Testimony of John Mickelson

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FINANCING AMERICA'S MANUFACTURING AND INDUSTRIAL BOOM

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Good afternoon distinguished members of the committee, and thank you Chair Ernst for the introduction. My name is John Mickelson, and I am the Co-founder and Managing Partner of Midwest Growth Partners, a private investment partnership located in Des Moines Iowa, with an additional office in Omaha, Nebraska.

Midwest Growth Partners was established in 2013 with a thesis that institutional capital doesn't flow to many markets where it is needed. Notably small businesses and companies that are in small communities, which are often in rural areas, don't have a natural conduit to capital like larger enterprises or businesses in more populated areas. But those overlooked markets have great businesses who employ more than 23 million[1] individuals in the US and who need access to capital in order to grow or to facilitate an orderly succession plan as owners retire. Over 12% of jobs in rural America – 2.6 million – are in manufacturing.[2]

Our investors include community banks, members of the farm credit system, commodity advocacy groups such as the Iowa Corn Growers, rural electric co-ops, and successful families. They want financial returns from their investment, but they also value supporting US-based small businesses.

Since its founding, Midwest Growth Partners has invested in 42 small companies, via two USDA licensed Rural Business Investment Company vehicles (RBIC) and one SBA licensed Small Business Investment Company vehicle (SBIC). Starting with seven employees after our first investment in 2014, today Midwest Growth Partners companies employ more than 3,000. These jobs all provide living wages, benefits, and much-needed off-farm income for families. The average net job growth at each of our portfolio companies is 20.5%.

Both the RBIC and SBIC programs are successful public private partnerships that bring investment capital to areas often overlooked by the nation's financial centers. Traditionally, banks help finance small businesses that have a stable revenue history and assets to borrow against.

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[1] See *Rural America at a Glance 2022 Edition*, USDA, available at Rural America at a Glance: 2022 Edition

[2] Id.

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Unfortunately, smaller businesses, particularly those in low-income or rural areas tend to have more difficulty accessing traditional sources of capital because they don't have the balance sheets of big businesses and are therefore seen as too risky.

This is where RBICs and SBICs fill the gap with the first institutional capital to be deployed into the small business. This capital fortifies the small business's balance sheet enabling them to grow and eventually access conventional bank capital.

Established in 2002, RBICs fill the small business capital gap by allowing funds to provide patient, more flexible investments for small businesses throughout rural America. Today, there are 22 RBICs in operation with over $1.7 billion in committed capital. Unlike SBICs, RBICs cannot draw leverage from the federal government so all commitments are private capital.

SBICs have been around since 1958. SBIC funds are private investment vehicles that pool capital from institutional investors with leverage from the SBA which is invested in businesses to help them grow. There are 318 SBICs with over $46 billion in committed private capital and SBA leverage. About 20% of those dollars are invested in small manufacturers, all of which are domestic.

I'd like to provide you with a few examples of the impact that has been made by Midwest Growth Partners investments thanks, in part, to the RBIC and SBIC programs.

AgCertain – is a manufacturer of refined glycerin and specialty edible oils and is located in Boone, Iowa, a community with a population of 12,000. When Midwest Growth Partners invested in 2019, AgCertain employed 22 people. Today they have 42. In addition to the employment growth, Midwest Growth Partners and its other partner owners have invested more than $32 million in capital improvements in the facility including refinery upgrades, installation of storage tank farm and pipe racking, creation of two rail spurs, a storm water containment facility, a new boiler, and various utility upgrades.

Another example would be Shells By Design, a manufacturer of innovative tart shells and desserts located in Garner, Iowa, population 1,200. When Midwest Growth Partners invested in the Shells platform in 2023, they had 40 employees. Today they have 67. In addition to the job growth, Midwest Growth Partners has spent more than $500,000 in facility improvements and incorporating automation equipment into manufacturing processes.

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Success stories like these manufacturing companies in small town Iowa don't happen accidentally. Innovative entrepreneurs, a dedicated workforce, and capital formation are critical to continue and create more of these successes. And the need is there. Midwest Growth Partners routinely reviews 800 investment opportunities a year and executes approximately five.

Capital formation can only be accelerated by providing a regulatory and policy environment which is reliable for parties in the capital markets. A good example encouraging this is the bi-partisan Investing in All of America Act, led last congress in the Senate by Senator Hickenlooper of Colorado and Marshall of Kansas and Representative Meuser of Pennsylvania and Scholten of Michigan in the House. This Congress, the bill was reintroduced in the House (H.R. 2066) in March with a key improvement to direct more investment in domestic manufacturing. As mentioned previously, about 20% of all SBIC investments are made in small manufacturers and if enacted, this legislation can unlock significantly more for our domestic industrial base.

The Investing in All of America Act would (1) increase capital to the SBIC program which is market-driven and 100% used for American small businesses; (2) specifically target overlooked markets like where Midwest Growth Partners is investing today such as rural and low-income geographies; and (3) provide bonus leverage for small manufacturers. This is all done without new spending, appropriations, subsidies, or mandates.

Thank you and I would welcome any questions you have.

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