

FACT SHEET -- Small Business Investment Company (SBIC) Program

- The Small Business Investment Company (SBIC) program, part of the U.S. Small Business Administration, is a vital link between the venture capital industry and U.S. entrepreneurs.
- The SBIC Program was created in 1958 to fill the gap between the availability of venture capital and the needs of small businesses in start-up and growth situations.
- The structure of the program is unique and has served as a model for similar public-private partnerships around the world. SBICs are privately owned and managed venture capital funds, licensed and regulated by the SBA, that use their own capital, plus funds borrowed with an SBA guarantee, to make equity and debt investments in qualifying small businesses.
- SBICs decide to invest based on disciplined, acceptable return expectations and a focus on profit maximization. Their importance in keeping thousands of small businesses alive and growing is evident in the fact that SBICs currently make over 65% of all venture financings.
- SBICs have invested in many remarkable companies at their earliest stages: Intel, Apple, Federal Express, Staples, Callaway Golf, Outback Steakhouse – to name just a few. As a result, the program has helped generate billions of dollars in economic prosperity, brought us millions of skilled jobs, and countless improvements to our health, safety, and way of life.
- In all SBICs drawing down government “leverage,” the federal government acts as an “active limited partner” – it does not make investment decisions – and shares in the profits of SBICs as their investments mature. The program is structured to be self-financing over time, but is subject to the ups and downs of the private equity markets and the economy overall.
- The SBIC program has had huge success in mobilizing private venture capital investment -- close to \$5.5 billion since FY 94. In FY 02 alone, almost \$800 million in private (limited partner) capital was invested in 1,979 entrepreneurial companies via SBICs. By the National Venture Capital Association’s measure, that level of financing translates into over 75,000 skilled jobs.
- This fiscal year (2003) to date, SBICs have invested in over 2,450 small businesses, of which over 710 are start-up companies.

To Obtain an SBIC License:

- An experienced team of venture capitalists must secure minimum commitments from private investors of either \$5 million (for a debenture fund) or \$10 million (for an equity fund). The total size of an SBIC ranges from \$30 million to \$170 million.
- For every \$10 million in private equity, licensees are eligible to receive up to a \$20 million SBA commitment (2:1 public-private leverage), substantially enhancing prospective portfolio returns.
- SBICs may only invest in “small businesses” defined as: net worth less than \$18 million and prior two years’ after-tax income less than \$6 million.