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Investment firm has money to lend to small businesses

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Investment firm Plexus Capital has raised about \$40 million for its second fund, money it will use to make loans to and investments in small and mid-sized businesses.

Because it is a licensed small-business investment company, or SBIC, Plexus, which maintains offices in Raleigh and Charlotte, will be able to put a total of \$120 million to work. That's because, for every dollar it raised from banks, institutional investors and affluent individuals, it can borrow \$2 at attractive rates through the Small Business Administration.

"We are now 100 percent focused on investing this money," said Kel Landis, one of the firm's partners and co-founders. Landis is the former CEO of RBC Centura, now RBC Bank, and is helping lead Gov. Bev Perdue's effort to get banks to focus more on small-business loans.

Plexus' accumulation of a new investment stash comes at a time when businesses are complaining that banks are being too stingy with credit. Plexus typically works in conjunction with banks.

The company's prime market is the Southeast, and seven of the 27 investments it engineered with its first fund were with North Carolina companies.

"We've worked very hard to invest in North Carolina-based businesses because that is where we are," said Landis. "We're all North Carolina guys."

Plexus' first fund, which dates back to 2005, raised \$27 million. Bob Anders, also a partner and co-founder at Plexus, previously ran Centura Capital, a similar venture that was part of RBC Centura.

Plexus raised its first fund in 90 days but, because of the ailing economy, it took six months to raise the larger fund, Anders said.

It raised the money from 85 investors, including banks, institutional investors and wealthy individuals.

The company reported in a filing last year that it was seeking \$60 million, but Landis said that was a maximum. "Our target has always been between \$40 million and \$50 million," he said.

As with Triangle Capital, a publicly-traded SBIC in Raleigh, Plexus' investments consist of loans plus warrants for a small equity stake. The new Plexus fund is targeting profitable businesses of all types with more than \$10 million in annual revenue. Investment amounts are expected to range between \$2 million and \$10 million.

"We make investments in companies that need growth capital or have an acquisition opportunity," Landis said.

A success story

Charlotte-based Agility Recovery Solutions, which provides disaster recovery services, received a \$5 million loan from Plexus in 2007 so it could expand.

"I would do it again in a heartbeat," said Bob Boyd, president and CEO of the 75-employee business.

Boyd said he talked to several competitors but ended up going with Plexus because they made an attractive offer and he clicked with Plexus' partners.

"I like to surround myself with smart people who can help me grow," he said.

Demand from businesses is high in an era in which banks are by necessity being careful with credit, Landis said. But Plexus isn't an alternative to bank loans; rather, it complements them.

Almost all of Plexus' investments are made in conjunction with bank loans or revolving lines of credit, Anders said. The banks bring in Plexus, or vice versa, when they can't fulfill all the capital needs of a business on their own.

Banks take an interest

Companies such as Plexus are "another tool a bank can use to enable it to not say no," said Thad Woodard, president and CEO of the N.C. Bankers Association. "Believe me, the banks don't want to say no."

That's one reason that about 15 banks invested in the latest Plexus fund, including RBC Bank.

Sander Casino, the treasurer of RBC Bank, said that "the combination of our bank loan plus the capital from Plexus provides a stronger capital structure for our small business clients, helping them to grow."

Another reason banks invest in Plexus is that - because Plexus' loans are in the form of subordinated debt - its investments are riskier and therefore carry potentially bigger rewards for its investors.

"Our investment in [the first Plexus fund] has achieved our original high expectations going in, which says a lot in the environment we have gone through," Casino said.

Plexus executives aren't disclosing their returns to date but say that they expect both their funds will ultimately generate compound annual returns ranging from 12 percent to 17 percent, which would be in line with the returns posted by Centura Capital.



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