



Financing Research, Development and Innovation (RDI) through equity instruments in Northern Ireland in the 2014-2020 ESIF Programme

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Introduction to Northern Ireland (NI)



- The NI economy is dominated by SMEs (98% of companies), of which 89% are micro enterprises
- Access to finance has been a major constraint to SME growth
- SMEs are generally focused on short term rather than long term strategies for growth
- The equity market in NI is relatively underdeveloped compared to other parts of the UK and Ireland



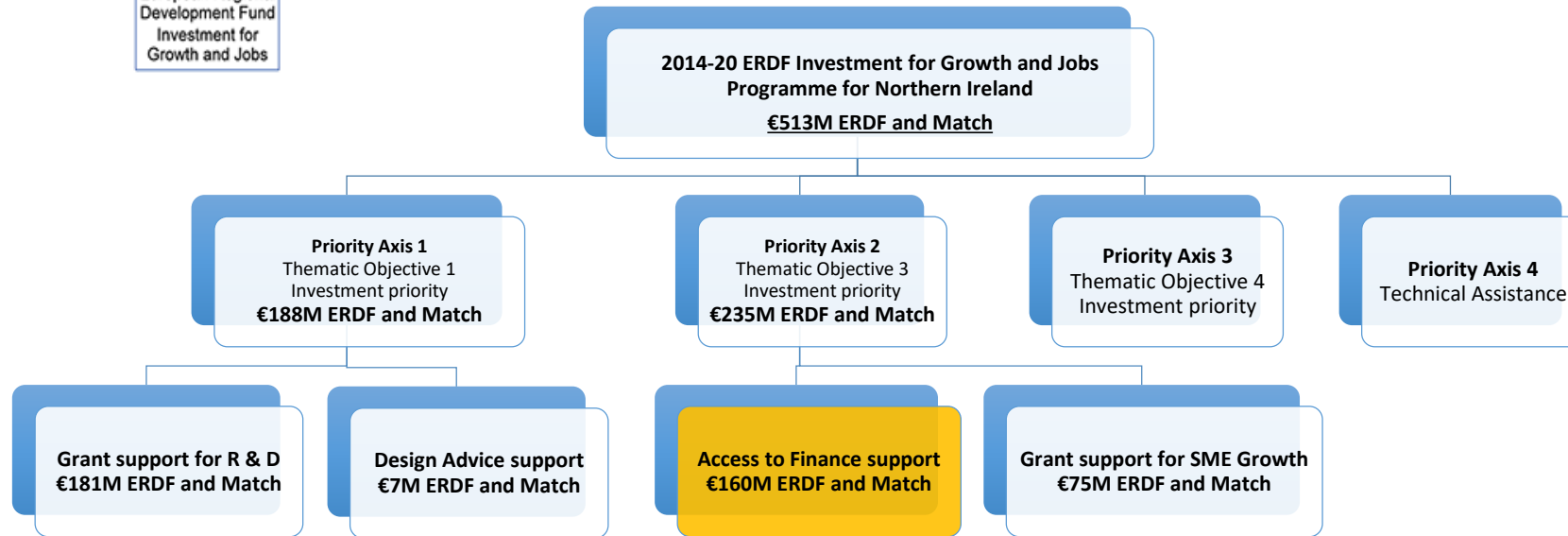
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NI Operational Programme



Investment for Growth and Jobs Programme 2014 - 2020



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FIs in Operational Programme



- Invest NI is an Intermediate Body for TO1 (PA1) and TO3 (PA2) of the NI Operational Programme
- FIs are supported through TO3 – SME Competitiveness
- Invest NI does not use a Fund of Funds (FoF) structure for delivery, all Funds are stand-alone, separately procured
- All ERDF supported Funds are based on an ex-ante assessment demonstrating market need
- Invest NI’s “Access to Finance” suite of Funds addresses all stages of the SME development cycle in NI:
 - Seed funds
 - University funds
 - SMEs Equity funds
 - Development funds
 - Loan funds

Indicators for FIs
Target value at 2023

Supported SMEs

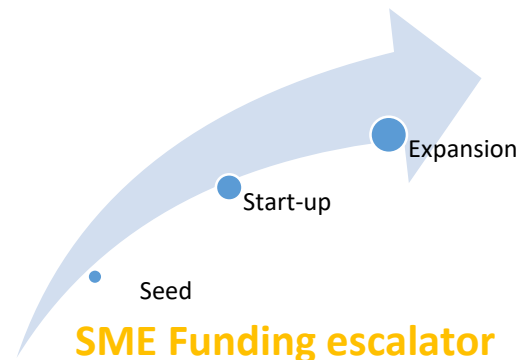
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New SMEs supported

102

Minimum Private investment matching ERDF support to SMEs

€59M



Why use Financial Instruments?



Expected to be repaid – enhances sustainability

Revolving nature – recycled income

Are only Suitable for financially viable projects

Can take the form of loans, guarantees or equity

Designed to attract matching private investment

May be (carefully) combined with grant supported interventions

Encourages moving from grant support to repayable assistance

- EC focused on FIs having a stronger role in delivery of Cohesion policy in all 2014-2020 Operational Programmes, and also in Europe 2020 Strategy
- FIs are a resource-efficient way of deploying ESIF financial support



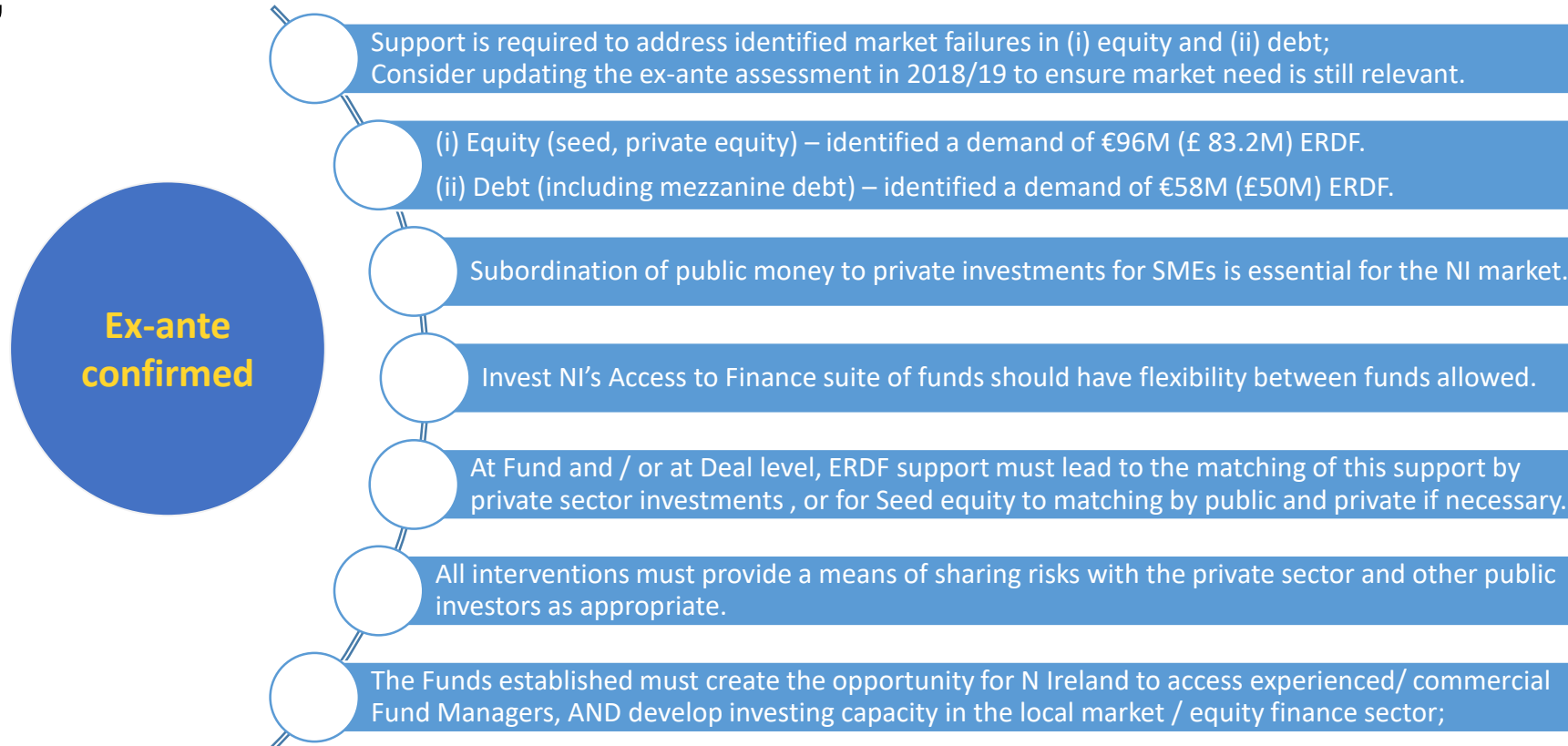
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Ex-ante assessment



Market need assessment: The value added nature of “Access to Finance”



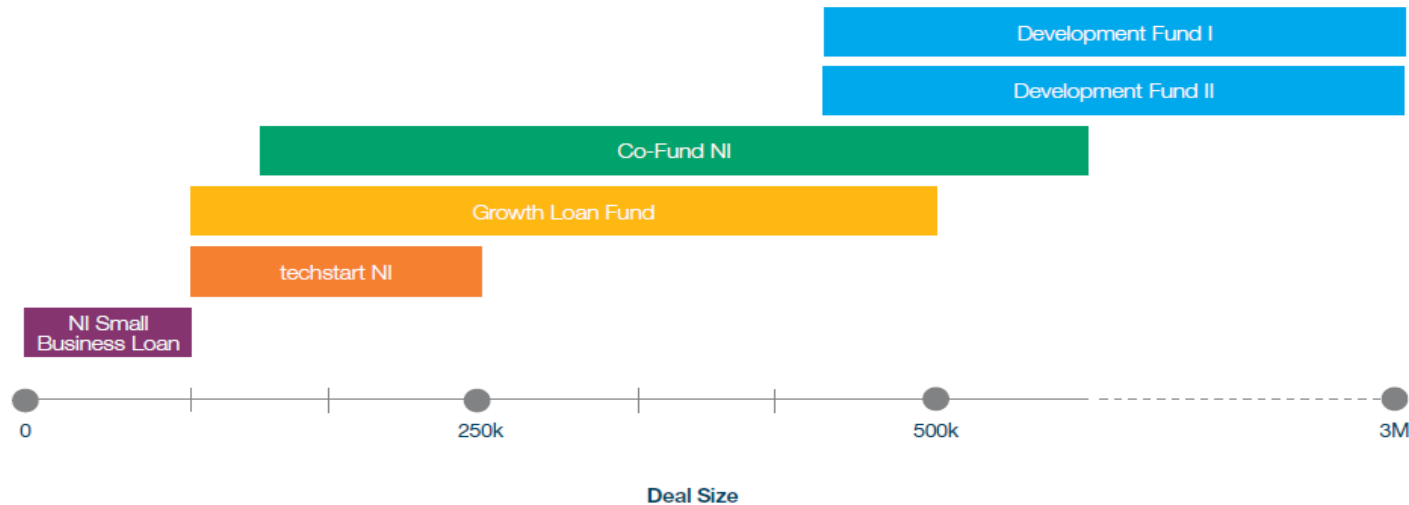
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Design and set-up



Invest NI's "Access to Finance" Strategy - Providing a Risk Capital funding continuum from start-up to development capital of up to £3m



- NI Small Business Loan Fund (£5m) (Debt)
- techstart NI (£29m) (Equity & Grant)
- Growth Loan Fund (£50m) (Debt)
- Co-Fund NI (£28m) (Equity)
- Development Funds (£60m) (Equity)



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Design and set-up



Governance of Financial Instruments

- For strategic oversight and direction for all Invest NI activity:
 - Invest NI Board
 - Access to Finance Board Working Group – Comprises Invest NI Board members and external experts, established in 2011. Meets 4 times per year.
- For operational responsibility - Invest NI's Corporate Finance Division.
- For Fund oversight and monitoring – An individual Invest NI Executive is allocated per Fund.
- Invest NI's Financial Instruments are State Aid covered:
 - General Block Exemption Regulation (EU) 651/2014 (GBER).
 - Commission Regulation (EU) No 1407/2013 (De Minimis Aid).
- Fund Managers are procured through approved processes using NI's Central Procurement Directorate (CPD), to ensure compliance with procurement regulations (OJEU tender).
- Each Fund is then separately managed by an appointed Fund Manager that is UK Financial Conduct Authority (FCA) regulated.
- Invest NI has a Limited Partnership Agreement (LPA), or a Management Service Agreement (MSA), with each Fund Manager by way of contracted obligations.

This strong governance structure is critical to ensure the professional credibility of Invest NI's Access to Finance funding continuum



Investment decisions are the sole responsibility of the appointed Fund Managers



Implementation (1)



KPIs

Purpose: *Provide co-investment funding alongside private investors and/or business angels, in order to meet an identified funding gap in a proposed investment.*

- Targeting co-investment in SMEs incorporated under the laws of NI, and having operations that are based substantially in NI
- Operating in accordance with best VC industry practice and the Financial Services and Markets Act
- Co-investing at market conditions, at the same price and same commercial terms as pre-qualified investors

- Separate Funds, Co-Fund 1 and Co-Fund 2
- 8 to 10 Investments per annum in two separate investment periods of 6 years
- Deal size range of £250,000 - £450,000 with target of average ERDF Investment of £150,000 per deal per annum
- ERDF to be invested pari-passu with pre-qualified investors
- Average private to public funding ratio in portfolio to be greater or equal to 55:45
- To invest £7.2m (Co-Fund 1) and £17m (Co-Fund 2) over the periods by way of 1st investment and by follow-on as required
- Pre-qualify ≥ 6 private investors and/or business angels as Pre-qualified Investors over the period of each Fund
- At least 3 of these are to be pre-qualified in the first 2 years of each Fund's Term.

Co-invest in Companies demonstrating one or more of the following features:

manufacturing, or producing a product, or providing a service, with one or more unique aspects

early sales or demonstrable customer traction

an experienced but not yet complete management team

have export and global growth prospects

a scalable business model

have an identified exit strategy



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Implementation (2)



Purpose: *Provide development stage Investments by way of expansionary capital, in anticipation at least early revenue generation, scaling-up and/or technology commercialisation*

- Target investments in innovative businesses (SMEs) incorporated under the laws of NI and having operations that are based substantially in NI
- Operating in accordance with best VC industry practice and the Financial Services and Markets Act

Two separate Funds, each Investing in a minimum of 15 Portfolio Companies with 40 deals across the lifetime of the Fund

Deal size range between £450,000 - £1.2M

Each Fund to raise private investment at fund level of at least £15M:
- £7.5M at first close
- £15M at final close

Invest in Companies demonstrating one or more of the following features:

management teams with track record

have a scalable business model

potential to generate high returns

businesses with attractive entry price

have export and global growth prospects

have an identified exit strategy



Implementation (3)



Purpose: Provide seed and early stage investments, with a special focus on technology and / or innovative services businesses having high growth potential.

- Implement and manage Techstart NI, which is an integrated suite of equity funds and grant funds and includes a capability raising programme for Investment Awareness
- Target investments in innovative SMEs that are based in Northern Ireland .
- Operate in accordance with best VC industry practice and the Financial Services and Markets Act.
- The Fund Manager has absolute discretion on Investment decisions and management of Portfolio Companies.



KPIs

Establish and manage 10 year Limited Partnerships as the funding vehicles for each of the equity funds (SME, QUB, UU)

Ensure there is private investment at deal level, in compliance with State Aid rules

Complete between 9 and 13 investments in different companies per annum in the first 5 years of the Fund, totalling between 54 and 65 Investments over this period

Deal size to be in the range of a minimum £50,000 and maximum £250,000 invested

Drawdown at least 70% of the funding commitment over the first 5 years of the Fund's Term, and the remaining 30 % to be drawn down between year 6 and year 8

Ensure a dedicated team is established and maintained for management and control of the Limited Partnership Agreement

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Invest in Companies demonstrating one or more of the following features:

have a product, or provide a service, having one or more unique aspects (and a strong intellectual property (IP) base)

have a scalable business model

have early sales, or demonstrable customer traction

have export and global growth prospects

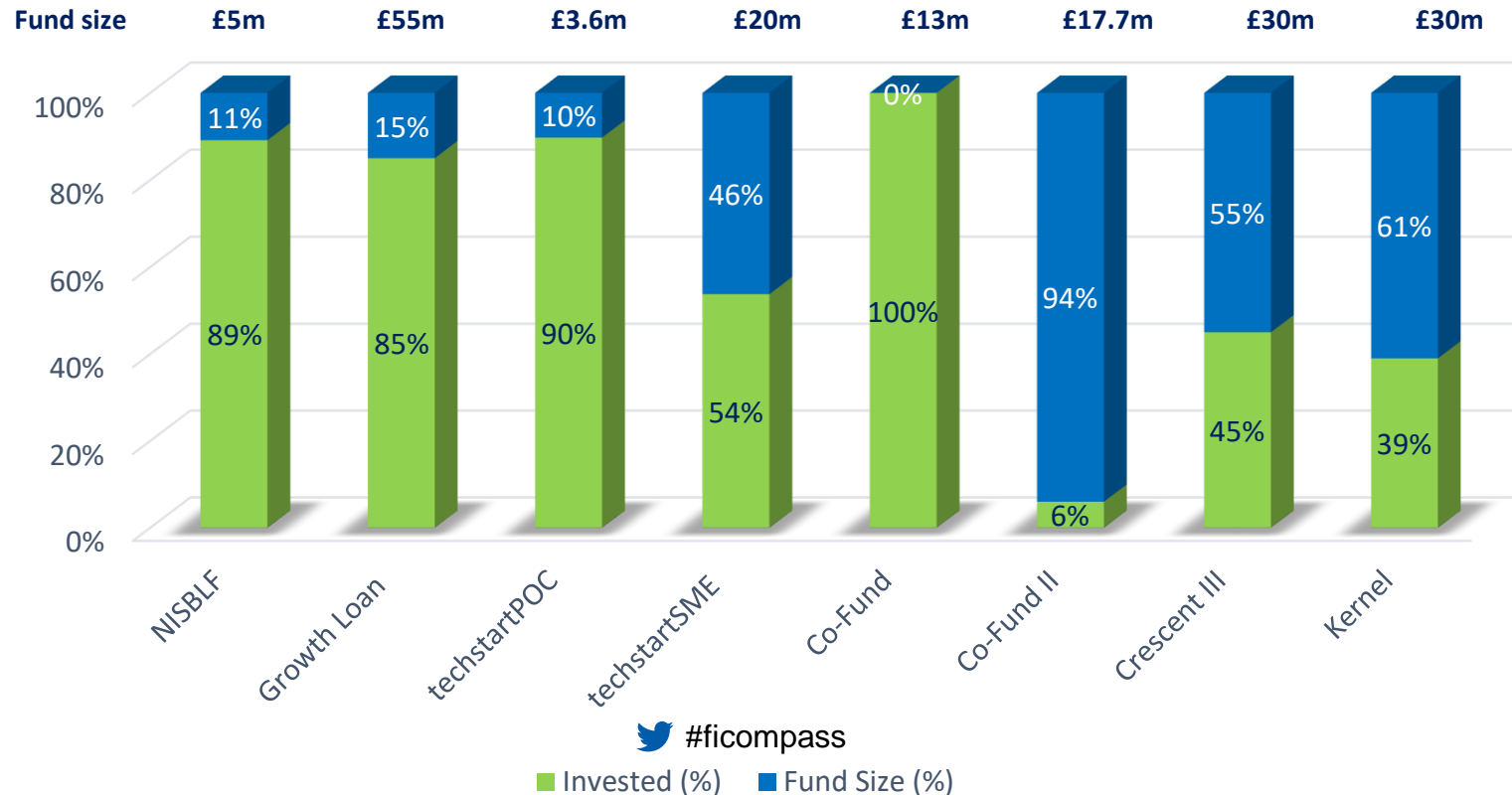
have an experienced but as yet incomplete management team

have an identified exit strategy



Performance of Invest NI Funds

Percentage of approved funding invested at 31st March 2018



ERDF Equity Funds Performance April 2011 to March 2018

Fund	Total Invested	No of investments	No of investee SMEs
Co Fund	£47.0	121	39
Crescent Development	£17.4	16	10
Kernel Development	£17.5	21	7
Techstart SMEs	£19.1	54	30
Techstart University (QUB)	£ 2.0	8	4
Techstart University (UU)	£ 2.0	7	5
Co-Fund 2	£ 5.7	9	7
TOTALS		236	102

Total ERDF invested	£33.3
Total of investments, adjusted for joint investments (ERDF + Match funding)	£95.3

Invest NI's Access to Finance Strategy

7 year Performance from April 2011 to March 2018
(including Loan Funds that are not ERDF supported)

- **795 Deals**
- **Total Investment £210.3 million**
- **547 Businesses Supported**

