

Irish Venture Capital Association



Annual Report **2008**

2008 IVCA Annual Report

Mission Statement

IVCA represents, promotes and protects the long-term interests of the venture capital industry in Ireland. Its goal is to encourage co-operation and best practice within the industry and to facilitate those seeking venture capital.



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Introduction to IVCA

The Irish Venture Capital Association (IVCA) is the representative organization for venture capital firms in Ireland and also provides a range of services to our members. Irish venture capital firms have invested €1.2bn in Irish SMEs since the year 2000.

IVCA contributes to many expert groups, advisory committees and other consultative bodies, which are involved in advising Government Departments, the European Commission and others about the venture capitalist views on many issues.

IVCA represents its members at international level through its national membership of the European Venture Capital Association (EVCA) and works closely with all other European national bodies.

Association Structure

IVCA is a company limited by guarantee. The affairs of the Association are managed through the executive by a governing council, which is composed of representatives of the member venture capital firms.

Executive functions are carried out by:

Director General	Regina Breheny
Administrator	Ciara Burrowes

Council is currently composed as follows:

Chair	Joe Concannon	Bank of Scotland (Ireland) Venture Capital
Secretary	Peter Sandys	Seroba BioVentures
	Niall Carroll	ACT Venture Capital Ltd
	Prof. Michael Donnelly	Growcorp Group Ltd
	Shay Garvey	Delta Partners Ltd
	Desmond Fahey	Dublin Business Innovation Centre
	Conor O'Connor	Enterprise Equity Venture Capital
	Michael Murphy	NCB Ventures Ltd
	John Tracey	TVC Holdings Plc

Council elects the Chair on an annual basis. Council members themselves are elected at the AGM. Each year three members of council retire by rotation and are eligible for re-election.

Services Provided

The mission statement of the IVCA is:

'to represent, promote and protect the long-term interests of the venture capital industry in Ireland. Its goal is to encourage co-operation and best practice within the industry and to facilitate those seeking venture capital.'

In order to fulfil this mission the IVCA provides services to its members through appropriate committees whose roles and objectives are as follows:

External Relations; Represent member's interests in discussions with government, its agencies, the EU and other relevant bodies.

Investor Relations; Facilitate adequate supply of capital into the venture capital industry by building links and making appropriate representations to investors and investor industry associations.

Regulatory Affairs; Influence and work with the regulatory bodies and lawmakers to ensure that a positive fiscal and legal environment is created and maintained for venture capital activity in Ireland.

Members Services; Promote best practice among practitioners and provide technical support and networking opportunities for members.

Publicity/Publishing; Provide information about the IVCA and be the reference source of venture capital activity in Ireland.

Finance; Ensure compliance with statutory obligations, provide regular reporting on the Association's financial position and ensure internal controls are applied.

Chairman's Statement



After another year of progress in Ireland for the venture capital asset class, we can look forward to the future with optimism.

The industry, as it is currently structured, is moving into its third investment cycle. The size of the venture capital funds has increased and the skill set of Irish venture capitalists has deepened considerably. These factors, added to an evolving international dimension, have enabled venture partners to help their investee companies to scale internationally.

Despite the current very challenging conditions in the capital markets, the Irish Venture Capital industry is fortuitously well positioned. Beginning mid 2007, when IVCA members began closing a new generation of Funds, a total of €435m has been raised to date and is available for investment. In addition, a number of other Funds are expected to complete their fundraising over the coming year, further increasing the available capital for investment. These Funds are beginning their investment cycle in a very favourable environment. The ongoing shortage of liquidity in financial markets is resulting in lower valuations, thus offering attractive investment opportunities.

In summary the outlook is one of robust investment activity by the industry over the coming years as the new generation of Venture Capital Funds commence their investment cycles.

I can assure you that the IVCA, during this period, will continue to provide active support to the industry and its members to ensure that our collective development milestones can be achieved. These include: Broadening the investor base in venture capital and increasing funds under management; Encouraging the emergence of start-up and growth companies in Ireland to provide continued quality deal flow for the industry; and Promoting best practice and excellence in our investing activities. A key long-term milestone for our industry is the internationalisation of investing activities and I am glad to be able to report that a number of our members are making investments outside of Ireland.

A healthy and thriving venture capital industry is a critical component in a knowledge economy and it is imperative that the industry grows to ensure that Ireland's developing knowledge economy is supported with a sufficient base of risk capital.

In 2005 Council decided to establish a permanent Director General office. The objective of this was to ensure continuity in the professional development of the Association. This is the first Annual Report of the Association under this new structure.

Joe Concannon
IVCA Chairman
September 2008

Irish Venture Capital Industry

Statistical Highlights

1. Funds Raised **Highest Annual Level since 2000**

2007	€260m
Total Since 2000	€ 1.1bn

2. Funds Invested **Highest Annual Level since 2000**

2007	€287m
Total Since 2000	€1.2bn

3. Portfolio at Cost **Portfolio size has tripled since 2000**

2007	€1.225bn
2000	€ 390m

Director General's Report

Following the permanent establishment of a professional executive team, the IVCA has increased its focus on offering services, activities and information to better meet the needs of its members. The sections below provide a summary of recent IVCA achievements and activities.



Industry Statistics and Research

VenturePulse Survey:

During 2007 the IVCA began to collect data on venture capital funds raised by SMEs. The results are published quarterly as the IVCA VenturePulse Survey (previously known as the TechPulse Survey). This survey is perceived to be the definitive source of venture capital activity in Ireland and adds to the data available on SME activity. In terms of public policy it draws attention to growth areas in the economy by highlighting the direction of risk capital investment. Its publication has added value to members and the industry by highlighting the growing activity levels and by generating ongoing positive publicity.

Venture Capital Fund – Activity Statistics

The EVCA has developed an interactive statistical database and is collecting, from European members, activity statistics including details of funds raised, funds invested and divestments. The IVCA (and other National Associations) participated extensively in the design process and in the testing and implementation of this platform, PEREP Analytics. This new tool has been designed to simplify the data collection process but also to eliminate double counting thus improving the quality and reliability of the data. It is expected that, over time, all private equity and venture capital players will contribute to this platform and in fact the national bodies have been contracted to ensure that all national members participate. The quid pro quo is that the national body can at any time look at what has been submitted.

This tool allows the IVCA to validate and quality control the data submitted by individual member players. The IVCA will “own” the data without having to incur cost in its collection. IVCA members have indicated that this interactive tool is easy to use and it is the intention of the IVCA to encourage all members to do so.

Economic Impact Study

The IVCA's third Economic Impact Study covers the periods 2005/2006 and 2006/2007. The Association now has a comprehensive information database on SMEs for the five-year period from 2003 to 2007.

The study clearly shows that venture backed companies continue to grow at a faster rate than other indigenous Irish companies.

This study is a critical publication for the Association as it is used extensively by the Association, by its members and by public policy makers to promote the continuation of Government funding.

The Association acknowledges with thanks the contribution from its members in providing the data and from Professor Frank Roche for conducting the survey.

Changing the Mindset of Pension Funds

The IVCA commissioned IFI to write an educational document examining the issues surrounding Irish pension fund asset allocation and the role that Irish venture capital could play in future asset allocation decisions. This study was presented both by IFI and the IVCA to trustees, actuarial consultants, fund managers and private investors. We believe that the case for Irish Venture Capital was made in a convincing manner.

Frank O'Brien (IFI author) has stated in recent months "Pension fund trustees are quite properly prudent and conservative. Typically, a deliberate approach to change is adopted. In this context, therefore, the recent evolution in trustee attitudes to portfolio construction is quite striking. Motivated by the "perfect storm" of 2000/2003 – sharply lower equity prices, low bond yields and increased longevity – trustees



Mr Kevin Murphy Chief Executive of Irish Life Retail, Mr Niall Carroll Chairman IVCA Mr Frank O'Brien IFI at the launch of the Developing Pension Fund Investment Strategy publication.

are implementing a more diverse and balanced approach to portfolio construction. This development is led in Ireland by the €21bn National Pensions Reserve Fund which aims to have 20% of its monies invested in Alternative Investments by end 2009. Included under this heading will be 8% in property, 2% in commodities and 10% in private equity. Elsewhere, amongst Irish pension funds, there have been significant commitments to hedge funds, infrastructure funds and tactical and currency overlays. Each of these assets is allocated a clear role within a diversified portfolio strategy either to add value, to match liabilities or to provide diversification. Irish venture capital sits comfortably within this framework and last year's fund raising by Irish venture capital funds was enthusiastically supported by some of the larger Irish pension funds". Recent events in capital markets have delayed this process somewhat, but it is expected that, when markets settle, this investment approach will resume.

IVCA Annual Attitude Survey

The 2008 survey of members, conducted by Simpson FTR, highlighted the following views:

- The global credit crisis is likely to increase demand for venture capital;
- The global downturn in stock markets will delay a client firm doing an IPO;
- Critical external issues will be the state of the global and the US economy and the strength of the Euro;
- Internal challenges continue to be the availability of experienced sale executives and a lack of qualified senior management;
- Tax incentives need to be introduced to encourage senior internationally experienced executives to Ireland;
- Education policy should be more focused towards increasing the flow of Irish technology graduates.

Exits/Role Models

As is typical at the later stages of the venture investment cycle, the pace of exits accelerated throughout 2006/2007. A detailed examination of these companies will be undertaken to monitor their progress, from an Ireland Inc point of view and to facilitate the production of a "bank" of successful role models.

Public and Regulatory Affairs

Ireland is No 1; EVCA Benchmark of European Tax and Legal Environment

The 2006 study found that Ireland was the clear top preferred environment for investing in private equity and venture capital. This was a tremendous endorsement of investing in Ireland. In consequence Ireland as a location has been successfully promoted to the international financial services industry. The EVCA is updating its 2006 study. The IVCA is the primary contributor to this study and will endeavor to ensure that Ireland retains its top position.

Cutting the Cost; Standardising Legal Clauses

The Association, in conjunction with a number of its legal members, has developed a suite of standardized legal clauses for inclusion in Shareholder Agreements and in Articles of Association. These clauses cover:

- Negative Vetoes
- Drag and Tag Along
- Anti Dilution
- Pre-emption on share issue/transfer
- Warranty Limitation

These clauses were endorsed by Council, have been posted on the IVCA website and are recommended for use where appropriate.

The Association is facilitating the development of a set of Short Form Standard Agreements for use where the investment is pre-venture capital. It is expected that the suite of documents will include:

- Funding Round Process Map
- Template Term Sheet/Heads of Agreement
- Template Share Subscription Agreement/Shareholders Agreement
- Articles of Association

It is anticipated that the use of such standard documents should facilitate a shorter period of negotiation and a reduced timescale in relation to transaction completion.

MiFID; To Comply or not to Comply

The **M**arkets in **F**inancial **I**nstruments **D**irective has been implemented. It has transpired that Venture Capital organisations that were previously regulated by the Regulator will fall within the remit of MiFID. The implications of this in terms of compliance has yet to be finalized, as it is recognized by the regulator that the original intent was that this directive would not apply to Funds that were not being sold to the public. The IVCA continues to monitor the impact on the venture capital industry.

Professional Standards

The EVCA, in consultation with the national associations, has upgraded and updated the Code of Conduct and the International Private Equity Valuation Guidelines. Both of these policy documents have been ratified by the IVCA Council and are recommended as best practice within the industry.

Member Events

Annual Dinner

The annual dinner, held in October, has grown in stature year by year. It has become known as one of the best networking events in the annual business calendar. In 2007 the attendance exceeded 500 members and guests. Prominent speakers in recent years included Eugene McCague (Arthur Cox), Eoin O'Driscoll (Forfas) and Dr Maureen Gaffney. The executive strives to ensure that this social event retains its premium position.

Annual Golf Outing

The annual golf outing, held in May, continues to provide members with an opportunity to enjoy an intimate relaxed networking event. The Association acknowledges with thanks the sponsorship of this event by Mason Hayes+Curran Solicitors.

How Do Entrepreneurs Raise Capital

The IVCA (in conjunction with PriceWaterhouseCoopers) designed a branded course for entrepreneurs titled "How to Raise Venture Capital". The provision of this course meets a need at the investee company level and meets the IVCA's objective to encourage start-up companies. The course objective is to outline the process involved in raising venture capital. What has distinguished this course from others is the involvement of venture capital managers in providing insight into how to deal with the assessment process. It has been delivered three times within the last eighteen months by IVCA members and will continue annually as long as there is a perceived demand.

The Association acknowledges with thanks the contribution from PwC and from the participating venture capital and legal members delivering the course.

Technical training for participants in venture capital activities is provided in a very professional way by the European Venture Capital Association (EVCA).

Public Relations

The Association has been very active on the Public Relations front with the IVCA increasingly being seen as the authoritative source for comment on the industry. This has been achieved by a proactive approach to media. The Association's public relations advisers, Simpson Financial and Technology PR, are strong advocates of the use of studies and reports to build share of voice and profile in the market.

The Economic Impact Study generated wide media interest and coverage across all national media. The IFI report "Developing Pension Fund Investment Strategy" received significant coverage in the Irish Times. The IVCA VenturePulse (Techpulse) Survey receives national media coverage on each quarterly publication.

In addition, one on one interviews with IVCA chairmen were proactively targeted and pitched the PR advisers and placed with the Irish Times, Sunday Business Post, Sunday Independent, Irish Independent etc. A modern measurement of the impact of PR is that if you "googled" the generic term "venture capital" on the Irish pages of Google, you will find that the IVCA tops the list of featured companies or organisations.



Membership

The Association continues to grow on a year-by-year basis.

New Members

AIB Seed Capital Fund
ETV Capital
Oyster Capital Partners
Who 42 Ltd.

Fountain Healthcare Partners
International Investment & Underwriting (IIU)
RBK Corporate Finance

New Funds

AIB Seed Capital Fund
Fountain Healthcare Partners

Raised €30m
Raised €75m

As expected, the industry has experienced some consolidation with a number of smaller Funds being wound down and a number of new Funds coming on stream. In the current investment cycle the number of Funds is lower than in the previous cycle, but the capital raised and under management is higher.

1st Irish Publicly Quoted Venture Capital Vehicle

The Industry is maturing and this is evidenced particularly by the flotation of Trinity Venture Capital. TVC Holdings successfully floated on AIM in London and on the IEX in Dublin in July 2007, raising €50m in new capital. This was the first flotation of a member of the Irish Venture Capital Association since DCC floated in 1994. TVC had originally focused on investing in Irish software companies, with notable successes such as Norkom Group (floated June 2006), ChangingWorlds, Havok (acquired by Intel for \$110m in September 2007) and Similarity Systems (acquired by Informatica for \$80m in January 2006). By floating its business in July 2007, TVC has been able to provide liquidity to its investors and limited partners while at the same time giving TVC itself access to permanent capital. TVC's strategy is to continue to work with its existing portfolio and to help fund their growth, with a particular emphasis on assisting a number of the companies to grow by acquisition. TVC will also do a selective number of larger new investments. TVC's strategy over the medium term is to have a portfolio of 4 to 6 core, platform investments with whom it will work closely to build shareholder value.

IVCA Membership

Full Members

ACT Venture Capital Ltd
Niall Carroll – Managing Director
Richview Office Park
Clonskeagh
Dublin 14
Tel: 353 1 2600966
Web: www.actventure.com

Bank of Scotland (Ireland) Ltd
Joe Concannon – Investment Director
Bank of Scotland House
124-127 St Stephen's Green
Dublin 2
Tel: 353 1 2674700
Web: www.bankofscotland.ie

Dublin Business Innovation Centre
Alex Hobbs
The Tower
TCD Enterprise Centre
Pearse Street
Dublin 2
Tel: 353 1 6713111
Web: www.dbic.ie

Fountain Healthcare Partners
Manus Rogan - Partner
Adelaide Chambers
Peter Street
Dublin 2
Tel: 353 1 4830836
Web: www.fh-partners.com

AIB Seed Capital Fund
Eanna Daibhis – Administrator
NovaUCD
Bellfield Innovation Park
Dublin 4
Tel: 353 1 2866766
Web: www.aibseedcapitalfund.ie

Delta Partners Ltd
Shay Garvey- Partner
Media House
South County Business Park
Leopardstown, Dublin 18
Tel: 353 1 2940870
Web: www.delta.ie

Enterprise Equity Venture Capital
Conor O'Connor – CEO
Arena House
Arena Rd
Sandyford
Dublin 18
Tel: 353 1 2130720
Web: www.enterpriseequity.ie

Growcorp Group
Michael Donnelly - Chairman
3015 Lake Drive
City West Campus
Dublin 24
Tel: 353 1 4661000
Web: www.growcorp.net

Intel Capital
Damien Callaghan – Director
Collinstown Industrial Park
Leixlip
Co Kildare
Tel: 353 1 6067017
Web: www.intelcapital.com

NCB Ventures Ltd
Michael Murphy – CEO
3 Georges Dock
IFSC
Dublin 1
Tel: 353 1 6115983
Web: www.ncb-ventures.com

TVC Holdings Plc
John Tracey – CEO
Beech House
Beech Hill Office Campus
Clonskeagh, Dublin 4
Tel: 353 1 2057700
Web: www.tvc.com

4th Level Venture University
Seed Fund Limited Partnership
Drew O'Sullivan
The Tower, TCD Enterprise Centre
Pearse Street
Dublin 2
Tel: 353 1 6711288
Web: www.4thlevelventures.ie

Kernel Capital Markets PE Fund
Niall Olden – Managing Director
Rubicon Centre, Rossa Ave
Bishopstown
Cork
Tel: 353 21 4928974
Web: www.kernelcapital.ie

Seroba Bioventures
Peter Sandys – Partner
Alma House, Alma Place
Monkstown
Co Dublin
Tel: 353 1 2140400
Web: www.seroba.ie

Western Investment Fund
Geraldine McLoughlin – Inv Man
Dillon House
Ballaghaderreen
Roscommon
Tel: 353 94 9861441
Web: www.wdc.ie



Affiliate Members

Alchemy Partners
ETV Capital

Associate Members

AIB Corporate Finance
A & L Goodbody
Arthur Cox
Aventura Venture partners
Baker Tilly Ryan Glennon
BCM Hanby Wallace
BDO Simpson Xavier
Beauchamps
Davy Corporate Finance
Deloitte & Touche
Dillon Eustace
Equity Network
Ernst & Young
Eugene F. Collins
FGS
Goodbody Stockbrokers
Howarth Bastow Charleton

IBI Corporate Finance
IIB BankIU
Ion Equity
KPMG
LK Shields
Maples and Calder
Mason Hayes+Curran
Matheson Ormsby Prentice
McCann Fitzgerald
Merrion Corporate Finance
Oyster Capital Partners
PricewaterhouseCoopers
RBK Corporate Finance
Ulster Bank Corporate Banking
Whitney Moore
William Fry
WHO 42 Limited

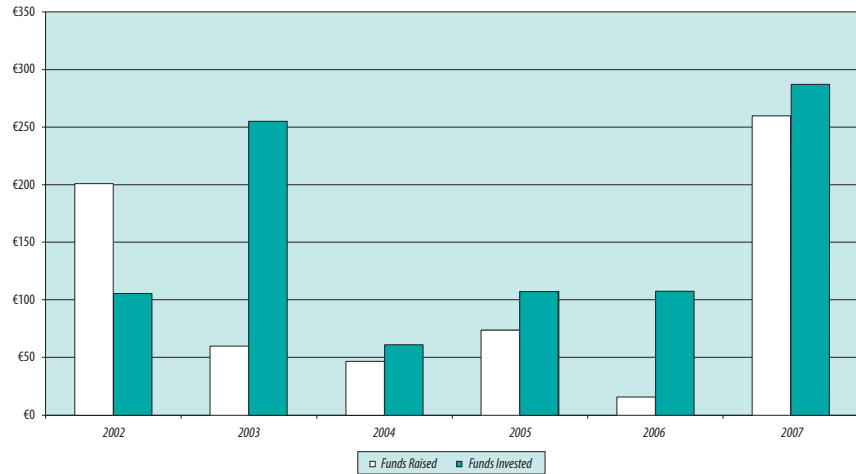
Honorary members

David Fassbender
John McInerney
David Gavagan

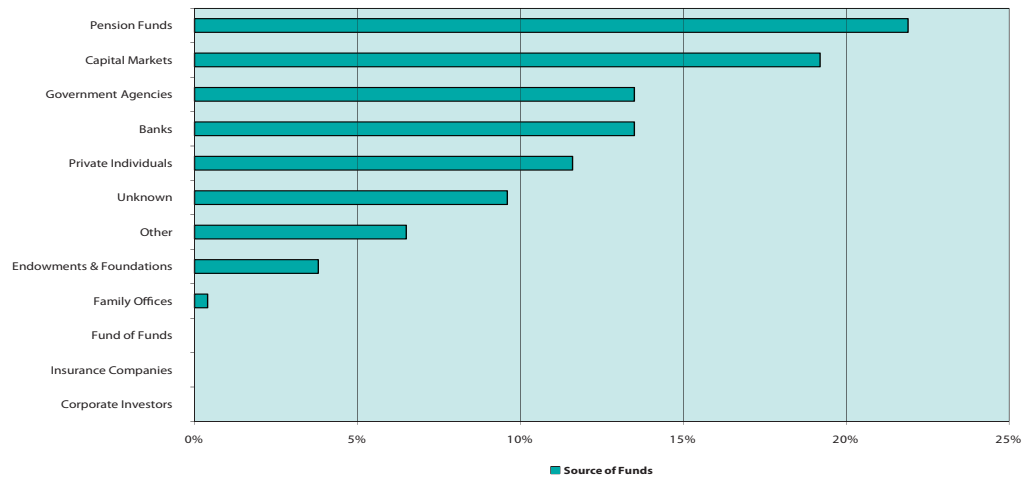
Appendix 1

Industry Statistics

1. Funds Raised/Invested

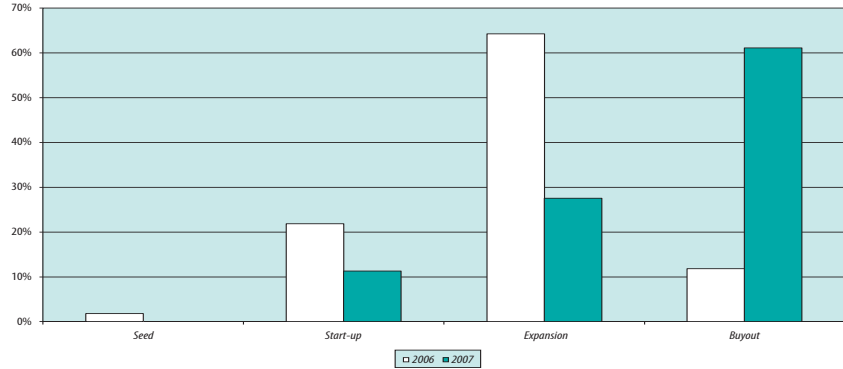


2. Funds Raised in 2007 – Source

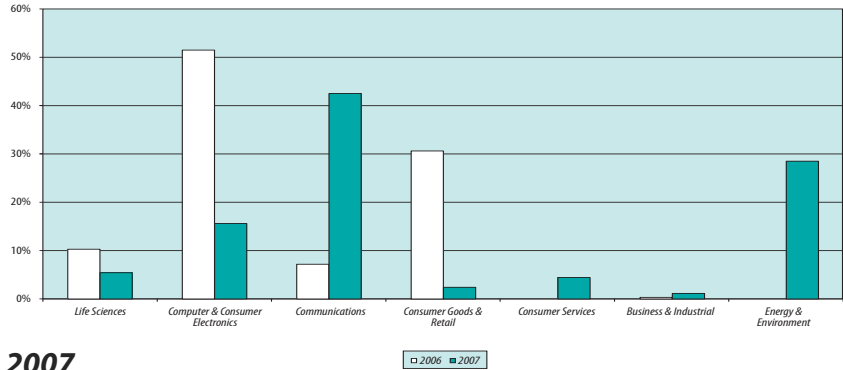


3. Funds Invested in 2006/2007

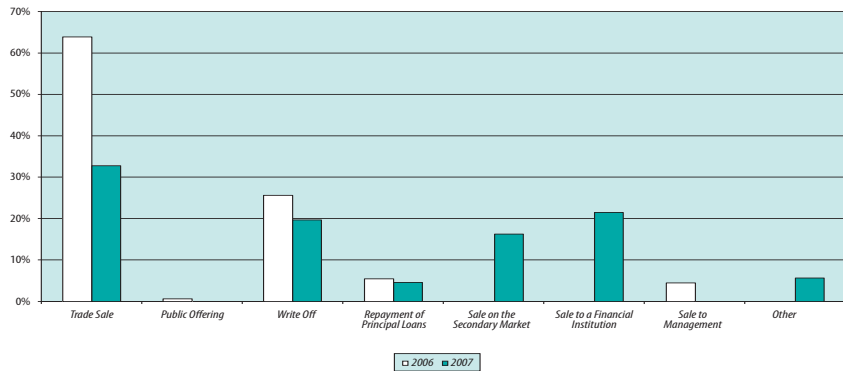
Stage Distribution



Sector Distribution



4. Divestments at cost in 2007 - Exit Route



Appendix 2

The Irish Venture Capital Association Limited

Directors and other information

Directors

Joe Concannon (Chairman)
Peter Sandys (Secretary)
Michael Donnelly
Conor O'Connor
Desmond Fahey
Shay Garvey
John Tracey
Michael Murphy
Niall Carroll

Secretary

Peter Sandys

Bankers

Bank of Ireland
College Green
Dublin 2

Bank of Scotland Ireland
124 – 127 St. Stephen's Green
Dublin 2

Solicitors

William Fry
Solicitors
Fitzwilton House
Wilton Place
Dublin 2

Auditors

KPMG
Chartered Accountants
1 Stokes Place
St. Stephen's Green
Dublin 2

Legal status of company

Company limited by
guarantee not having share capital

Registered office

Fitzwilton House
Wilton Place
Dublin 2

Registered number

103672

Appendix 3

Publications

IVCA VenturePulse

Guide to Venture Capital

Economic Impact of Venture Capital in Ireland

*Developing Pension Fund Investment Strategy –
Adding Value and Diversity Through Irish Venture Capital*

IVCA News

Non Disclosure Agreement

Standardised Legal Clauses



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