

The Washington Post

CAPITAL BUSINESS

RLJ Credit Opportunity Fund gets SBIC designation

By Danielle Douglas, Published: July 15
The Washington Post

Commercial finance firm RLJ Credit Opportunity Fund has been granted a license to operate as a Small Business Investment Company, or SBIC, opening the door for \$225 million in lending to mom-and-pop operations.

Administered by the Small Business Administration, the SBIC program allows investors to leverage their own capital with money from the federal government to make equity and debt investments in small businesses.



(Jeffrey MacMillan/Capital Business) - Trevoir Gregg, managing partner of RLJ Credit Opportunity Fund.

In RLJ Credit's case, the Bethesda-based company is putting down \$75 million of its own capital, while the SBA is ponying up \$150 million. That \$225 million of capital will be doled out to companies involved in manufacturing, business services, consumer goods or distribution.

"Those segments are sufficiently broad enough to capture where we see a predominant share of growth coming from among middle-market companies," said Trevoir Gregg, managing partner of RLJ Credit Opportunity Fund, a division of RLJ Cos. "They are also stable and less susceptible to technology and regulatory risks."

Gregg said RLJ Credit, established in 2011, held off on financing any deals until it received the SBIC license. In the interim, the company raised capital from five equity investors, whose names Gregg was not at liberty to disclose, and reviewed some 40 deals. The firm will provide loans to middle-market companies for acquisitions, recapitalization or growth capital.

"Many banks, over the last several years, have reduced their appetite for lending as they sought to shore up their own capital position," he said. "The banks that have continued to lend have moved up market and are focusing on larger companies that are viewed as more stable and safe" than smaller firms.

Growth capital for small to mid-size firms, which primarily originated from alternative investment vehicles such as hedge funds, has dissipated. That has left the market wide open for firms such as RLJ Credit, Gregg said.

Of the deals the company has reviewed thus far, Gregg said many involve stable businesses that are having a difficult time increasing revenue in a tepid economy.

“These companies have done a good job of managing costs in the face of pressure on sales,” he said. “Business sentiment has moderately improved, but people still question whether there is sustainable consumer demand out there.”

The managing partner has an extensive background in finance, having been a founding member of Carlyle Mezzanine Partners, a \$436 million fund at the D.C. private equity firm targeting middle-market companies. He also served as a principal at Allied Capital, before Robert L. Johnson, chairman of RLJ Cos., scooped him up.

Since 1958, the SBIC program has invested some \$60 billion in more than 109,000 small businesses throughout the country. It recorded the highest single-year growth in funding in fiscal year 2011, with a 63 percent jump to \$2.5 billion in lending to mom-and-pop shops.

At the start of this year, President Obama proposed expanding the program as part of the 2013 budget to make it easier for start-up companies to raise money and grow.