



Professional Equity: Difficult to Obtain but Worth Pursuing

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The best source of business capital often comes from friends or family. They know you, they like you, and they trust you enough to provide equity for – and receive part ownership in – your firm. But sometimes a company enjoys greater success than its ability to finance its own growth via family and friends. That's when you need to go to an outsider for additional equity.

The availability of private equity capital has changed fairly dramatically over the last five years. The common complaint was that you had to go to California or New York to get equity. But thanks to the New Mexico State Investment Council, several funds have now started and are headquartered in New Mexico, and there are now fifteen to twenty funds with offices in the state. While we may not have a huge track record of companies attracting equity, the number of funds and investments in local businesses has consistently grown since 2001. Most of these funds target technology and most of the investments have been made in technology-related companies.

The process of obtaining equity capital can seem daunting. Without knowing the investors, you may find it difficult to trust them. The dollar value you place on your company may be different than the amount the investors believe it's worth. You also may be afraid they will take over your company, leaving you with little control.

These impediments are easily overcome through referrals, advice and education. The real challenge, however, comes in convincing venture capitalists to invest in your firm.

While a private equity or venture capital investor may receive a stock certificate and a small dividend, there is little or no historical revenue or income to analyze. He is betting on your future success because the investor only gets a return if the company is successful. Equity capital is typically spent on things like marketing, product development, office equipment and new employees – and then it is gone. Investors have to be very confident that the business, the product or potential product, the management and the timing are all perfect or as close to perfect as possible. Things rarely go perfectly, so they are taking on very high risk. That is why due diligence is painstaking, the process is time consuming and the likelihood of getting a yes is fairly small. If you need equity, and you need it right now, don't bother with professional equity!

Venture capital is disciplined because investors often get it wrong. Since they are typically very early-stage investors, things don't always go as anticipated and they lose money. Therefore,

professional investors typically invest only in areas in which they have a great deal of experience.

If you are a software firm, find funds whose managers really understand and have invested in software deals. Those funds usually won't be provided to a local manufacturing company, so if you are in manufacturing, find a fund that specializes in that.

If approached correctly, professional equity can bring far more than just capital. Equity investors provide industry expertise, assist in attracting board members and key staff, help obtain bank financing, test and expand your business or marketing plan, bring corporate governance and are a true partner.

Obtaining professional equity is a process that demands forethought, preliminary education, and a proper introduction. There are resources like Technology Ventures Corporation (TVC) whose folks know every source of equity capital in the state. Get an introduction. Don't just make a cold call and say you are looking for money!

While professional investors aren't perfect for every company, they are often the critical missing piece of capital on the balance sheet.

Use the search tool at FinanceNewMexico.org to help find the most appropriate source of equity for your firm.

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.

