



State Has Stake in the Success of New Mexico Businesses

By Paul Goblet, Financial Advisor, New Mexico Small Business Investment Corporation

When the New Mexico Small Business Investment Corp. formed in 2001, its founders envisioned the organization directly owning minority stakes in a large number of small New Mexico businesses that had received federal loans from the Small Business Administration or U.S. Department of Agriculture. While this seemed like a good idea at the time, it was a challenge to implement.

After several amendments to the founding statute, the NMSBIC formed cooperative agreements with professional capital and service providers, which the organization considered better qualified and staffed to make equity investments.

How it began

The organization's first equity commitment -- of \$1.5 million, as a limited partner — was in 2004 to a small local fund, Flywheel Ventures I. Since then, Flywheel Ventures I has raised more than \$30 million for equity investments in early stage technology companies, making it the largest New Mexico-based fund. Flywheel Ventures I was the first equity fund with headquarters in New Mexico.

Shortly afterward, the Verge Fund set up shop in Albuquerque, also intent on making small equity investments in early stage technology companies. The NMSBIC was the catalyst for creating both funds, as well as the other locally headquartered equity funds that followed, including New Mexico Gap Fund, Verge Fund I.5, New Mexico Growth Fund I, New Mexico Growth Fund II and New Mexico Mezzanine Fund. To date, the NMSBIC, through its partners, has invested equity in 35 businesses in the state.

Different funds for different folks

Each equity fund is slightly different both in size and expertise. Knowing the orientation of each fund can help a business owner know which fund might be the best to approach about an investment.

The Mezzanine Fund can invest up to \$1 million, but the portfolio company must demonstrate a history of cash flow sufficient to afford quarterly interest payments. New Mexico Mezzanine Fund typically invests in service companies that often don't have manufacturing plants or heavy

equipment but instead consider people their primary assets. Such companies often find it hard to get large loans because they rarely have lots of hard assets to be used as collateral.

New Mexico Gap Fund, which is managed by Flywheel Ventures, invests small amounts of equity (\$50,000 to \$200,000) in early stage technology-based companies that show signs of rapid investment credibility; the Gap Fund cannot provide additional capital after the initial investment. To date, the Gap Fund has invested in nine New Mexico companies.

New Mexico Community Capital invests in non-tech companies — often manufacturing or service providers. It typically invests between \$500,000 and \$1 million, but the company must demonstrate growth potential and rapid profitability.

More details and a direct link to each equity fund are found at www.financenewmexico.org.

Finance New Mexico is an initiative of the New Mexico Small Business Investment Corporation (NMSBIC) and its partners to assist individuals and businesses in obtaining skills and funding-resources for their business or idea. To learn more, go to www.FinanceNewMexico.org.

