

National Space Development Corp

A new way to finance commercial Space enterprises

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Overview: what is the NSDC?

Conceptual Space-focused financial institution

Concentrates on small to medium US Space companies developing long-term strategic and commercial capabilities

*\$1B to \$10B in potential assets;
1000s of Space companies supported throughout its lifetime*

Can issue publicly traded stock

Despite the significant increase in private capital underpinning emerging commercial Space capabilities the past decade, the Space industry remains underfunded and largely "fringe" in the context of institutional investors (mutual funds, pension funds, insurance companies, banks). Since 2013, more than 95% of non-government funding for Space technology and companies has originated from short-term focused venture capital (VC), private equity (PE) and Merger & Acquisition (M&A) deals, or capital infusions by futurist billionaires (Musk, Bezos, Branson).¹ Overdependence on short-term focused capital (i.e., returns on investment within 5-7 years) and government contracting – and a systemic lack of long-term focused

institutional capital – poses significant risk to the health, sustainability, and diversity of the commercial Space industrial base in the US. The COVID-19 pandemic in 2020 has exacerbated the risks associated with this financing reality. This combination of systemic challenges and current socioeconomic events may substantially limit future Space-related economic growth for the US, constraining its ability to lead and protect commercialization of the Space domain.

WHAT IS THE NATIONAL SPACE DEVELOPMENT CORP?

The **National Space Development Corp** (NSDC) is a conceptual special-purpose and regulated investment company – a Business Development Company (BDC) under the US Investment Company Act of 1940 – that focuses its investments on small to medium US Space companies. The NSDC provides an alternative, scalable, and sustainable framework for institutional financing of long-term focused Space companies and commercial enterprises.

A BDC is an investment company that by law must invest in small and mid-sized businesses. Under the legislation, a BDC must invest at least 70% of its assets in nonpublic US companies with market value less than \$250M. BDCs were created by Congress in 1980 by amending the Investment Company Act of 1940; their purpose was and remains to provide private companies access to capital while enabling the BDC to access and leverage public capital markets. There are over 100 BDCs in the US² with approximately \$100B in assets under management; 51 of the BDCs are publicly traded.³

HOW IS IT DIFFERENT FROM VENTURE CAPITAL AND OTHER SOURCES OF CAPITAL?

BDCs are similar to VC and PE funds since their investment focus is generally small, emerging, and higher-risk companies. There are three fundamental differences that would enable a Space-

focused BDC to provide more scalable and long-term financing solutions to emerging Space companies in the US:

- BDCs can deploy a mixture of equity and debt capital and thus maximize flexibility and long-term benefits to the invested companies while maintaining adequate short-term revenue streams via debt repayments
- Whereas VC and PE funds are mostly only available to wealthy investors and private entities, BDCs can raise capital through a multitude of private avenues (equity or debt) **and/or** through a public stock offering
- BDCs that are publicly traded offer an avenue for short-term liquidity of the underlying private Space company portfolio

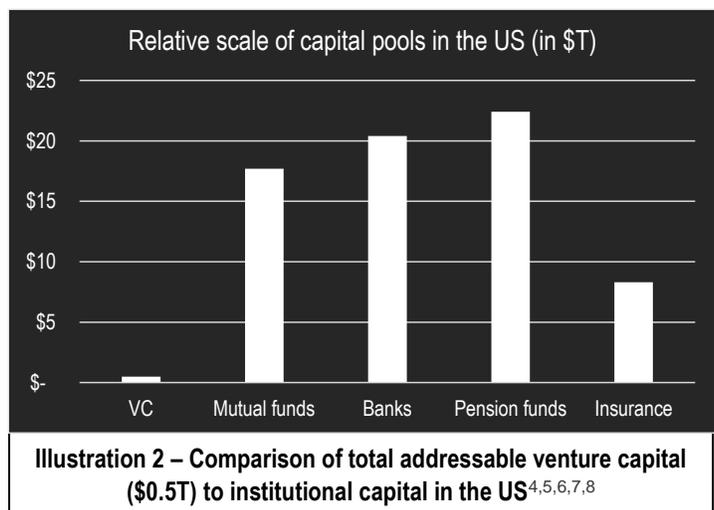
Illustration 1 below compares the conceptual National Space Development Corp BDC to VC, PE, M&A and traditional banks in the context of Space-industry financing:

Comparison Criteria	VC	PE	M&A	Traditional banks	Proposed NSDC
Cost of capital	Highest	Varies	Varies	Lowest	Lowest
ROI expectation	<7-10yrs	<5-7yrs	<5yrs	<5-7yrs	5-30 years
Space industry specialization	✓		✓		✓
Primary criterion for investment	Multiples, recap, IPO or M&A	IPO or M&A	Strategic fit	Short-term solvency	Long-term solvency and/or long-term growth
Ability to use SBA loans				✓	✓
Primary source of capital	Accredited investors; HNWI; family offices; private wealth funds		Corporate backed equity and/or debt capital	Private investors and/or public markets	Same as VC/PE, debt capital <u>and/or</u> public markets
Regulated financial institution				✓	✓
Volcker rule on covered funds	Some restrictions	Some restrictions	N/A	N/A	No restrictions
Liquidity	Lowest	Lowest	Low	Highest	Highest

Illustration 1 – Comparison of alternative Space industry financing mechanisms

SCALABILITY AND CAPITAL MARKETS POTENTIAL

A key value proposition for the NSDC is its potential for scale. Many US BDCs are in excess of \$1B in assets, reaching as high as \$10B in total assets under management. Despite the exponential reductions in launch and satellite manufacturing costs the past two decades, the Space industry still requires high capital expenditures. Scalability of financing mechanisms and institutions that will support the emerging Space economy is crucial for long-term sustainability of the industry. Some of the key advantages of a BDC structure – regulated financial institution, no Volcker



rule restrictions, high liquidity, and ability to raise capital in the public markets – enable it to connect the economic potential of the emerging private Space ecosystem to long-term financing “fuel” from massive US institutional capital pools, including mutual funds, banks, pension funds, and insurance funds. Illustration 2 shows the difference in scale of addressable capital pools for the private US Space industry. US venture capital amounts to roughly \$500B in total assets; addressable institutional capital via the NSDC and/or other Space-focused BDCs is \$68.8T in the US.^{4,5,6,7,8}

Virgin Galactic’s entry into the public market and the growth in value of Tesla stock during the past decade serve as proof points that retail and institutional investors do not only care about short-term earnings as their primary evaluation metric for assets to invest in; vision and long-term business plans have been and continue to be successful in the public markets.

BOTTOM LINE: HOW COULD THE NSDC SUPPORT THE SPACE INDUSTRY?

The conceptual NSDC, via its BDC structure, offers a new and scalable way to enable retail and institutional investors to invest in Space companies and capabilities in the US

The NSDC, and other Space-focused BDCs, could act as a “bridge” between massive retail and institutional finance capital pools to support emerging strategic and long-term commercial Space capabilities

A \$1B sized NSDC could financially support 100 or more small to medium US Space companies at any given time; 1,000s of US Space companies throughout its lifetime

FOR MORE INFO: [Finsophy](#) Public Benefit Corp is a Financial Innovation & Technology company developing solutions to financing the long-term economic development of the Space frontier. For more details on the conceptual NSDC, email info@finsophy.com

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