five IPOs in 2016 and 2015 respectively, after a strong 2014 which had 14 IPOs worth USD 9.7bn, including the mega listing of NCB. In the current environment of lower oil prices and an uncertain global macro, most companies have been staying away from raising capital on the GCC bourses. Equity funding has been difficult to secure for companies, especially for SMEs, in an environment when government spending has been impacted austerity measures.

IPO trends on Tadawul Stock Exchange



Source: Tadawul statistical reports

Commercial Registrations in Saudi



Source: Ministry of Commerce and Investment

Accelerating growth of start-ups

Angel and seed investing is still in its nascent stage in the GCC, with angel investors apprehensive about investing in early stage ventures. This leads to lot of bandwidth and time consumed, to secure any funding for SMEs. While the number of commercial registrations in Saudi have dipped over the past two years, the number of new businesses or start-ups have been rising in recent times, with a 35% growth in the number of new businesses to 204,000 in 2015. Incubator programs initiated by the government such as BADIR and WITC, promote the setup and growth of new ventures. These new ventures not only require funds to expand during the early stages, but also require strategic guidance. BDCs are an apt solution addressing both these issues, by providing the desired capital and strategic support for running the businesses.

On another note, several business sectors in Saudi Arabia are set to grow, such as healthcare and retail businesses, including beauty and cosmetics, jewellery, apparel, supermarkets, restaurants, etc., while online shopping space is picking up steam with increasing penetration of mobile phones. This growth is expected to increase demand for funding these businesses, offering ample opportunity for BDCs to support their growth.

Government Initiatives for SME growth

The Saudi government has taken several initiatives in the recent past to create a favourable environment for SMEs to establish themselves and support their growth, which augur well for BDCs. The key initiatives include the following:

i. Tenth Development Plan (2015-19)

The SME sector progressed, both in terms of the number of new SMEs and its contribution to the GDP during the Ninth Development Plan. The government has continued its agenda of strengthening the SME sector to diversify the economy in the Tenth Development Plan, which has the following objectives with respect to SMEs:

- Speed up the process of setting up a specialized regulatory body or institutional entity for the SME sector, to promote growth of SMEs, and involved in overseeing their activities and monitoring their performance
- Ensure their reliance on national labor, thus contributing to the Saudization
- Encourage investment banks and local lenders to increase financing opportunities for the SMEs and enhance the level of co-ordination between specialized credit funds and SMEs
- Encourage the SMEs to pursue M&A opportunities in order to increase their efficiency and competitiveness at both the internal and external levels
- Facilitate the education and training needs of the SMEs

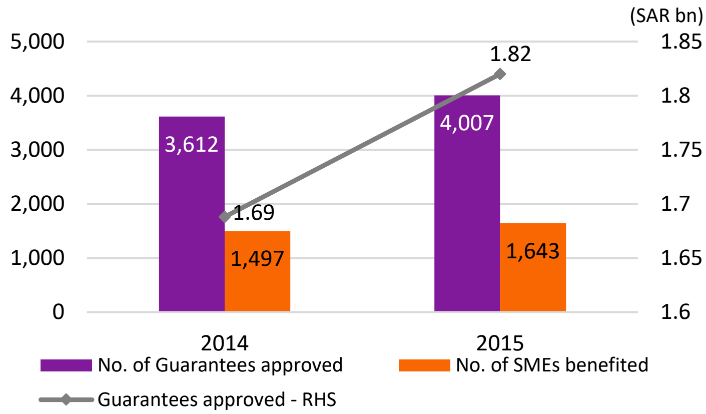
ii. Saudi Industrial Development Fund (SIDF)

The Saudi Industrial Development Fund, launched in 1974, is geared towards promotion of industrial activities in Saudi Arabia, with an aim of becoming one of the best performing industrial countries by 2020. The prime objective of SIDF is the development of SMEs. SIDF works in partnership with a coherent group of industry linked government agencies directly. It provides financial support, in the form of medium and long-term soft loans. National Industrial Strategy (NIS) adopted by the Saudi Council of Ministers has outlined a number of key objectives, one of which is the growth of SMEs. The plan chalked out to achieve this includes setting up a business resource center, a competitiveness development and industrial modernization center, and an industrial financing mechanism program.

iii. Kafalah (The Loan Guarantee program)

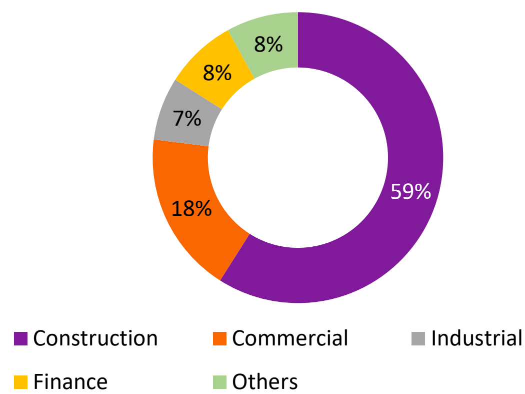
'Kafalah' is a financing guarantee program for SMEs, jointly initiated by the Ministry of Finance and Saudi banks, to ensure a smooth flow of funds to the SMEs. Since its inception in 2006 till the end of 2015, a total of 14,899 guarantees amounting to SAR 7.1bn were approved by the program to 7,222 SMEs. The program continued to witness growth in 2015, reporting an 11% growth in the number of guarantees approved to over 4,000, with an 8% growth in the amount of guarantees to SAR 1.82bn, thus guaranteeing bank finance to 1,643 SMEs. Apart from issuing guarantees to SMEs, the program is also involved in training, education, development of SME owners and related parties in collaboration with the International Finance Corporation (IFC) (a member of the World Bank Group), the Institute of Banking setup by SAMA, Saudi banks and the Chambers of Commerce and Industry. The construction sector accounted for the most Kafalah guarantees that were approved (59%) in 2015, followed by the commercial (18%) and finance (8%) sectors.

Kafalah Scheme Performance



Source: SIDF

No. of Kafalah Guarantees by Sector (2015)



iv. Saudi Credit and Savings Bank

The Saudi Credit and Savings Bank was established by the government to provide interest-free loans to Saudi nationals and financing SMEs. A new lending program for SMEs was initiated in 2012, which offered bank loans to SMEs, ranging from USD 80,000 to USD 2mn, financing between 50-100% of the project cost based on the size of the project. The program gives preference to projects in remote & underdeveloped areas, creative and non-traditional projects, and projects driving increasing rates of Saudization. The loan applicants need to be Saudi nationals with adequate experience to prove their credibility at managing the venture. Nearly, 415 Saudi SMEs benefited from the Saudi Credit and Saving Bank which funded loans worth USD 23mn in 2013.

v. Centennial Fund

The Centennial Fund, a Saudi Arabian charity setup in July 2004, is oriented towards youth employment by enabling young Saudi men and women achieve financial independence through support for setting up their own commercial ventures. It serves as a professional economic tool for the Saudi youth, while also helping the Saudi Arabian economy to diversify into small businesses. In 2014, the Centennial Fund and Microsoft signed a MoU to help SMEs not only adopt technology through Microsoft's latest software and programs, but also equip them to use software to enhance their business through website development and collaboration activities. The Centennial Fund is committed to promoting IT enablement within start-ups to expedite their go-to-market capability, as well as promote IT entrepreneurship.

vi. Saudi Hollandi Bank

Saudi Hollandi Bank is specialist bank catering to SMEs, setup by a government initiative, and also has a strong presence in the retail sector. The bank possess the necessary skill sets to cater to SME loans and its offerings are tailored to the specific requirements of SMEs, which is quite different from those of larger corporates and retail customers. It also has a dedicated website for SMEs called The Business Owner Toolkit. The bank has setup SME business centers located right in the midst of SMEs, and it promotes face-to-face meetings with SME customers. It has developed a specialized risk acceptance framework for assessing SME credit, which enables it to serve SMEs in a more prudent manner (but also progressive). Saudi Hollandi Bank is well recognized and has been awarded the Best SME Bank Award in 2014 in the MENA region, after receiving the Best SME Account and the Best SME Banking Customer Service award from The Banker Middle East in 2012.

vii. SAGIA

SAGIA (Saudi Arabian Investment Authority), established in 2000, is a government body to oversee all investment related matters. SAGIA's business centers provide effective resources to help in setting up companies and run them efficiently. Its support services ranging from advice, license requirements, and after license services by providing representatives from all the related government departments (Ministry of Labor, General directorate of Passports, Ministry of Commerce and Industry, Zakat and income taxation department and notary). SAGIA plans to replicate Japan's successful SME model in Saudi Arabia, with increase in trade between the two countries.

ix. Incubator programs

- Saudi Business Incubator Network

Government institutions in Saudi Arabia launched incubation programs for setting up and supporting new businesses to stimulate the economy, and contribute to economic diversification. BADIR, A technology incubator program, BADIR, launched by KACST in 2007, aims at accelerating the growth of emerging technology-based businesses in Saudi Arabia. In 2009, BADIR established a national network, 'SBIN', to support growth of technology incubators and facilitate the setting up of an incubator industry in the country, which follows global best practices.

- WITC

WITC is a business incubator supporting women's entrepreneurship in Saudi Arabia, and was setup by IKED in partnership with the Institute of International Education Consortium. It focuses on developing innovation, cultivating entrepreneurial strategies and provide services to support the development of Saudi Arabian women.

x. Dedicated stock exchange for SMEs

Saudi Arabia is in the process of launching a new stock exchange dedicated to small and medium-sized businesses which is expected to be launched in early 2017. The move aims to increase access to capital to SMEs and encourage better corporate governance among them.

4. Studies pertaining to BDCs and SMEs

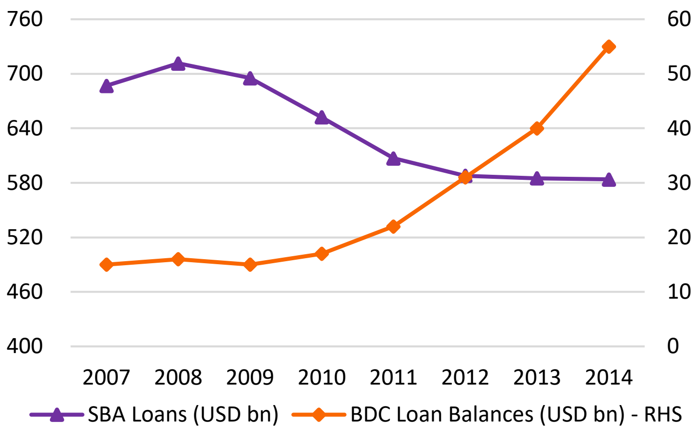
Non-statistical Studies

Rise in credit to SMEs with rise of BDCs

Business loans in the US up to USD 1mn, categorized as Small Business Association (SBA) loans, have been decreasing since the financial crisis of 2008, declining at a CAGR of 3.2% from USD 712bn in 2008 to USD 584bn in 2014, with stricter regulations curbing banks from lending to SMEs. However, loans disbursed by BDCs witnessed a completely opposite trend (correlation coefficient of -0.81 between SBA loans and BDC loans), growing at a CAGR of 22.8% during this period to USD 55bn in 2014, resulting in its share of total SBA loans rising significantly from 2% in 2007 to 9.4% in 2014. The rise in total number of BDCs from 25 in 2007 to 55 in 2014 contributed to the rising share of BDC loans in total SME loans, which are highly correlated with a positive correlation coefficient of 0.97.

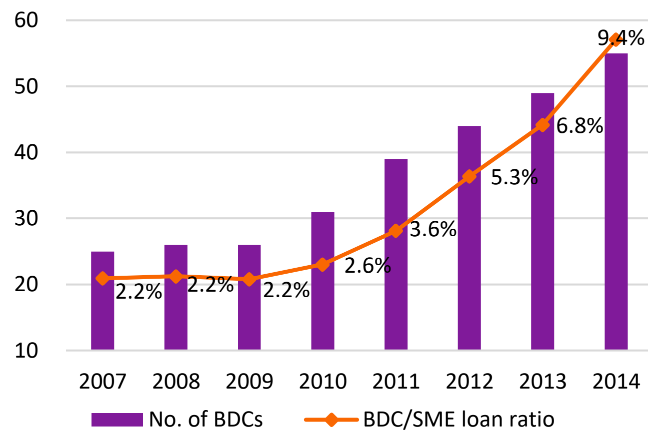
SME and BDC lending in the US

SME vs BDC loans



Source: SBA, OECD, Deloitte

Rising share of BDC loans with increase in BDCs



Source: Bloomberg, SBA, OECD, Deloitte

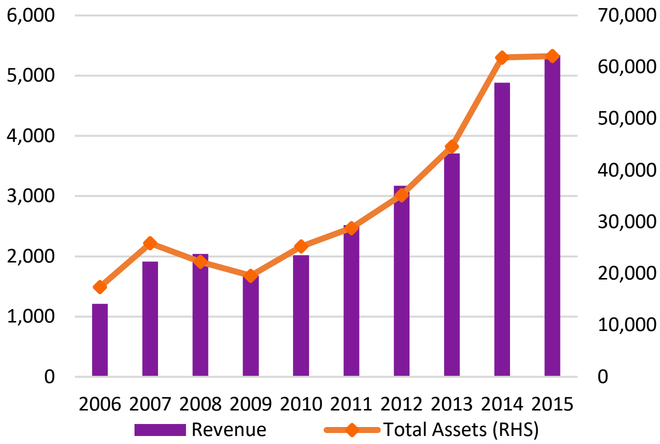
Financial performance of BDCs

With an increase in the total number of BDCs over the past decade during 2006-15 from 20 to 55, total revenues grew over 5x to USD 5.3bn in 2015, while total assets grew 3.5x during this period. More importantly, for a like-on-like comparison, the 20 BDCs that were listed during 2006, delivered a revenue CAGR of 10% during 2006-15 to USD 2.75bn in 2015, while their total assets grew at a CAGR of 7% during 2006-15 to USD 31.7bn in 2015. Although the net profit performance of BDCs have been lacklustre during this period, the consistent growth in the asset base of BDCs depict the expansion in funding to the SMEs, and the healthy revenue growth of BDCs indicate the debt-service capability of the SMEs being funded, given that majority BDCs in US are debt-focused.

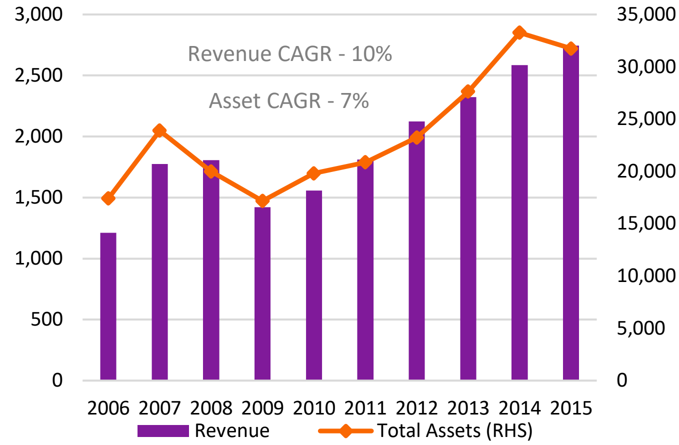
Business Development Companies

BDC financial performance (listed firms)

All BDCs (USD mn)



20 BDCs listed during 2006 (USD mn)



Source: Bloomberg

Statistical Studies

Correlation between the number of BDCs in US and the number of SMEs

In the US, growth of SMEs in the past has driven the growth of BDCs, which predominantly lent to the SMEs. An analysis of SME and BDC data in the US since 1992, resulted in a positive correlation coefficient[3] of 0.55, indicating that the increase in SMEs have led to a reasonable increase BDCs. An economy dominated by SMEs (in terms of number of enterprises) therefore necessitates the setup of entities such as BDCs, which are required not only to fund the SMEs, especially when bank funding to SMEs is difficult to secure, but also provide other non-financial support.

Correlation between number of SMEs and listed BDCs in the US

Year	Number of SMEs	Total BDCs	BDC IPOs	Correlation coefficient (SMEs & BDCs)
1992	5,081,234	5	0	0.55
1993	5,179,013	6	0	
1994	5,261,967	6	0	
1995	5,353,624	5	0	
1996	5,462,431	7	1	
1997	5,525,839	8	1	
1998	5,562,799	8	0	
1999	5,591,003	8	0	
2000	5,635,391	9	1	
2001	5,640,407	11	3	
2002	5,680,914	11	0	
2003	5,750,201	12	1	
2004	5,868,737	17	4	
2005	5,966,069	19	2	

[3] A correlation coefficient of over 0 indicates a positive correlation, with a coefficient of close to 0.5 indicating moderate correlation, and 1 indicating extremely strong correlation

2006	6,004,056	20	1	
2007	6,113,900	25	5	
2008	6,145,500	26	1	
2009	5,749,797	26	1	
2010	5,717,300	31	5	
2011	5,666,753	39	7	
2012	5,761,474	44	5	
2013	5,768,372	49	4	
2014		55	6	

Source: SBA, Bloomberg, Derayah

Correlation between financial performance of BDCs and number of SMEs

While the increase in the number of SMEs have driven the number of BDCs, the performance of BDCs depicts the effect on SMEs. The performance of BDCs (20 BDCs that were listed during 2006) have steadily picked up with growth in SMEs. The correlation between the number of SMEs and revenues of BDCs during 2003-2013, yielded a healthy positive correlation coefficient of 0.72, while the number of SMEs and total assets of BDCs are also well correlated with a coefficient of 0.61. Although it is not significantly high, it is sizeable, indicating the positive impact on BDC performance, which is a rub-off of the positive performance of SMEs.

Correlation between number of SMEs and revenues/total assets of listed BDCs (as of 2006) in the US

Year	Number of SMEs (mn)	Revenue (USD mn)	Correlation coefficient (SMEs & BDC Revenue)	Total Assets (USD mn)	Correlation coefficient (SMEs & BDC Assets)
2003	5.75	303		4,148	
2004	5.87	453		6,326	
2005	5.97	652		8,817	
2006	6.00	895		12,251	
2007	6.11	1,226		16,290	
2008	6.15	1,074	0.72	11,817	0.61
2009	5.75	645		10,053	
2010	5.72	617		9,491	
2011	5.67	695		9,288	
2012	5.76	795		9,730	
2013	5.77	663		9,742	

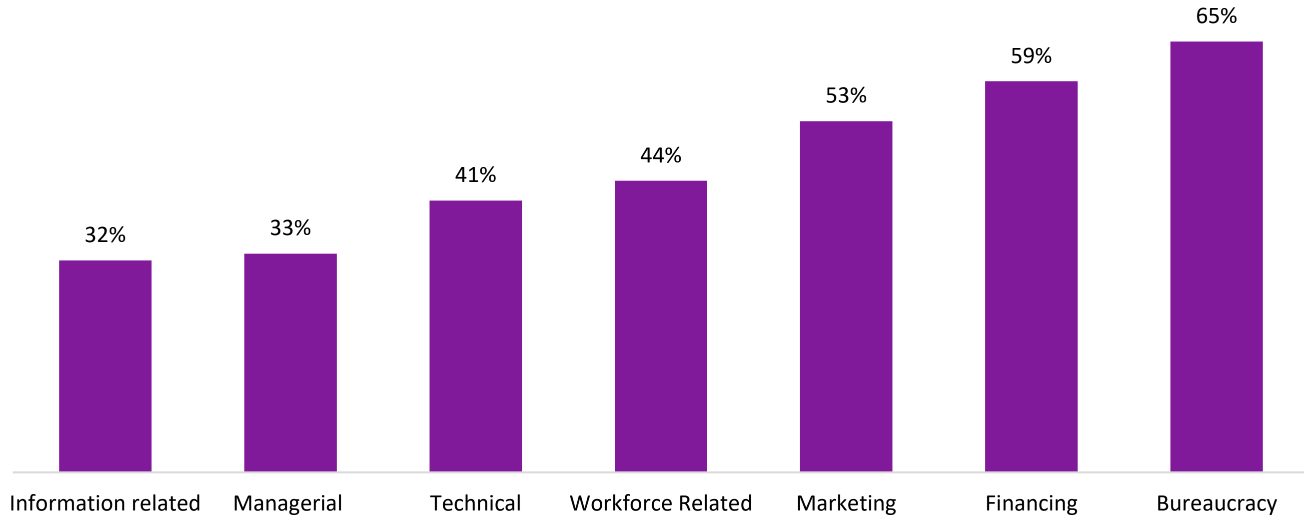
Source: SBA, Bloomberg, Derayah

5. SME Challenges and role of BDCs

Obstacles faced by SMEs towards development

According to a survey by the Riyadh Chamber of Commerce and Industry, bureaucracy remains the single largest obstacle faced by SMEs towards development in Saudi Arabia, despite the government taking steps to simplify the process to set up SMEs, by reducing the number of procedures. Availability of finance is the next largest hurdle, impeding the growth of SMEs, with little financing available from banks. Limited marketing reach, talent acquisition, limited managerial and technical skills, are some of the other key issues constraining the development and growth of SMEs in the country, which in turn have lead commercial banks to be cautious in lending to SMEs.

Most occurring Obstacles to SME Development in Saudi Arabia



Source: Riyadh Chamber of Commerce and Industry

Another key obstacle that SMEs face in Saudi Arabia is the lack of continuous and sustained support, post the initial survival phase of the business. While globally about 70-80% of businesses fail on an average in the first 20 months, the ones which survive this phase have the next set of growth hurdles to tackle. Despite government initiatives for supporting SMEs, unavailability of focused support (from banks or other institutions) customized to the unique needs of individual SMEs, has resulted in a short life span for SMEs, having an average life of 7 years.

BDCs very aptly fill the void, by not only providing financial support to SMEs, but also providing the much needed non-financial support in terms of management guidance/mentoring, business strategy, channelizing business/growth initiatives in the right direction, training, etc., in order to nurture and scale up the business to a sustainable level with stability in operations.

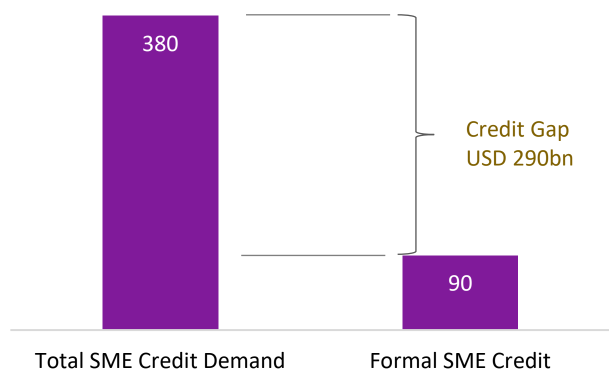
Availability of finance & funding gap in MENA/GCC

Out of nearly 16mn MSMEs (including the formal and informal sectors) in the MENA region, about 44% (or 7mn) are unserved or underserved as of 2011, in terms of availability of finance with respect to having a loan/ overdraft or checking account. Although the data is a bit dated, it provides a fair indicator of the extent of under penetration presently, which has not changed significantly. Over half of the formal sector in MENA (accounting for a mere 12-13% of all the SMEs) is unserved or underserved, which equates to 1mn formal SMEs. The formal SME credit gap in MENA is estimated between USD 260-320bn, which is significantly higher (over 3x) than the current outstanding loans to SMEs in the region, amounting to USD 80-100bn. The magnitude of shortfall in SME funding could have a sizeable impact on the economy if many of the SMEs end up winding up businesses due to dearth of funds. The trend of SMEs being unserved or underserved in the MENA, is typically observed in Saudi Arabia as well, with respect to the number of SMEs as well as their funding requirement.

The wide funding gap that exists with respect to SMEs, necessitates non-banking entities such as BDCs to bridge the gap, and overcome the growth hurdles for SMEs, in order to support economic growth and diversify the economy in lines with Saudi Arabia's NTP 2020, especially in an environment of low oil prices.

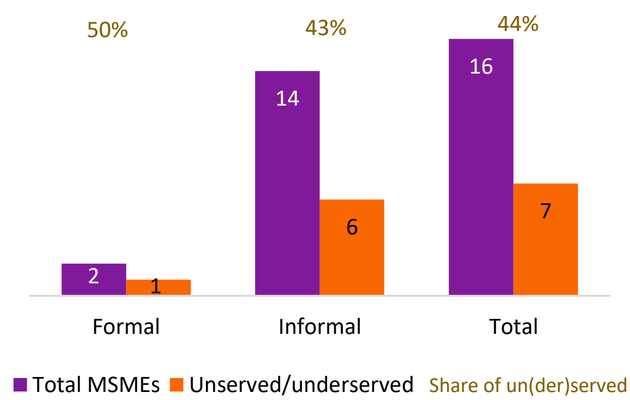
MENA MSMEs credit trend

SME Credit Gap (USD bn)*



*Source: IFC Enterprise Database; * Midpoint of a range*

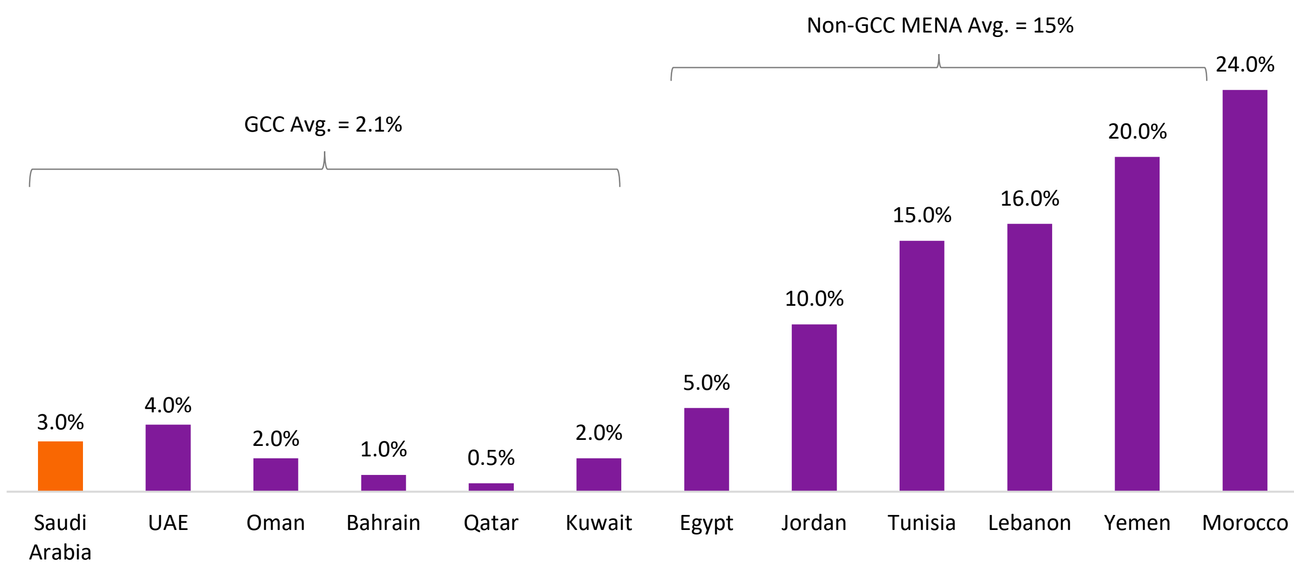
No. of Unserved/Underserved MSMEs



SME financing in MENA and Saudi Arabia

Access to bank financing has traditionally been a challenge for SMEs in the MENA, particularly in the GCC, due to issues such as lack of reliable information/audited financials, transparency issues, etc. as stated in sec.3. The average share of loans to SMEs of the overall loans in the GCC (2%) is therefore significantly below that in non-GCC MENA countries, which stands at 15%, and well below the average of 20% in emerging economies and the average of 25% in advanced countries.

Average Share of SME Lending of Total Loans in MENA (2014)



Source: World Bank

While share of SME lending in Saudi Arabia of 3% is above the GCC average, it significantly lags the average in MENA and other emerging countries. Banks in Saudi Arabia have predominantly focused on infrastructure, construction and manufacturing sectors, dominated by large corporate groups and conglomerates. SMEs have been largely left out in terms of receiving bank funding, which has created a wide shortfall in the credit received by SMEs in Saudi Arabia as compared to their overall credit requirement, which could be filled by non-banking entities such as BDCs.

6. BDC Case Studies

1. Main Street Capital Corp - SambaSafety

Background

SambaSafety, is a provider of advanced workflow management solutions to the insurance and transportation industries, using a SaaS based platform, with a patented technology. It faced business challenges related to talent acquisition and management bandwidth, along with capital availability issues for growth purposes. One of the largest BDCs, Main Street Capital Corp (MSCC) was attracted by SambaSafety's Saas based revenue model and made an initial debt (senior secured debt) and equity investment of US 3.95mn in 2011 in SambaSafety, to support its growth plans. MSCC was actively involved in the management and strategy of SambaSafety over the next five years. In 2016, SambaSafety secured a substantial recapitalization from a private equity organization, and MSCC obtained an exit from its investment, which yielded healthy returns to the BDC.

MSCC's contribution

a. Funding support:
   i. MSCC provides 100% of SambaSafety's debt requirements, and equity investment (partial)
   ii. Post-initial investment, MSCC's total investment as of 2016 was Debt (USD26.4mn), Equity (USD 2.1mn)
b. Strategic support: Developing focused strategies, and active involvement in business development by providing potential customer leads
c. Aligning interests of all stakeholders, including the lead equity sponsor, SambaSafety management and BDC

Benefits to SambaSafety (from MSCC's partnership)

	Before MSCC Involvement	Benefits After MSCC Involvement
1	Limited management depth & bandwidth	MSCC involved in strategic initiatives and business development with introduction to potential customers
2	Capital constraints, limiting growth	Availability of capital and assistance from MSCC in negotiations to close deals
3	Difficulty in acquiring talent - **Employee base: 30**	Key management introduced with system in place to hire talent - **Employee base: 130**
4	Irregular corporate governance	Introduction of internal and external members on the board with active participation

The CEO of SambaSafety, Rich Crawford, completely endorsed MSCC's contribution by saying, "*Main Street has been an invaluable partner. Without their help and support, not only financially but also strategically, we would not be where we are or have the trajectory that we have today*."

Benefit to MSCC

- Realized IRR = 34.7% (2011-16)
- Money multiple = 2.3x

2. GSV Capital - Course Hero

Background

Founded in 2006, California (US) based Course Hero is a 140 employee strong company providing an online peer-to-peer marketplace for educational resources and expert tutors serving high school and college students, to help students and educators succeed. The company has a mobile app to enable learning anywhere, anytime, and has a vast, on-demand knowledge database of course-specific answers and questions, which has been built with the support of students and educators who share their course-specific knowledge and educational resources. In 2014, GSV Capital (GSVC) invested an equity of USD 5mn in Course Hero, which has supported the company's growth since then, along with other equity investments. GSVC remains invested in Course Hero.

GSVC's contribution

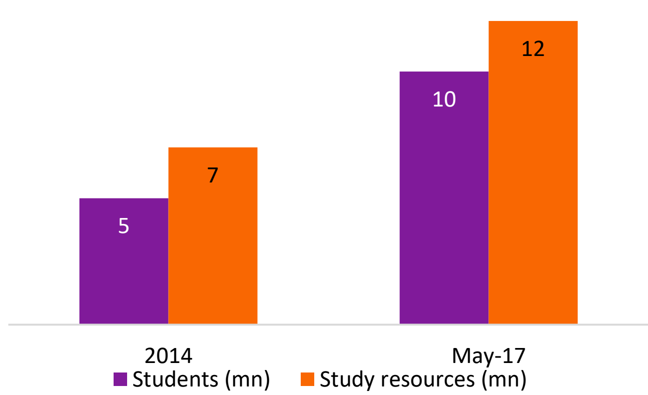
Funding support - GSVC and IDG Capital funded USD 15mn in Series A equity financing to Course Hero in November 2014 (of which GSV invested USD 5mn). Till date Course Hero has received total funding of USD 17.4mn.

Course Hero's growth since investment

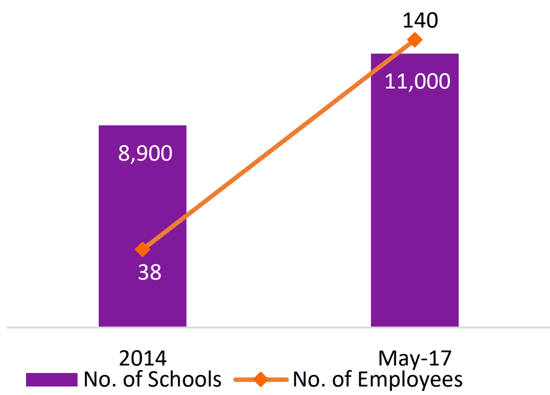
- After receiving funding, Course Hero moved into a larger office at Pacific Shores in Redwood City, California, and launched its marketplace so that students can make money with their existing study materials.
- The company's student community comprising of high school and college students worldwide, grew from over 5mn in 2014 to nearly 10mn.
- Course Hero's study resources have grown from 7mn course-specific notes, study guides, and practice tests in 2014 to over 12mn now.
- Increase in the participation of schools contributing study material from 8,900 schools in 2014 to over 11,000 in 2017.
- In 2016, Course Hero for Educators was launched which helps teachers collaborate with other teachers to share class materials and lesson plans, save time, and discover new ideas
- Course Hero's employee base increased from 38 in 2014 to over 140.

Course Hero trends

Student community size and resources



School participation and employee



Source: Course Hero

Benefit to GSVC

As of Dec 2016, Course Hero accounts for 5.5% of GSVC's portfolio and has a net asset value of USD 10.5mn, which is double of GSVC's investment of USD 5mn in Nov 2014. The resultant annual growth in GSVC's investment is 45% (compounded annually), which is unrealized.

3. Prospect Capital - Harbortouch

Background

Harbortouch Payments LLC, is a US-based provider of integrated payment processing services and point-of-sale (POS) systems to small and medium sized merchant customers. In April 2014, Prospect Capital Corp (PCC) funded Harbortouch with USD 279mn through a first-lien senior secured debt and equity. PCC was also involved in providing strategic support to the business. PCC sold its interests in Harbortouch in Jun-2016 to Searchlight Capital Partners for a consideration of USD 328mn in proceeds and fees.

PCC's contribution

a. Funding support:
   i. Senior secured debt worth USD 279mn (first-lien)
   ii. Equity co-investment with Founder and CEO of Harbortouch
b. Strategic support: Involved in providing strategic inputs to the management, to scale up the business and expand operations

Benefits to Harbortouch

- Harbortouch volume of business expanded from processing a few billion US dollars annually to over USD 12bn p.a.
- Handling over 300,000 merchants compared to about 100,000 few years ago
- Launched the industry's lowest pricing on American Express transactions over Harbortouch POS systems
- Recognized for an innovative and disruptive POS and payment solutions
  i. Harbortouch is a six-time Inc. 500/5000 honoree
  ii. Rated as the 'Best Channel Vendor' by the Business Solutions Magazine

Benefit to PCC

- Realized gross IRR = 14% (2014-16)
- Cash-on-cash return = 1.3x

4. Main Street Capital - Omi Cranes Systems

Background:

OMi Cranes Systems (OMi), founded in 1969, is a Texas based manufacturer of overhead material handling equipment including bridge cranes, runway systems, monorails, jib cranes and hoists, proving maintenance and installation services as well. It is an active member of Crane Manufacturers Association of America. The owners of OMi wanted to monetize part of their investment, given that a major part of the net worth was tied up in the business, while still retaining operational control of the company. In 2008, Main Street Capital Corp (MSCC) made a direct equity investment (providing the partial exit to owners) along with a senior secured term loan, to fund Omi's growth plans. MSCC created a structure, enabling non-owners, who are key business managers, to own a stake in the company. MSCC is involved in business development and strategic decisions. MSCC continues to remain invested in OMi.

MSCC's contribution

a. Funding support**:** MSCC provides 100% of the capital requirements, including:
   i. Senior secured term loan
   ii. Direct equity investment equivalent to 48% ownership in the company
b. Strategic oversight in reviewing expansion and acquisition opportunities, while permitting the management/owners to autonomously run daily operations
c. Promote business development through customer introductions, by leveraging MSCC's strong network of industry contacts
d. MSCC's involvement created a mechanism by which a key manager (non-owner) could own an equity interest

Benefits to OMi

	Before MSCC Involvement	Benefits After MSCC Involvement
1	Owners facing challenges to partially monetize, while retaining operational autonomy	MSCC provided the liquidity to the owners, with owners still retaining control
2	Limited growth prospects due to capital constraints	Availability of capital with growth prospects
3	No possibility for non-owners to own equity in the company	Key managers own an equity stake for the first time
4	No Board of Directors for overseeing operational or strategic matters	A Board is setup, with MSCC involved in strategic decisions and business development
5	Management facing capital constraints amidst tough business environment	Omi is a successful company, overcoming challenging business cycles, and delivering growth

The CEO of OMi, Mike Bunnel, applauded MSCC's contribution by saying, "Main Street's ability to provide 100% of the transaction proceeds and patiently weather some tough business cycles allowed our management team to position the company for the success that it is experiencing today."

Benefit to MSCC

- MSCC enjoys a nearly 50:50 voting interest in the company along with the owners, and participates in the growth of OMi
- Recurring interest income from lending

7. Conclusion and Outlook

While SMEs comprise the bulk of all enterprises in Saudi Arabia with a sizeable contribution to GDP, access to finance remains among the most critical challenges (among others) that they face, with SMEs garnering a mere 3% of total bank lending in the country, which is well below that in other non-GCC MENA countries and emerging economies. With banks being reluctant to lend to SMEs for a variety of factors such as lack of reliable information/audited financials, lack of an enforceable legal environment in case of default, lack of specialized skills for SME credit appraisal, transparency issues, etc. a significant gap exists in terms of SME credit in Saudi Arabia and the MENA region as a whole. The need for non-banking entities such as BDCs is therefore immense to bridge the financing gap witnessed by SMEs, which provide the necessary funding (debt or equity) to SMEs to scale up operations. Apart from addressing the funding requirements of SMEs, BDCs are professionally run, which also provide the critical non-financial support in terms of management guidance and business strategy, that SMEs are generally deprived during their lifecycle to achieve scale in operations.

Currently several promising sectors exist in Saudi Arabia such as healthcare, retail, etc. offering healthy growth prospects, which are expected to drive an increasing number of start-ups and SMEs. Various initiatives by the government are in place to promote the growth of SMEs and incubation of start-ups, such as the Kafalah financing scheme, the SIDF, Saudi Credit and Savings Bank and incubator programs such as BADIR and WITC. This is expected to drive demand for funding these businesses, offering increased opportunities for BDCs. The drying up of the IPO market in Saudi Arabia over the past couple of years, along with surging new businesses in the country, is expected to further augur well for BDCs.

BDCs have proven to be a successful concept in the US, where they have succeeded in not only taking care of the financing needs of SMEs, but also contributing to the company from a strategic perspective resulting in growth of the underlying business. After the financial crisis of 2008, credit to SMEs declined steadily from 2008-14, during which BDC credit to SMEs increased significantly with the rise of BDCs, underscoring the importance of BDCs in providing capital to SMEs starved of bank funding. BDCs benefit not only SMEs, but also investors, in the form of no taxes, higher yield due to significant dividend distributions and access to potentially higher growth and illiquid private companies providing liquidity (through publicly listed BDCs). There exists a fair degree of positive correlation between the number of SMEs and the number of BDCs, while the performance of BDCs in terms of revenue and total asset growth has also benefited with the increase in the number of SMEs in the US, which reflects the performance of the underlying SMEs.

Performance of SMEs is vital for a healthy Saudi Arabian economy and achieving economic diversification, away from its dependence on oil. Given the substantial benefits that accrue to SMEs from BDCs (as observed in the US), there exists a strong case for entities such as BDCs to emerge in Saudi Arabia, where SMEs are abundant and new businesses continue to evolve.

8. Appendix - BDC Financials

Ares Capital Corp

Financials:

(USD 'mn)	2013	2014	2015	2016	2017E*
Revenues	**710.2**	**772.9**	**798.4**	**826.0**	**1,218.0**
Growth		*8.8%*	*3.3%*	*3.5%*	*47.5%*
Operating Profit	**444.5**	**456.1**	**525.5**	**510.0**	**569.0**
OPM (%)	62.6%	59.0%	65.8%	61.7%	46.7%
Net Profit (adj)	**430.4**	**488.3**	**507.8**	**494.0**	**605.1**
NPM (%)	60.6%	63.2%	63.6%	59.8%	49.7%
Equity	**11.0%**	**7.9%**	**7.2%**	**9.2%**	**N/A**
Total Assets	6.7%	4.6%	4.0%	5.1%	N/A
ROE (%)	**4,904.4**	**5,283.7**	**5,173.0**	**5,165.0**	**N/A**
ROA (%)	8,141.5	9,497.8	9,507.0	9,245.0	N/A

Valuation multiples	2015	2016	2017E
P/E (x)	8.8	10.5	10.9
EV/EBITDA (x)	13.3	13.0	N/A

Stock parameters:

As of 12 May 2017	
CMP (USD)	16.4
Bloomberg Ticker	ARCC US
Market Cap (USD mn)	6,987
EV (USD mn) latest	11,325

Ownership structure:

Shareholder	% of total
Thornburg Investment Mgmt Inc.	3.6%
Muzinich & Co Inc.	3.2%
FMR LLC	2.0%
Ameriprise Financial Group	1.6%
Others	89.6%

Main Street Capital Corp

Financials:

(USD 'mn)	2013	2014	2015	2016	2017E*
Revenues	**96.3**	**117.2**	**132.5**	**144.7**	**199.0**
Growth		*21.7%*	*13.1%*	*9.2%*	*37.5%*
Operating Profit	**75.4**	**93.5**	**107.1**	**115.8**	**N/A**
OPM (%)	78.4%	79.8%	80.8%	80.0%	N/A
Net Profit (adj)	**75.5**	**101.7**	**115.8**	**117.0**	**127.6**
NPM (%)	78.4%	86.8%	87.4%	80.9%	64.1%
Equity	**792.5**	**940.0**	**1,070.9**	**1,201.5**	**N/A**
Total Assets	1,360.2	1,693.8	1,878.9	2,080.3	N/A
ROE (%)	**13.5%**	**6.3%**	**10.4%**	**12.2%**	**N/A**
ROA (%)	8.1%	3.6%	5.8%	7.0%	N/A

Valuation multiples	2015	2016	2017E
P/E (x)	12.3	16.3	16.5
EV/EBITDA (x)	17.1	16.2	N/A

* Bloomberg estimates

Stock parameters:

As of 12 May 2017	
CMP (USD)	38.2
Bloomberg Ticker	MAIN US
Market Cap (USD mn)	2,136
EV (USD mn) latest	2,896

Ownership structure:

Shareholder	% of total
Muzinich & Company Inc.	3.9%
Burgundy Asset Mgmt.	3.1%
Foster Vincent D	3.0%
T Rowe Price Group Inc.	1.8%
Others	88.3%

Business Development Companies

Hercules Capital Inc.

Financials:

(USD 'mn)	2013	2014	2015	2016	2017E
Revenues	**109.4**	**115.6**	**126.3**	**143.0**	**200.8**
Growth		*5.7%*	*9.2%*	*13.3%*	*40.4%*
Operating Profit	**73.1**	**73.3**	**73.5**	**92.3**	**N/A**
OPM (%)	66.8%	63.4%	58.2%	64.6%	N/A
Net Profit (adj)	**73.1**	**72.8**	**73.5**	**100.3**	**107.0**
NPM (%)	66.8%	62.9%	58.2%	70.2%	53.3%
Equity	**650.0**	**658.9**	**717.1**	**787.9**	**N/A**
Total Assets	1,221.7	1,299.2	1,324.0	1,464.2	N/A
ROE (%)	**17.1%**	**10.9%**	**6.2%**	**9.1%**	**N/A**
ROA (%)	8.5%	5.6%	3.3%	4.9%	N/A

Valuation multiple	2015	2016	2017E
P/E (x)	11.8	10.5	10.0
EV/EBITDA (x)	18.6	19.0	N/A

Stock parameters:

As of 12 May 2017	
CMP (USD)	12.8
Bloomberg Ticker	HTGC US
Market Cap (USD mn)	1,060
EV (USD mn) latest	1,702

Ownership structure:

Shareholder	% of total
Muzinich & Company Inc.	4.4%
T Rowe Price Group Inc.	3.6%
Henriquez Manuel A	2.8%
UBS	2.2%
Others	87.1%

TPG Specialty Lending Inc.

Financials:

(USD 'mn)	2013	2014	2015	2016	2017E
Revenues	**89.3**	**148.2**	**151.4**	**169.3**	**193.8**
Growth		*66.0%*	*2.1%*	*11.8%*	*14.5%*
Operating Profit	**57.7**	**105.6**	**96.8**	**109.6**	**108.0**
OPM (%)	64.6%	71.2%	63.9%	64.7%	55.7%
Net Profit (adj)	**67.0**	**85.1**	**95.3**	**107.3**	**110.0**
NPM (%)	75.0%	57.4%	62.9%	63.4%	56.7%
Equity	**574.7**	**835.4**	**820.7**	**952.2**	**N/A**
Total Assets	1,039.2	1,303.7	1,506.6	1,675.5	N/A
ROE (%)	**12.7%**	**12.1%**	**7.7%**	**15.5%**	**N/A**
ROA (%)	7.2%	7.3%	4.5%	8.6%	N/A

Valuation multiple	2015	2016	2017E
P/E (x)	9.2	10.2	11.4
EV/EBITDA (x)	16.3	10.9	N/A

Stock parameters:

As of 12 May 2017	
CMP (USD)	20.5
Bloomberg Ticker	TSLX US
Market Cap (USD mn)	1,228
EV (USD mn) latest	1,904

Ownership structure:

Shareholder	% of total
State Of New Jersey	8.3%
STRS Ohio	7.4%
Wells Fargo & Company	6.6%
USS Investment Mgmt. Ltd	5.8%
Others	71.9%

New Mountain Finance Corp

Financials:

(USD 'mn)	2013	2014	2015	2016	2017E
Revenues	**90.9**	**135.6**	**153.9**	**168.1**	**189.8**
Growth		*49.2%*	*13.5%*	*9.2%*	*12.9%*
Operating Profit	**50.5**	**80.1**	**82.7**	**88.3**	**N/A**
OPM (%)	55.6%	59.0%	53.7%	52.5%	N/A
Net Profit (adj)	**50.5**	**79.6**	**81.3**	**88.8**	**98.2**
NPM (%)	55.6%	58.7%	52.8%	52.8%	51.8%
Equity	**650.1**	**802.2**	**836.9**	**938.6**	**N/A**
Total Assets	650.1	1,514.9	1,588.1	1,656.0	N/A
ROE (%)	**12.5%**	**6.3%**	**4.0%**	**12.6%**	**N/A**
ROA (%)	12.4%	4.2%	2.1%	6.9%	N/A

Valuation multiples	2015	2016	2017E
P/E (x)	10.2	11.0	10.7
EV/EBITDA (x)	44.2	14.6	N/A

Stock parameters:

As of 12 May 2017	
CMP (USD)	14.8
Bloomberg Ticker	NMFC US
Market Cap (USD mn)	1,115
EV (USD mn) latest	1,750

Ownership structure:

Shareholder	% of total
Wells Fargo & Company	8.6%
Klinsky Steven Bruce	8.2%
New Mountain Capital LLC	4.5%
Muzinich & Company Inc.	4.2%
Others	74.5%

Solar Capital Ltd

Financials:

(USD 'mn)	2013	2014	2015	2016	2017E
Revenues	**143.5**	**107.5**	**100.0**	**127.3**	**146.3**
Growth		*-25.1%*	*-7.0%*	*27.3%*	*14.9%*
Operating Profit	**87.9**	**66.7**	**64.4**	**71.1**	**N/A**
OPM (%)	61.3%	62.1%	64.4%	55.9%	N/A
Net Profit (adj)	**87.5**	**-66.7**	**64.4**	**71.1**	**71.6**
NPM (%)	61.0%	-62.1%	64.4%	55.9%	48.9%
Equity	**995.6**	**936.6**	**882.7**	**918.5**	**N/A**
Total Assets	1,708.4	1,686.3	1,617.3	1,650.5	N/A
ROE (%)	**8.0%**	**5.0%**	**1.5%**	**11.9%**	**N/A**
ROA (%)	4.8%	2.9%	0.9%	6.5%	N/A

Valuation multiples	2015	2016	2017E
P/E (x)	10.9	12.4	13.0
EV/EBITDA (x)	28.6	7.3	N/A

Stock parameters:

As of 12 May 2017	
CMP (USD)	21.9
Bloomberg Ticker	SLRC US
Market Cap (USD mn)	924
EV (USD mn) latest	1,000

Ownership structure:

Shareholder	% of total
Wellington Mgmt. Group LLP	13.9%
Thornburg Investment Mgmt Inc.	10.9%
Muzinich & Company Inc.	3.7%
Vanguard Group	3.4%
Others	68.1%