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Inside New Mexico's Private Equity Funds

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Mention professional equity capital in New Mexico, and technology start-ups typically come to mind. That's because most private equity investments target technology-transfer opportunities emerging from universities and national laboratories based in the state.

With the support of the New Mexico Private Equity Investment Program, more than \$350 million in capital has been committed to 22 funds that directly benefit New Mexico businesses, typically in the technology sector in the Albuquerque area. But how do non-technology entrepreneurs or entrepreneurs outside of Albuquerque get their businesses going, especially in an unstable and unpredictable economy?

Help begins at home

Realizing that business ideas exist outside of Albuquerque and the technology sector, the New Mexico legislature in 2000 created the New Mexico Small Business Investment Corporation to focus on financing small businesses. Originally funded with \$10 million from the Severance Tax Permanent Fund, it has swelled to more than \$87 million thanks to subsequent commitments.

The Small Business Investment Corporation's board studied the capital needs of the state's businesses and decided its legislative mandate required it to provide both equity and lending capital, as well as an appropriate delivery system for each. Since then, the corporation has been critical in the formation of seven New Mexico equity funds, each charged with very specific investment goals, and it has launched several loan funds.

A fund for every need

To serve the needs of non-technology businesses like those in the manufacturing, service, distribution and specialty retail sectors, three new equity-investment funds were created. These funds have invested in 13 businesses that specialize in communications, aircraft equipment maintenance, chile processing, paper manufacturing, gourmet pet food manufacturing, security services, water filtration, and oil and gas infrastructure servicing. These investments have attracted an additional \$35 million from out-of-state investors.

In response to the lack of pre-seed- and seed-stage capital for technology spinoffs, the New Mexico Small Business Investment Corporation helped create two funds managed by Flywheel Ventures and Verge Fund. Both make equity investments as small as \$250,000 and as large as \$1

million. Flywheel has invested in five companies, while Verge has invested in 15; most were start-ups or companies in their early stages.

To meet the needs of businesses that bridge the gap between initial investment and profitability, the New Mexico Gap Fund was created. This fund, also managed by Flywheel Ventures, is limited to \$100,000 in any one business, which is often just enough to take a business to subsequent investment rounds by private-equity firms. The Gap Fund has invested in six New Mexico businesses, most of which are true start-ups. One of these start-ups selected New Mexico in which to begin operations, while two emerged from technology developed at Los Alamos National Lab.

The most recent fund to be developed is the New Mexico Mezzanine Fund. Designed to address the needs of businesses unable to borrow from local banks because they lack a large base of collateral, the Mezzanine Fund allows cash-positive businesses to borrow to meet their growth needs. Businesses pay relatively high interest rates, but there are other equity-related components designed to enable growth.

Of, by and for New Mexico

All of these funds are based in New Mexico with investments going exclusively to New Mexico businesses. Through its fund partners, the New Mexico Small Business Investment Corporation now holds investments in 35 New Mexico companies.

Without the New Mexico Private Equity Investment Program, which has attracted so many out-of-state funds, there would be little in the way of equity investment in New Mexico. And without the foresight of legislators and governors, many New Mexico businesses that now contribute substantially to the economy might not have gotten off the ground.

Finance New Mexico is an initiative of the New Mexico Small Business Investment Corporation (NMSBIC), New Mexico Small Business Development Center (NMSBDC), Empowering Business Spirit (EBS), the New Mexico Venture Capital Association (NMVCA) and other partners to assist individuals and businesses in obtaining skills and funding resources for their business or idea. To learn more about resources available to New Mexicans, go to www.FinanceNewMexico.org.

