

NEW TO MARKET

Venture firms tighten

In the first three months of this year, venture capitalists in Ireland invested €42 million in new businesses. This was up 35 per cent on the same period last year, during which the concurrent figure totalled €31 million.

"The venture capital market has recovered well since the dotcom boom and some important lessons were learned," said Garry O'Rourke, senior manager, corporate finance, Ernst & Young.

"Back then, entrepreneurs had great ideas but lacked the business sense to make them into viable commercial enterprises. Those that survived are proven business models that had identified markets."

According to O'Rourke, there is a general trend towards larger deals, with Corvil Networks having raised more than €15 million in venture capital funding in the first quarter of this year.

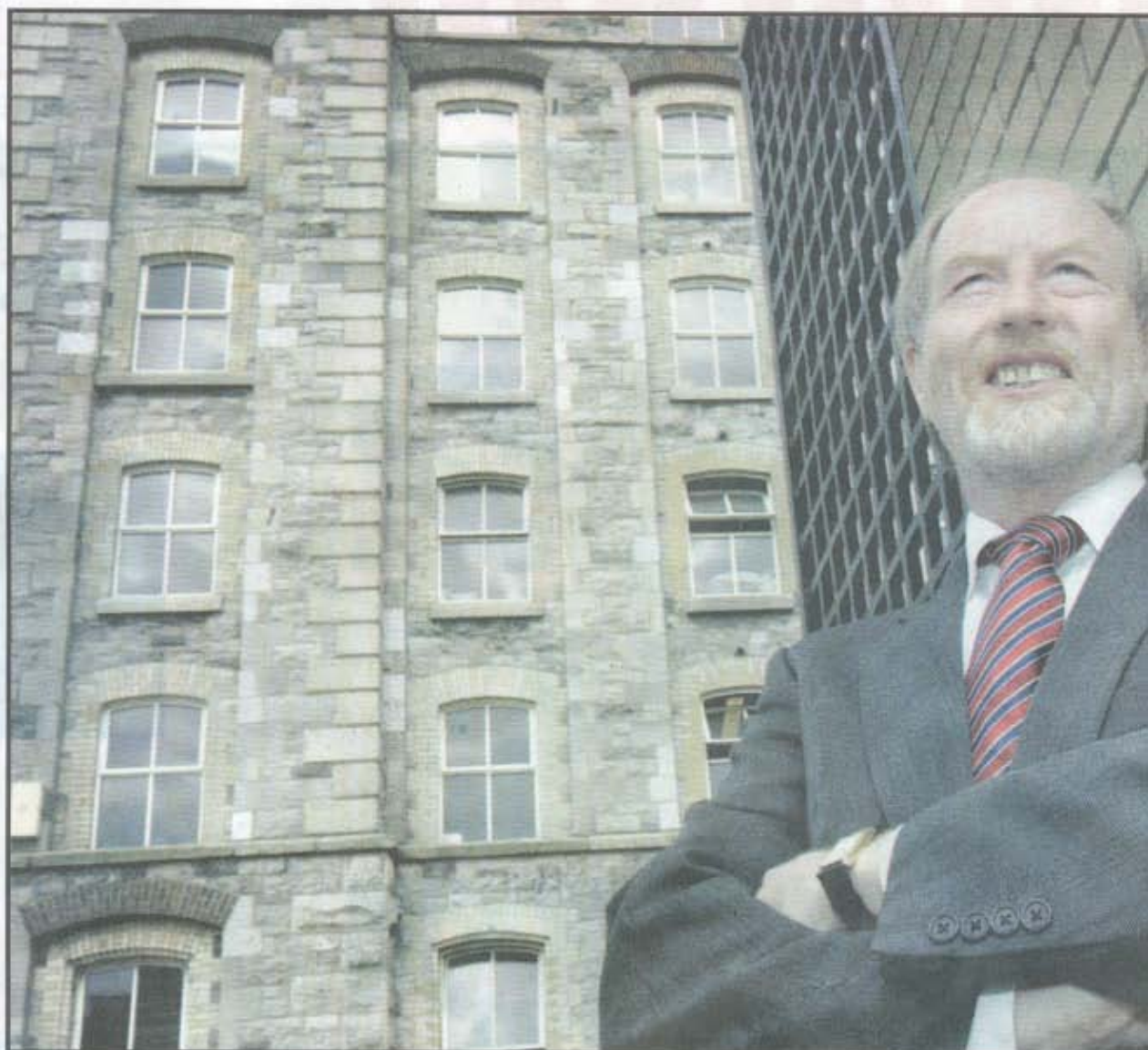
"The involvement of international investors in the Irish venture capital market has become more pronounced with Intel Capital, Apax Partners, Cisco Systems, Amadeus Capital Partners and Polaris Ventures all involved in Irish investments in the first quarter of this year," said O'Rourke.

"VCs are also showing more willingness to co-invest in companies as the Irish VC industry matures."

Although the combined total of venture capital invested in the IT sector fell from €88.43 million in 2003 to €66 million last year, O'Rourke said it continued to dominate the Irish VC landscape. Within IT, software firms are taking the lion's share of the capital on offer, followed closely by companies operating in the telecommunications and semiconductor markets.

"The life sciences sector is on the up," said O'Rourke. "In Ireland, there were 12 deals in

The venture capital market in Ireland is on the up but, without entrepreneurs stand little chance of securing funding, writes J



Desmond Fahey, chairman, Irish Venture Capital Association: 'There are a lot of risk takers out there prepared to give new business a fighting

healthcare in 2004 compared to eight the previous year. The value of these deals was up from €12.52 million in 2003 to €23.07 million in 2004."

Start-ups keen to attract venture capital investment should prepare a detailed business plan, said O'Rourke. "Have a clear strategy to

bring your product or service to market and grow your revenue stream," he said. "You need to have developed a product that is ready for market

and addresses a clear market need. If possible, it is preferable to demonstrate that need by securing your first customer, before approaching VC invest-

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"You must be aspiring to grow rapidly to a significant size within three to five years. This usually means that the target market for the product or service must extend beyond Ireland. However, companies must look to reach the global market in realistic steps."

O'Rourke said venture capitalist firms were generally attracted to companies with a definite and achievable exit strategy.

"Be careful to choose a VC partner whom you feel you will be able to do business with over the long term," he said.

"Most VCs will take an active role in their portfolio companies and you will need to be able to work with your VC to achieve your common goal of growing the business. The strength of the personal relationship between investor and investee is often critical to the success of the business relationship."

According to O'Rourke, many new companies make the mistake of raising insufficient funding at start-up stage.

"A general rule of thumb is to look for double the amount you think you will need," said O'Rourke. "If possible you should also undertake the fundraising process before you actually need the money. This enables you to negotiate with investors from a position of strength."

Desmond Fahey, chairman of the Irish Venture Capital Association said: "There are a lot of risk takers out there prepared to give new business a fighting chance, but a VC will also want to know is there an exit in place, some means of getting back a return for their money."

"Investors are only interested if the business idea makes sense globally. A product or service that is just going to service the Irish market will not be of interest to a venture capitalist."

tors. This will add value to the company."

Having a strong, experienced and proven management team in place is also

important. "Identify areas in which your management team is weak and show your willingness to work with investors to fill these gaps," said O'Rourke.