

The Facts About . . .

Equity Investment Sources for Small Business

The Small Business Investment Company Program

Congress created the Small Business Investment Company Program in 1958 to fill the gap between the availability of venture capital and the needs of start-up and expanding small businesses. Licensed and regulated by the U.S. Small Business Administration, SBICs are privately owned and managed, profit-motivated investment firms.

SBICs provide equity capital, long-term loans, debt-equity investments and management assistance to qualifying small businesses. They make these venture-capital investments with their own funds plus funds obtained by borrowing at favorable rates with an SBA guaranty. The incentive for the SBICs is the opportunity to share in the success of the funded small business as it grows and prospers.

Many investment companies seek out small businesses with new products or services because of the strong growth potential of such firms. Some SBICs specialize in a particular field in which their management has special knowledge or competency. Most, however, consider a wide variety of investment opportunities.

Eligibility

The SBIC Program makes funding available to all types of manufacturing, distribution and service industries. To be eligible, the company must meet the SBA's definition of "small." In general, the SBA defines small businesses as companies with a net worth of \$18 million or less and with average net (after-tax) income for the preceding two years of not more than \$6 million. For some industries, the above standards are too low, and alternative size standards are used. In determining whether or not a business qualifies, the SBA considers the firm's parent, subsidiaries and affiliates.

Approaching an SBIC

The SBA publishes a regularly updated directory of all current SBIC licensees. It lists the amount of each SBIC's private capital, the amount of government leverage the licensee has received, and information on each SBIC's type of ownership and investment policy. The directory is available at Web site www.sba.gov/inv and through the agency's electronic bulletin board, SBA OnLine, at 1-800-697-4636. For access details, see "For More Information" at the end of this fact sheet.

To obtain SBIC financing, we recommend you take the following steps:

- Determine your company's financing needs well in advance of the time you will actually require the money.
- Identify and investigate existing SBICs that may be interested in financing your company.
- Determine whether or not the SBIC can offer the management services you need.
- Prepare a presentation to give to the SBICs you think can best meet your financing needs.

Your initial presentation will play a major role in successfully obtaining financing. It's up to you to demonstrate that an investment in your business will be a sound one. The best way to achieve this is to present a detailed and comprehensive business plan or prospectus. You should include, at a minimum, the information that follows.

Identification

- Full legal name of the business
- Type of entity (e.g., corporation, limited partnership, etc.), including date and state of incorporation, if applicable
- City, county and state of the principal location and of any branch offices or facilities

Product or Service

- Description of the business, including the principal products sold or services provided
- History of the development of the products and/or services during the past five years or since your business was started
- Information relating the importance of each product or service to the volume of the business and to its profits

Marketing

- Detailed information about your customer base, including potential customers, and the percentage of gross revenue accounted for by your five largest customers
- Marketing survey and/or economic feasibility study
- Distribution system by which products or services are delivered to customers

Competition

- Competitive conditions for your industry, including your company's position relative to its largest and smallest competitors
- Full explanation of your pricing policies

Management

- Brief résumés of managers and principal owners, including their ages, education and business experience
- Banking, business and personal references for each manager and principal owner

Financial Statements

- Balance sheets and profit-and-loss statements for the last three fiscal years or from start-up
- Monthly or quarterly projections of revenues, expenses and net earnings for the coming year, and annual forecasts for the next four years
- Amount of funding you are requesting and the time requirement for the funds
- Reasons for your request for funds and a description of the proposed uses
- Benefits you expect your business to gain from the financing Ñ for example, increases in revenues, cost reduction, productivity improvements

Production Facilities and Property

- Description of real and physical property and adaptability to new or existing business ventures
- Description of technical aspects of production facilities

For More Information

- SBA offices are located in all 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands and Guam. For the office nearest you, look under “U.S. Government” in your telephone directory, or contact:
 - Phone: 1-800 U ASK SBA
 - Fax: 202-481-6190
 - E-mail: answerdesk@sba.gov
 - TDD: 704-344-6640
 - Your rights to regulatory fairness: 1-888-REG-FAIR
 - Internet
 - SBA Home page: <http://www.sba.gov>
 - Gopher: <http://www.sba.gov/gopher>
 - U.S. Business Advisor: <http://www.business.gov>

SBA Partners

Inquire at your local SBA office for the location nearest you.

- Business Information Centers -- BICs
- Tribal Business Information Centers -- TBICs
- One Stop Capital Shops -- OSCSs
- Service Corps of Retired Executives -- SCORE
- Small Business Development Centers -- SBDCs
- U.S. Export Assistance Centers – USEACs
- Women’s Business Centers -- WBCs

Publications

- The Facts About ... SBA Publications -- a listing of free SBA publications

Did you know that in fiscal 2000 the SBA –

- maintained a guaranteed loan portfolio of more than \$40.5 billion in loans to 486,000 small businesses that otherwise would not have had such access to capital?
- backed nearly 49,000 loans totaling a record \$12.5 billion to America’s small businesses?
- made 3,100 investments worth \$4.2 billion through its venture capital program?
- provided more than 36,000 loans totaling over \$936 million to disaster victims for residential, personal-property and business losses?
- extended management and technical assistance to more than 900,000 small business persons through its 11,500 Service Corps of Retired Executives volunteers and 1,000 small business development center locations?
- created HUBZones providing federal contracting assistance to small businesses located in “historically underutilized business zones”?

Did you know that in 1999 Small Business Investment Companies --

- made 53 percent of all institutional venture capital investments in the United States?
- invested 93 percent of their funds in equity-type investments?
- invested 44 percent of their funds in start-up businesses less than two years old?
- provided funding to businesses in 49 states, the District of Columbia and the U.S. Virgin Islands?

Did you know that America's 24 million small businesses --

- employ more than 52 percent of the private work force?
- generate more than 51 percent of the nation's gross domestic product?
- are the principal source of new jobs?

All of the SBA's programs and services are provided to the public on a nondiscriminatory basis.

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