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SBA loan programs can help businesses raise capital

This week, I am continuing my series on money for your business by exploring the world of government-backed venture capital funds. It order to explore this topic, I pose a simple question to you? What do some of the most successful companies such as America Online, Apple Computer, Callaway Golf, Costco Wholesale Club, Cutter & Bock, Healthsouth Rehabilitation, Intel, Jenny Craig, Outback Steakhouse, Restoration Hardware, Sports Authority, Staples, and Sun Microsystems all have in common?

Many of you may not know this but some of the largest companies in the world have been backed by Small Business Investment Companies, commonly referred to as SBICs, who partner with the U.S. Small Business Administration in order to provide small businesses with capital to start, grow and expand their businesses. SBICs typically invest equity, debt or a combination of both into small businesses to promote their growth.

Since 1959, SBICs have supplied equity capital, long term loans and management assistance to qualifying small businesses. SBICs are privately owned and managed investment companies that are licensed and regulated by the SBA and use funds raised from private investors plus funds obtained at favorable rates with SBA-guarantees to invest in small businesses.

SBICs operate similar to a venture capital firm, as they invest their money into companies, along with their management and technical expertise in order to assist companies to succeed. In FY 2006, the SBA slightly exceeded its SBIC goal of 1,442 and assisted 1,488 existing small businesses. Only companies defined by SBA as "small" are eligible for SBIC financing. Small businesses are those that are classified as small based on their number of employees or their average annual revenue over the course of the last three years, as defined by the U.S. Census Bureau for their industry. Presently, there are over 400 licensed SBICs in operation today and as of June 5, 2007 there are approximately 7 SBICs in the State of Florida.

SBICs pursue investments in a broad range of industries, geographies and stages of investment. Some SBICs invest in a particular field or industry in which their management has expertise, while others invest more generally. Most SBICs concentrate on a particular stage of investment such as start-up, expansion or turnaround situations and identify a geographic area in which they focus. The form of funding that a particular SBIC uses may vary and will have an impact on the type of investment they make.

There are three organizational types of SBICs, debenture SBICs, participating securities SBICs, and specialized SBICs. The primary differences between these types of SBICs are how they are organized and funded. Debenture SBICs primarily focus on providing debt or debt with equity features. Debenture SBICs will typically focus on companies that are mature enough to make current interest payments on the SBIC's investment. Participating Securities SBICs typically focus on making pure equity investments but can make debt investments as well. Participating Securities SBICs are able to invest equity capital in earlier stage opportunities because interest is accrued on their obligation to SBA. Specialized Small Business Investment Companies ("SSBICs") are a type of SBIC that provides assistance solely to small businesses owned by socially or economically disadvantaged persons such as minorities, women and the disabled.

Now that you know that these investment companies are organized with the goal of providing capital to you to start, grow or expand your business, you might be asking yourself; how do you get your piece of the pie? SBICs are going to be looking at a well developed and presented business plan in order to get them excited about your company and its prospects for the future. Along with the business plan you should have a strong management team in place and a good history of performance in order to access capital from an SBIC.

Make sure to do your homework and find out about the focus and mission of each and every SBIC that you reach out to. All of them have their "sweet spot" for investment; therefore, knowing whether or not you fit their mold is extremely important. As you would for any typical venture capital deal, be prepared and be open-minded to a very aggressive term sheet, and upon review, be prepared to negotiate for a deal that is a win-win for both parties.

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