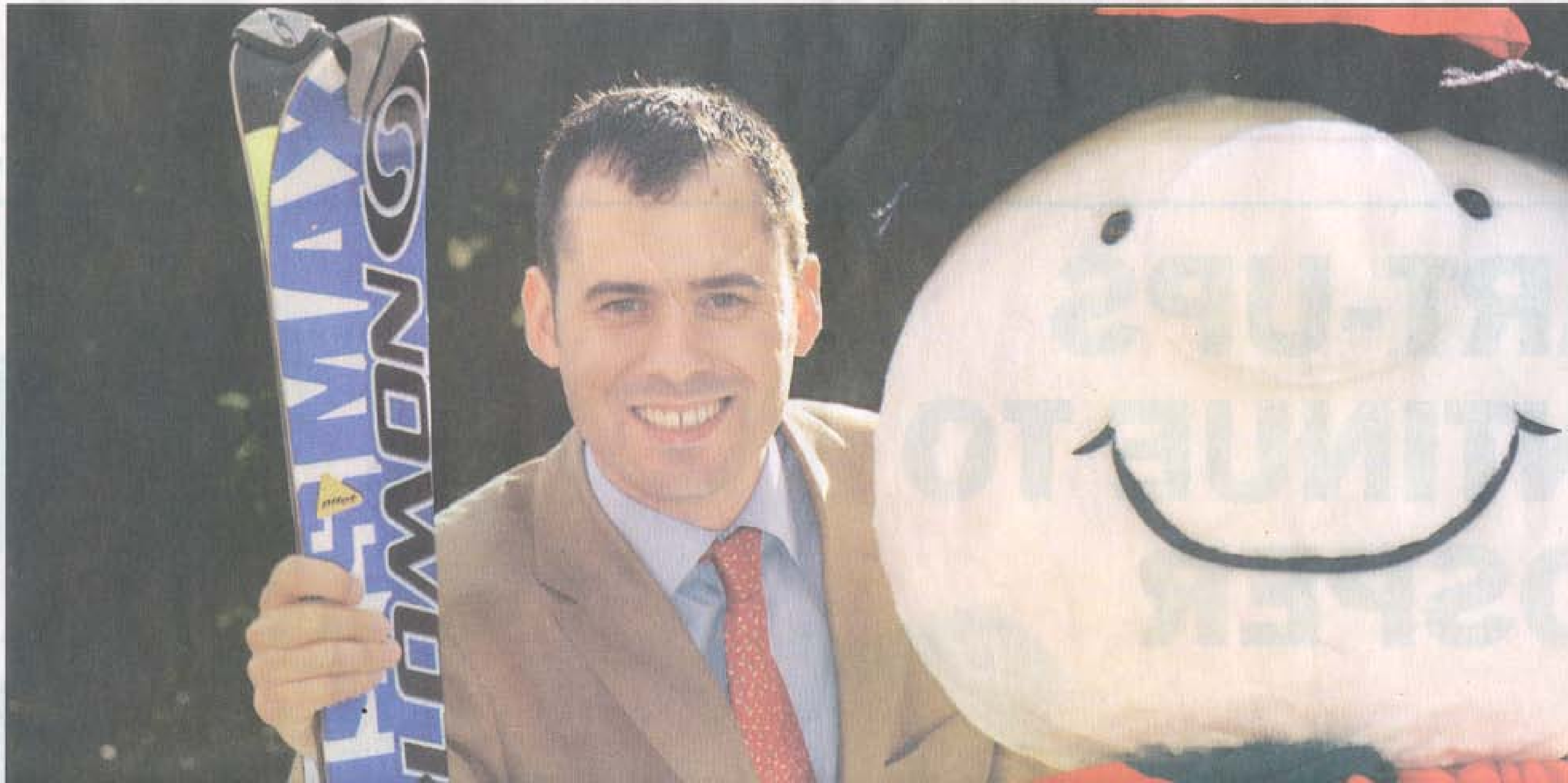
NEW TO MARKET

Venture capitalists generate €1.

Ireland's venture capital industry is worth €1.6 billion, but not all start-ups are suited to outside funding, write



Venture capitalists in Ireland generated €1.6 billion in revenues between 2003 and 2004, according to a new study by the Irish Venture Capital Association (IVCA).

The report, due out next year, also found that Ireland's industry employed about 14,500 people and that VC-backed companies contributed more export revenues and long-term employment creation than their non-VC backed counterparts.

So far this year, Irish businesses have benefited from venture capital (VC) funding totalling between €150 million and €160 million. Knowledge-based companies remain popular with investors, buoyed partly by the recent return to form of the US economy.

IVCA chairman Declan Fahey predicted a number of "interesting" VC exits in the months ahead. "Over the past five to six years, roughly €1 billion has been invested in Irish companies by the IVCA, so naturally we will see money coming back out of those companies," he said.

panies," he said.

He said, however, that a "lack of maturity was holding back the general development of Ireland's VC community". "In terms of investments as a percentage of GDP [gross domestic product], Ireland is at 0.042 per cent compared to the European average of around 0.1 per cent and the US figure of 0.2 per cent.

"We are making strides, but we need to have more venture capital available in Ireland. There is a demand for it, and a willingness by the venture capital community to invest in the knowledge-based economy because it is the future of Ireland, and we believe that Ireland has strong indigenous knowledge-based activity.

"We believe we will be successful and that the returns that are emerging from investment will warrant further investment."

Sean Higgins, manager of Enterprise Ireland's investment services division, said 70 per cent of all VC funding in Ireland went to companies based in and around Dublin, where the country's ICT infrastructure was at its strongest.

In July, however, Enterprise Equity Venture Capital Group and Enterprise Ireland increased their joint regional venture capital fund by €6 million to €22 million. Enterprise Equity, which is the only commercial venture capital company dedicated to serving the border, midlands and western regions, also extended its remit to the south west.

Conor O'Connor, chief executive of Enterprise Equity, said the primary focus of the €22 million fund was Ireland's regional technology industry. Companies supported so far have included Datacare software in Monaghan and Duolog in Galway.

"We invest in manufacturing projects as well, but the reality as a venture capital investor is that, unless they have significant value added, it is very hard to invest in them," said O'Connor.

"We want to invest in companies with a high margin if they are manufacturing or technology companies with good value propositions that will save customers significant money, or increase their revenue."

Rory Quirke, director of Trinity Venture Capital, said the general environment for successful VC funding was improving.

"Market conditions are better. Companies are doing better and when they are doing well they are going to be raising funding," he said.

Colin Walsh, chief executive of Northern Ireland VC Crescent Capital, said that only a limited number of "high-growth potential" companies were suited to venture capital funding. "Only if the business model is going to make quite high profits, or if it creates some very valuable intellectual property, is it going to stack for venture funding," he said. "Companies have to be practical. A lot batter themselves trying to convince fund managers to put money into their proposition when all along it's not really suitable for venture funding."

A proven business background, a keen understanding of the sector in which they operate, and the markets they plan to target is crucial for new business owners, said Quirke.

"Companies need to understand their market and to have validated that market, and have spoken to customers or potential customers," he said.

"The most important thing is that they are able to meet the needs of the people to which they are planning to sell. You have to understand those needs and that comes from being in the sector in which you plan to operate and some form of ongoing interaction with the customer or potential customer."

Higgins said innovation was the key. "Companies have to show they have some advantage over potential competitors. Venture capitalists are usually investing at a stage when the company is not profitable, but they have to show that they have thought out their finances to get them to a stage where they are going to be generating profits," he said.

"It's always prudent to have a cushion of money allowing breathing space if something goes wrong. Businesses can then cope with the difficulty."

Fahey said companies should be looking for money before they needed it.

"They should be marketing their resources in a timely fashion, rather than spending what they have and then seeking to raise money. They should recognise the time-frames necessary for growth. It is a process that should b[e] planned."

Companies successful in a[t]tracting investment offe[r] should bear in mind the nee[d] for a good ongoing rapport be[-]tween both parties, Walsh sai[d].

"They should conside[r] whether the culture of the business and the venture cap[i]tal company is likely to en[-]counter difficulties down th[e] line because philosophical[ly] they are not in the sam[e] space."

Anthony Collins, chief executive, Directski.com: 'It's important to have contingency plans'

Profile: Directski.com

In December 2004, ACT Venture Capital invested €3 million in online ski holiday provider Directski.com. Anthony Collins, who established the company with Dermot McNally in March 2000, said Directski's VC success was partly down to careful business planning.

"We started talking to ACT last August/ September and closed the deal in December 2004," Collins said. "We weren't making a profit at the time, but we projected up to six years in advance. We spent a lot of time looking at the sensitivities and whether the business would still be viable if certain things didn't work out. It's important to have contingency plans."

Collins advised companies to think carefully about the VC they approached for funding.

"Think about what they want and how they expect things to go forward. Some are very risk-averse. Others put money in and look for opportunities to give you more. No approach is better or worse. You just find one that is right for you," he said.