

SBICs and the Evolving Acquisition Financing Landscape



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A recent webinar presented by Adam Steiner, Bill Barlow, and James David Williamson on acquisition financing highlighted an interesting segment of the lower-middle-market lending landscape that deserves more attention: Small Business Investment Companies (SBICs).

Much of the recent discussion around acquisition financing has focused on changes to SBA 7(a) lending requirements and the challenges facing buyers pursuing traditional search fund acquisitions. But SBICs offer a different and attractive financing alternative.

SBICs combine institutional investment strategies with SBA-supported capital.

Although both programs operate under the SBA umbrella, SBICs are fundamentally different from SBA 7(a) lenders.

SBICs are privately managed investment funds licensed and regulated by the SBA. Eligible funds can access SBA-guaranteed leverage at the fund level, supplementing privately raised capital to invest in qualifying small businesses.

Unlike traditional SBA acquisition loans, SBICs can provide debt, equity, or hybrid financing. Their underwriting and transaction structures generally resemble institutional private credit rather than standardized SBA 7(a) lending.

This distinction creates several interesting opportunities for sponsors.

1. Access to capital for larger acquisitions.

SBICs can participate in acquisitions substantially larger than those typically financed through SBA 7(a). The webinar presenters discussed SBIC transactions involving acquisition prices exceeding \$20 million and we see that regularly at Lippes Mathias.

For independent sponsors targeting the lower-middle market, SBICs represent an established institutional capital source worth including in the financing conversation.

2. More flexibility in structuring acquisition financing.

Because SBICs operate more like private investment funds, their financing structures can accommodate a broader range of transaction economics, including negotiated repayment terms, debt and equity components, and potentially limited, lower, or no recourse arrangements.

That flexibility is not unlimited. SBICs remain subject to their own regulatory requirements, investment restrictions, and fund mandates. Nevertheless, they offer a different approach to structuring transactions than traditional SBA 7(a) loans. Lippes is well poised to navigate these transactions along with their requirements and benefits, and avoid costly pitfalls.

3. An increasingly relevant option as lending markets overlap.

The presenters also discussed early signs of conventional banks financing acquisitions in the \$7 million to \$10 million range that historically might have relied on SBA 7(a) companion financing.

While these developments remain relatively limited, they illustrate a broader trend: traditional distinctions between acquisition financing sources are becoming less rigid.

SBICs are particularly interesting within this evolving landscape because they approach smaller transactions with institutional private credit experience, while SBA and conventional lenders may approach the same market from a more traditional small-business lending perspective.

4. The opportunity to align financing with longer-term sponsor objectives.

Independent sponsor acquisitions often involve significant investor equity, negotiated guarantees, working capital

facilities, and an anticipated refinancing or exit.

SBIC financing can fit within that broader institutional framework, allowing sponsors to evaluate capital structures around the business's projected cash flows, investor expectations, and long-term strategy.

Of course, the details matter. Prepayment protections, minimum returns, financial covenants, cash sweeps, and intercreditor arrangements can materially affect the economics of a transaction.

5. SBICs are also experiencing their own regulatory evolution.

Separate from recent SBA 7(a) changes, the SBIC program has undergone reforms aimed at modernizing the program and supporting additional private investment.

That makes the SBIC landscape worth following independently, rather than treating it simply as an extension of traditional SBA lending.

One of the more interesting takeaways from the discussion is that independent sponsors may have a broader financing universe than they initially assume.

SBICs are not necessarily the right fit for every acquisition, and their pricing and documentation requirements can resemble those of other private credit providers. But their combination of institutional investment capabilities and SBA-supported capital makes them an important option to evaluate.

As lenders continue to adjust their appetite and sponsors pursue increasingly sophisticated acquisition structures, understanding where SBICs fit in the capital stack may provide a meaningful advantage in sourcing and structuring transactions.

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