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State-Backed Equity Investments Spur Growth of New Mexico Ventures

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The state legislature created the New Mexico Small Business Investment Corp. (NMSBIC) in 2001 to support the state's small businesses and help communities by providing capital in the form of loans or equity investments. This move to invest a small portion of the State's Severance Tax Permanent Fund into the state's economy was made at a time of economic prosperity, but the pool of investment capital it created is even more vital in today's economy.

Since the initial statute was amended in 2004 to allow NMSBIC to deliver capital through partnerships with financial professionals, the lending program has loaned money to more than 2,000 businesses statewide. Money is also available through venture capital funds headquartered in New Mexico and focused on helping this state's businesses.

Nine equity funds

The NMSBIC has helped establish nine equity funds that focus exclusively on New Mexico businesses. They include the New Mexico Gap Fund, Verge Fund, Flywheel Ventures, New Mexico Community Capital, Mesa Ventures and New Mexico Mezzanine Fund. These entities mostly invest in technology-based companies, which grow larger and faster than traditional manufacturing or service companies and often have valuable proprietary inventions or patents that attract capital. But they aren't limited to technology-based investments.

NMSBIC through its partners also provides capital to early-stage companies. The Gap Fund invests between \$50,000 and \$150,000 in technology startups to help founders validate their products and establish clients at a stage when these companies have few revenues and no profits. The Gap Fund has invested in 12 such New Mexico companies.

The Verge Fund has invested approximately \$15 million in 15 New Mexico companies that tend to be more mature. A typical investment might be \$500,000 to \$750,000. It also provides industry knowledge and a network of possible employees or board members who can steer the company in its infancy. Equity funds like the Verge Fund usually want a voice in a company's governance as they seek a significant return on their investment. Equity investors want to know how the company will grow, who its potential clients are, how it will use the capital and how strong and experienced the founders and managers are.

Spreading the money all around

Most equity investments have been in companies in and around Albuquerque due to the larger labor force to be found there, and the professional accounting and legal services, transportation, housing, universities, national laboratories, and experienced entrepreneurs and managers. But equity investments have been made in companies in Belen, Deming, Farmington and Santa Fe.

Equity capital is expensive and difficult to raise; without a strong, well-articulated business plan, securing it is impossible. Small Business Development Centers, which are located on community college campuses around the state, can help business owners think through and create business plans that can attract equity investors.

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.

