

# Venture Capital

# Giving the funds for the



Venture capital can help with the necessary start-up funding, says **Sandra O'Connell**

The growth potential of many start-up businesses is very often undermined by a significant shortage of venture capital. "We need more funding for early stage companies," says Fergal McCann of InterTradeIreland, the all-island trade promotion agency. "The problem is that it's a difficult sector for venture capital funds to make money from, because of the inherent risks involved with start-ups."

It doesn't help that small-scale funding is proportionately more expensive to administer. "It costs as much money to invest, say €400,000, as it does €2 million, in terms of the due diligence and preparatory work that has to be undertaken," he adds. In effect, with large investments, more of your money goes to work quicker.

"For all these reasons, venture capitalists prefer to invest large amounts at later stages," he continues; a fact that offers no comfort for the vast majority of aspiring entrepreneurs. "What we need is more venture capitalists to invest smaller amounts, earlier."

Venture Capital is medium to long-term finance provided in return for an equity stake in potentially high growth unquoted companies. Obtaining this capital is very different from raising a bank loan. Lenders have a legal right to interest on a loan and repayment of the capital, irrespective of your success or failure.

Venture capital is invested in exchange for a stake in your company and, as shareholders, the investors' returns are dependent on the growth and

profitability of your business.

Those firms that are of interest to venture capitalists

must show good potential for rapid growth, rather than being simply "lifestyle" businesses that provide a good standard of living for their owners.

Traditionally one of the most problematic areas of all has been initial development funding for start-ups. "This is why our Seed Corn Competition is so important, it highlights the good opportunities for investment that are out there," notes

## A vote of confidence in Ireland

Belfast-based Crescent Capital is one of the most active early stage VC investors on the island of Ireland. It recently launched its £22.5 (about €33) million Crescent Capital II fund, the largest local source of venture capital available to early stage high tech companies in Northern Ireland. According to Leslie Morrison, chief executive of Invest NI, which has contributed £7.5 (€11) million to it, the fund is a welcome boost for Northern Ireland's venture capital market.

As well as Invest NI, which is the largest investor in the fund, the European Investment Fund and the New York State Common Retirement Fund - America's second largest pension fund, have made major contributions.

Other significant investors include Northern Queen's University, the University of Ulster, Ulster Bank, NILGOSC and Martin Naughton of Glen Dimplex.

Crescent Capital managing director, Colin Walsh, said the commitment made by the fund's investors represents a major vote of confidence in Northern Ireland and a sign of maturity in the local venture capital industry.



**Fergal McCann of InterTrade Ireland, the all-island trade promotion agency**

McCann. The competition offers a prize fund valued at €230,000 for what it deems the best business plans on the island. This works out at €100,000 for the overall winner and six regional prizes of €20,000.

There is also a discretionary prize of €10,000 for ventures stemming from university spin outs. Previous winners have gone on to successfully raise more than €16 million for their businesses.

"Though we have no money of our own to invest, InterTradeIreland can also help the entrepreneur by ensuring their business is investor ready," claims McCann. "We work with them on their business plan and indicate what it is an investor is likely to want to see. We can also put them in touch with sources of funding."

Such grooming is vital, he says: "When it comes to looking for investment, you really don't get a second chance to make a first impression."

Misconceptions abound. For example, to the aspiring entrepreneur, the fact that no competition exists for his or her service or product means they're on to a winner.

"From the investor's perspective, it most likely indicates that there isn't any demand for it," adds McCann. "What we can do is challenge them in this regard."

The organisation has put together a straightforward Guide to Venture Capital which is available online at [intertradeireland.com](http://intertradeireland.com)

According to the Irish Venture Capital Association, Irish venture capitalists invested €61 million in Irish companies last year. Just under 90 per cent of this went to technology firms.

The good news for start-ups is that IVCA review also indicated a shift away from expansion support towards start ups. In total, VCs invested €28 million in 48 start-ups in 2004.

Business development agency Enterprise Ireland also partners with private VCs to provide finance. Under the National Development Plan, the government committed €95 million to the development of the venture capital market for SMEs.

The agency has committed to 15 funds which are targeted at early stage SME development, and to giving funding amounts of less than half a million euro.

Despite this, most small-scale funding remains the domain of the business angel.

These are private individuals

## Helping build growth in the Irish private sector

Enterprise Equity Venture Capital Group is one of the best known VC companies in Ireland to offer early stage funding. To date Enterprise Equity Venture Capital Group has invested €48 million in 73 companies in North and South.

Established in 1987 by the International Fund for Ireland as a commercial Venture Capital company, its objective is to stimulate viable and self-sustaining growth in the private sector of the economy.

This is achieved through the investment of equity capital in well managed, innovative and growth orientated companies.

It has established two venture capital funds on a joint ven-

ture basis with Enterprise Ireland. These are a €15 million one aimed at established growth-oriented companies and a €7 million seed capital fund aimed at early stage technology companies. Both are managed by Enterprise Equity.

Typically it invests for between four and seven years, providing equity finance for seed capital, early stage projects, business development and acquisition projects.

Individual investments can be made up to €1 million.

It will also participate in larger deals through syndication, and has a well-developed network of potential syndicate partners.

# e all-important start-up

willing to invest smaller amounts and are the most common source of equity funding for smaller firms.

"The recent Global Entrepreneurship Monitor indicated the need for us to better harness the private angel network and that is what we aim to do," says Fergal McCann.

"The challenge for many

small businesses right now is in persuading investors to back their business, rather than put their money in property, which so many feel is its natural home."

Enterprise Ireland maintains a database of Business Angels, and an entrepreneur seeking one can submit a request to EI, which will conduct a search to identify

business angels with an interest in the sector and the required funding level.

InterTradeIreland is developing networks of business angels under the Halo programme. This aims to educate investors and entrepreneurs as to how best to communicate with one another.

It will also help them find one

another in the first place, a traditional problem with the business angel structure.

"By their nature business angels are hard to find, because they are private individuals. The Halo programme, which is in Belfast and was recently launched in Dublin, should help overcome that problem," says McCann.