



Financial instruments for enhancing SME competitiveness

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Access to Finance Solutions for SMEs in Northern Ireland

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Presentation Content

Section 1 - Strategic Context

Section 2 - Ex–Ante Assessment

Section 3 - Design and Set-up of Funds

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Access to Finance Solutions for SMEs in Northern Ireland

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Section 1

Strategic Context

TO 3



Enhancing the
competitiveness of
SMEs

Key characteristics

- Northern Ireland
- ERDF Investment for Growth & Jobs Programme
- TO 3 Enhancing the competitiveness of small and medium-sized enterprises (SMEs)
- Invest Northern Ireland – Intermediate Body of the Operational Programme (OP)
- Access to Finance Solutions – OP budget of €152M (ERDF and Match)
- 4 Equity Funds in place with 4 separate Financial Intermediaries involved

Strategic context

Introduction to the region

Constituent country of the UK

- Capital: Belfast
- Population 1.8 million (2011), 3% of the UK
- Currency - Pound sterling (GBP)
- Total area 14,130 km², 6% of the UK territory
- GDP (per capita) is £22,400 (2013)
82 % of the EU average
- Unemployment - 6.1 % (2014)
- Universities: Queen's University Belfast and Ulster University



Introduction to the region

NI economy dominated by SMEs (98% of companies)

of which 89% are micro enterprises

- Access to finance is a major constraint to SME growth
- SMEs focused on short rather than long term strategies for growth
- Equity market is still very underdeveloped compared to other parts of UK and Ireland



Strategic context

– Specificity of the TO



TO3 – SME Competitiveness

- SMEs play a vital role in the NI economy
- NI firms have among the lowest levels of innovation activity amongst the UK regions
- Barriers to innovation activity include lack of access to capital



Access to finance is widely recognised as one of the key drivers of high growth

Thematic Objective 3



Key facts

- *promoting entrepreneurship*
- *developing and implementing new business models for SMEs*
- *creation and the extension of advanced capacities for product and service development*
- *supporting the capacity of SMEs to engage in growth in regional, national and international markets, and in innovation processes*

Strategic context

– Specificity of the TO

FI intervention logic



- Encourage business growth
- Increase number of high growth companies
- Compete in the global economy

In line with UK's Partnership agreement adopted by EC on 29 October 2014

Strategic context

– Specificity of the TO

Why FI

- Stronger role in delivery of Cohesion policy in 2014-2020 OPs and Europe 2020 Strategy
- Resource-efficient way of deploying ESIF

Expected to be repaid

Revolving nature

Suitable for financially viable projects

Can take the form of loans, guarantees or equity

Designed to attract private investment

May be combined with grant supported interventions

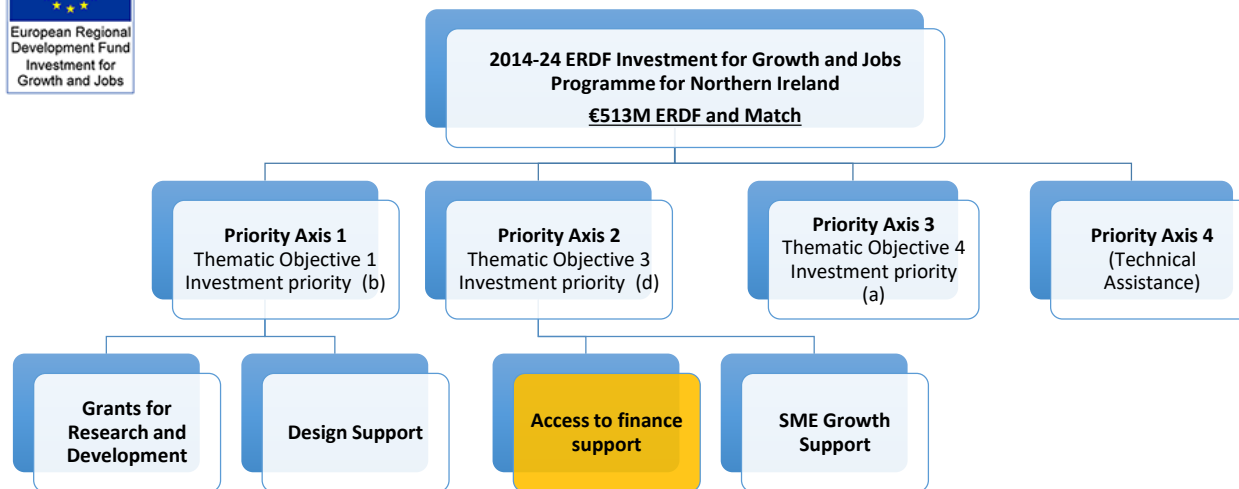
Encourage move from grant culture

Strategic context

– Specificity of the TO



Investment for Growth and Jobs Programme 2014 - 2020



Strategic context

– Specificity of the TO



TO 3 in NI and the FIs

- €226 million (ERDF + match) dedicated to TO3 under the management of Invest NI (44 % of the OP)
- €152 million or circa 2/3 of the P2 budget is focused on access to finance
- FIs budget in OP = 30 % of the total budget and is 37% of Invest NI's ERDF activity
- FIs under P2 aim to complement other support to SMEs envisaged under P2 & P1:
 - R&D grants
 - Design Development
 - SME support via grants



- Non-Departmental Public Body of the DfE
- Established in April 2002
- Headquarters in Belfast with offices in Ireland, North America, Asia Pacific and mainland Europe
- Staff of over 600 ppl.
- Role: to grow the local economy.



Strategic context

– *Past and envisaged future*



Experience and lessons learned 2007-2013

- European Sustainable Competitiveness Programme for Northern Ireland 2007-2013 OP
- Focus on fewer more strategic interventions
- Focus on outputs/outcomes/results
- Establish robust management & control systems from outset
- Greater use of FIs to encourage SMEs away from grant support
- FIs provide recycled income which enhances sustainability
- Planning can never start too soon!



Strategic context

– *Past and envisaged future*



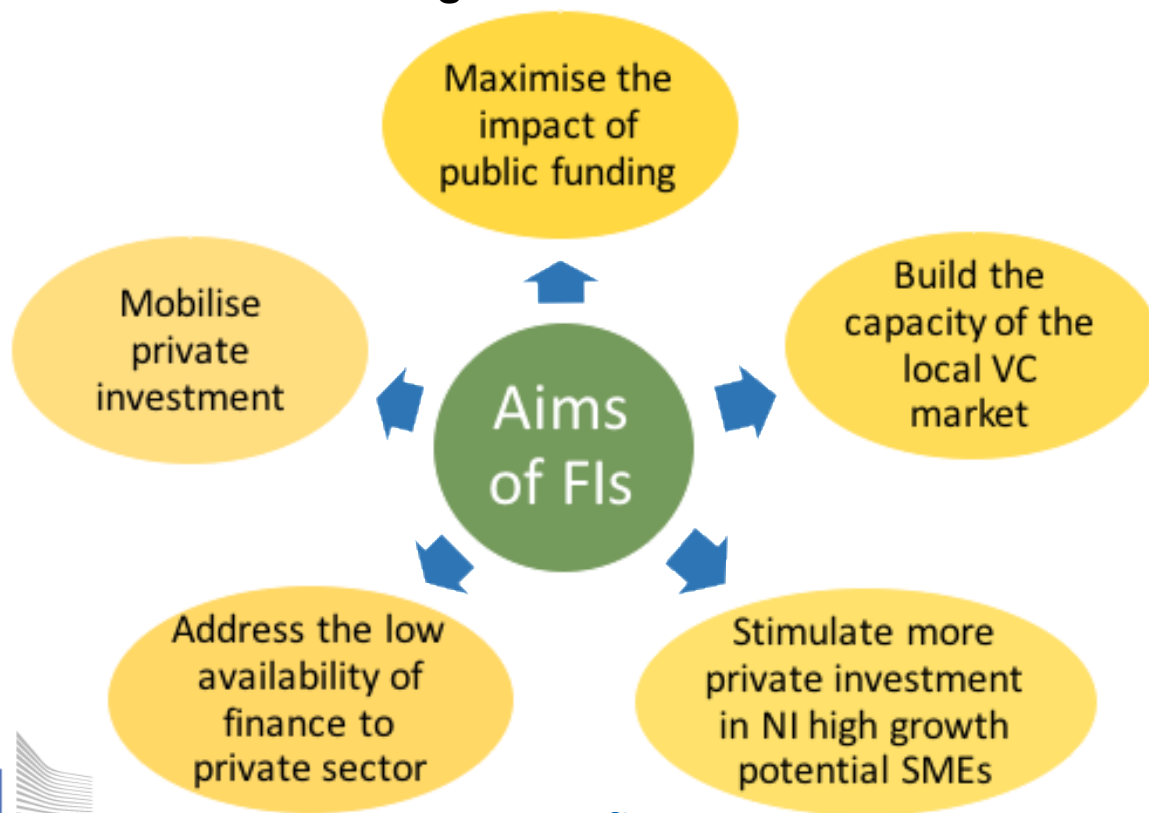
FIs in 2014-2020

- **Investment Priority** – Supporting the capacity of SMEs to grow in regional, national and international markets, and to engage in innovation processes
- **Specific objective** is to increase the number of High Growth SMEs in NI
- **Stakeholders:** DfE (MA), Invest NI (IB), Fund managers, Local Councils in NI, SMEs, other relevant bodies



Strategic context

– *Past and envisaged future*



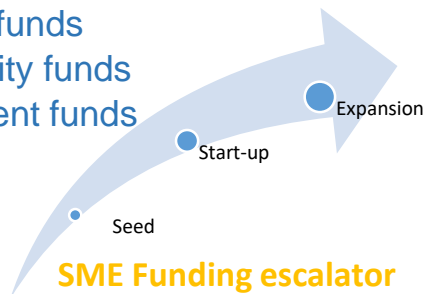
Strategic context

– Past and envisaged future



FIs in 2014-2020

- Invest NI appointed as IB for PA1 and PA2
- No Fund of Funds (FoF) structure
- Interventions based on ex-ante assessment
- Suite of Funds addressing all stages of the development cycle of SMEs in NI:
 - Seed funds
 - University funds
 - SMEs Equity funds
 - Development funds
 - Loan fund



Indicators
Target value at 2023

Supported
SMEs

464

New SMEs
supported

102

Private
investment
matching
public
support to
SMEs

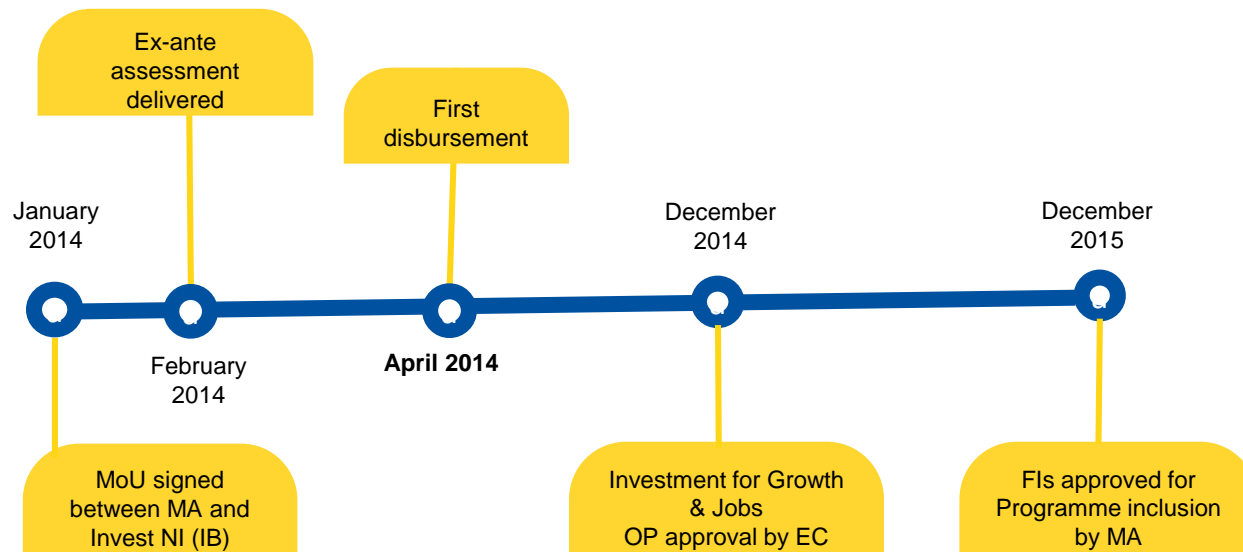
€59 M

Strategic context

– Timeline



Overview





Section 2

Ex-Ante Assessment

Ex-ante assessment

– Approach

Overview

- EC requirement. No ex-ante = no FIs
- Completed by external consultant
- MA contracted RSM McClure Watters
- Timetable: 4 months
 - ❑ Assignment started in December 2013
 - ❑ Final report submitted in March 2014
- TA funded at cost of ≈ £30,000.

Ex-ante conclusion:

Invest NI's proposed FI provision and access to finance strategy in line with areas of market failure identified for NI SMEs with growth and export potential



Ex-ante assessment

– The study

Market assessment (1/4) – Market failure, suboptimal investment

- Methodology



- Market Failures identified for:

- Equity (seed, private equity): with a demand of £ 83.2M
- Debt (including mezzanine debt) : with a demand of £ 50 M

Gap size

Up to £154M
ERDF for the
period 2014-2023

- University Proof of Concept (POC) grants to sit alongside the Seed Fund which is targeted at SMEs.

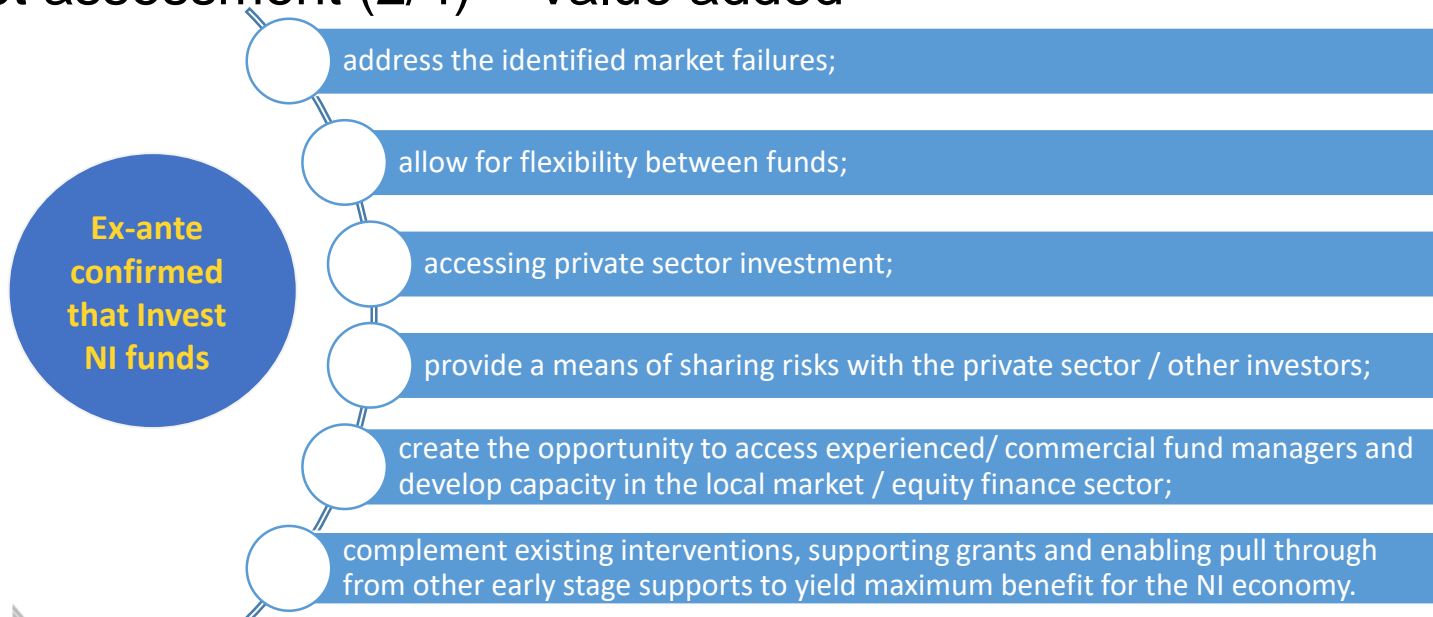
Anticipated ERDF funding from OP
≈ £ 70M

Ex-ante assessment

– The study



Market assessment (2/4) – Value added



Ex-ante assessment

– The study

Market assessment (3/4) – Additional public and private resources

FIs (ERDF budget c.£70m) should result in mobilising the following of private investment per fund by 2023:

- ✓ 30% private match funding required at deal level in the **seed/early stage** fund;
- ✓ 55% private match funding required at deal level in the **co-investment** fund;
- ✓ 50% private match funding required in the **development** funds;
- ✓ 50% private match funding required in the **growth loan** fund.

Note:

- 1) *No requirement for private sector funding in the University Funds but it is accepted.*
- 2) *Additional private sector leverage also possible at deal level in the development funds.*
- 3) *In the seed/early stage funds the full match amount requires also 10% public funds*

Ex-ante assessment

– *The study*



Market assessment (4/4) – Lessons learnt

Planning and Needs
Analysis

Lack of 'investment
ready' businesses

Local and National
Networks

Need to incentivise
Investment
Managers

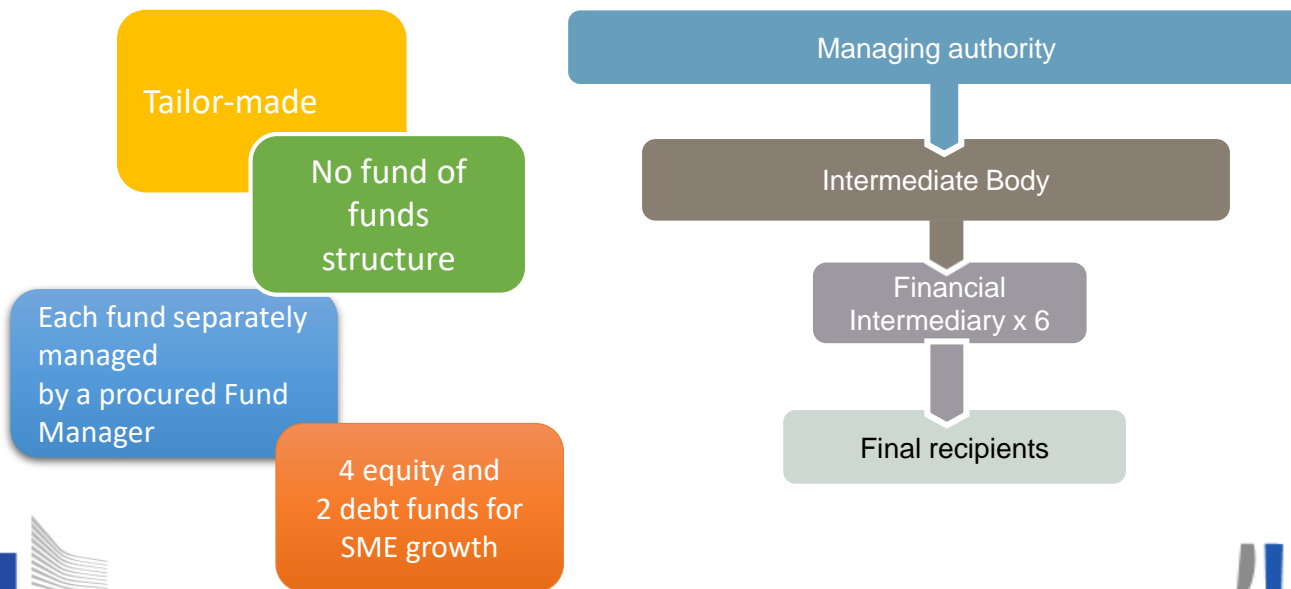
Strengthen links
with HALO /
Business Angels

Encourage Deal
Flow across Funds

Ex-ante assessment

– The study

Delivery and management (1/4) – Proposed investment strategy



Ex-ante assessment

– The study

Delivery and management (2/4) – Proposed investment strategy

- The ex-ante assessment recommended the following ERDF (Public) and Private sector match for the period 2014-2023 for the Equity Funds.

	ERDF		Other Public		Private		Total
techstart University Fund I	£2.2m	60%	£1.4m	40%	£0.0m	-	£3.6m
techstart University Fund II	£1.4m	60%	£1.0m	40%	£0.0m	-	£2.4m
techstart Equity Fund I	£13.8m	60%	£2.3m	10%	£6.9m	30%	£23.1m
techstart Equity Fund II	£9.2m	60%	£1.5m	10%	£4.6m	30%	£15.3m
Co-Fund I	£8.0m	47%	£0.0m	-	£9.0m	53%	£17.0m
Co-Fund II	£15.9m	46%	£0.0m	-	£18.3m	54%	£34.2m
Development Funds I	£26.0m	50%	£0.0m	-	£26.0m	50%	£52.0m
Development Funds II	£20.0m	50%	£0.0m	-	£20.0m	50%	£40.0m
	£96.5m	51%	£6.2m	3%	£84.8m	45%	£187.6m

- Any shortfall in funding requirement for Equity Funds to come from recycled ERDF, other public contribution or enhanced private contribution

Ex-ante assessment

– The study



Delivery and management (3/4) – Expected results

Techstart NI– University Investment Funds	Techstart NI – SME Equity Fund	Co-Investment Fund	Development Funds	Growth Loan Fund
No of Enterprises receiving support 14 Investments	No of Enterprises receiving support 40 Investments	No of Enterprises receiving support 51 Deals	No of Enterprises receiving support Over 20 companies	No of Enterprises receiving support 30-40 Deals per annum
Private Investment matching Public Support (N/A)	Private Investment matching Public Support – £5.6m	Private Investment matching Public Support – 55% or £9.68m	Private Investment matching Public Support – 50% or £30m	Private Investment matching Public Support £25m
Employment Increase in Supported Enterprise 147	Employment Increase in Supported Enterprise 637	Employment Increase in Supported Enterprise 686	Employment Increase in Supported Enterprise 750	Employment Increase in Supported Enterprise 2100
Result indicators: <ul style="list-style-type: none"> Perception of SMEs on ability to access finance to fund growth (to be measured through survey), and Experience of SMEs in accessing finance to fund growth (to be measured through survey). 				

Ex-ante assessment

– The study



Delivery and management (4/4) – Recommendations

- ✓ Update of the ex-ante assessment if the market changes and/or the output and result targets are not being delivered (to be considered 2018/19)
- ✓ Subordination of VC funds for SMEs is essential
- ✓ Providing funds based on specific stages of company development is effective, rather than taking a sector based approach
- ✓ Locally based fund managers who have links to wider VCs in order to help access further funding down the line
- ✓ Appropriate incentives (State aid compliant) for Fund Managers – enhances quality and quantity outputs, important for long term success
- ✓ On-going assessment of Funds' performance and results, as well as independent interim evaluation



Ex-ante assessment

– OP Monitoring committee and publication



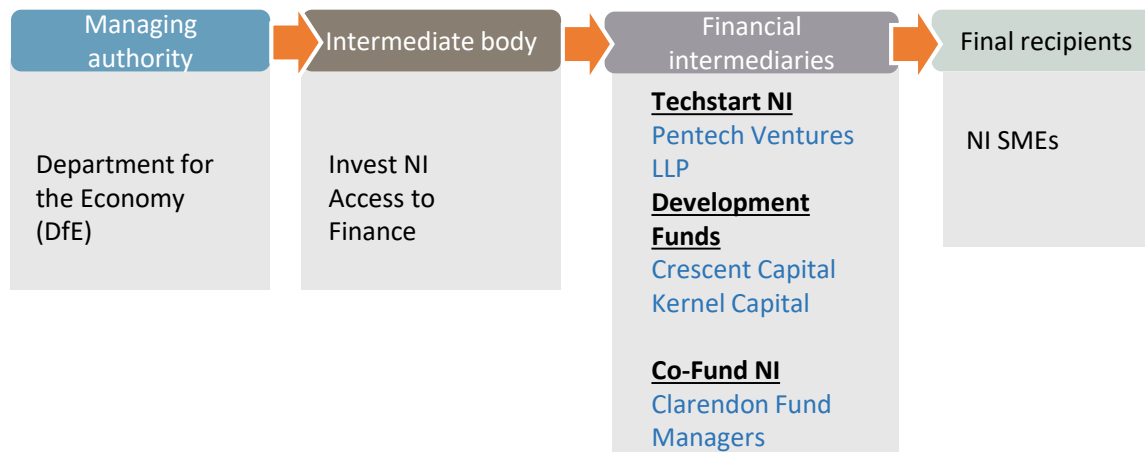
Overview

- Ex-ante assessment submitted to PMC 28 May 2015 (info only)
- Training and information on FI provided to PMC members
- Questions raised and addressed concerning the remuneration of FI managers
- Reporting of FI performance – summary tables developed for PMC
- PMC has no role in determining use of recycled funds
- PMC will receive all interim and final reports

Post ex-ante assessment



Schematic overview



Post ex-ante assessment



Overview – Designation of Invest NI

- Invest NI designated as Intermediate Body (IB) by the MA for P2 interventions (FIs, repayable assistance and grant support).
 - ✓ MoU signed on 1st of January 2014 between DfE and Invest NI setting the framework for cooperation under the OP (IB for P1 and P2)
 - ✓ 14 December 2015 - EC formal approval of OP
- Budget of the scheme €150M
- Eligibility period of the expenditures

ERDF allocation €91.2M + Match
€59.6M (Public €5.8M & Private
€53.8M)

1st Jan. 2014 - 31st Dec. 2023

Post ex-ante assessment



Overview - State aid considerations

Invest NI FIs (Equity funds) are State Aid covered

General Block Exemption Regulation (EU) 651/2014 (GBER)

Article 21 (Risk
finance aid)

Article 22 (Aid
for start-ups)

Commission Regulation (EU) No 1407/2013 (De Minimis Aid)

Community guidelines on state aid to promote risk capital investments in SMEs

Aid schemes registered in EC
State aid Notification
Interactive system (SANI2)

- ✓ Techstart NI (SA.39644)
- ✓ Development Fund (SA.34142)

Co-Investment
pari passu so
no aid

Access to Finance Solutions for SMEs in Northern Ireland

Charles HAMILTON, Invest Northern Ireland

Section 3

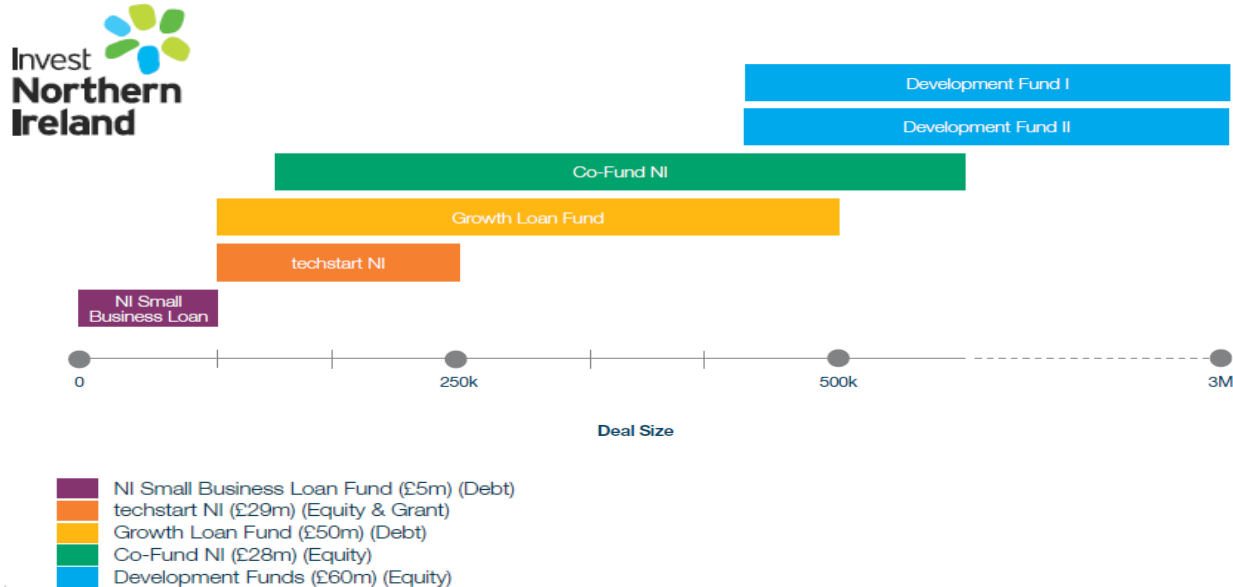
Design and Set-up of Funds

Design and set-up

– Implementation structure



Access to Finance Strategy - A Risk Capital funding continuum from start-up to development capital up to



Design and set-up

– *Implementation structure*



Overview – Objectives

- Invest NI Access to Finance addresses market failures identified in ex-ante assessment
- Provides funding for SME's across seed, early stage and development funds
- ERDF used to support Equity Funds only
- Other Public Resources used to support Loan Funds
- No new Guarantee Funds established – already adequately covered UK wide

Design and set-up

– *Implementation structure*

Overview - Governance

- Strategic oversight and direction for all Invest NI activity - Invest NI Board
- Strategic oversight for Access to Finance Strategy – Access to Finance Working Group – Invest NI Board members and external experts, established in 2011
- Operational responsibility - Invest NI Corporate Finance Division
- Fund oversight and delivery monitoring – Individual Invest NI manager per fund.



**Investment decisions are the sole
responsibility of the appointed
Fund Managers**



Design and set-up

– Implementation structure



Overview – Responsibilities of Access to Finance Working Group

Strong governance structure is critical to ensure the professional credibility of the Access to Finance funding continuum

- Implement Access to Finance investment strategy
- Procure and appoint fund managers following open procurement process
- Monitoring
- Reporting

Membership:

Chair (Invest NI)
3 Invest NI Board members
2 Private sector Co-opted

Invest NI Member
sits in the
Advisory boards
of each individual
Fund

Meetings:

3 times per
annum

Key responsibilities:

Oversight	Challenge	Strategic direction
Champion	Fund flexibility	Recycling
Monitoring	Risk-Management	



Design and set-up

– *Selection of bodies implementing the FI*



Invest NI fund manager selection approach

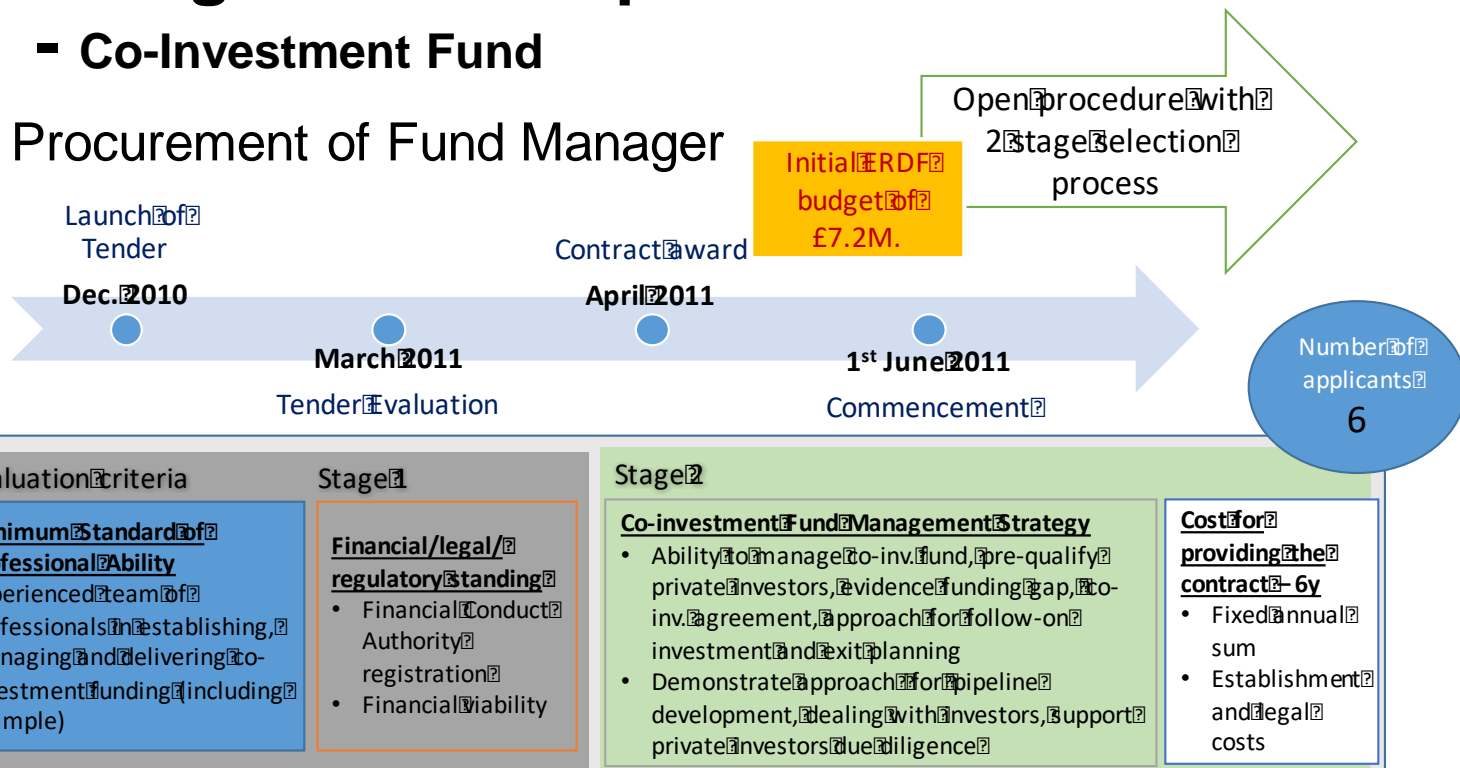
- Each Fund Manager procured through NI's Central Procurement Directorate (CPD) processes to ensure compliance with procurement regulations (OJEU tender)
- Each Fund is separately managed by an appointed Fund Manager that is Financial Conduct Authority (FCA) regulated
- Invest NI has a Limited Partnership Agreement/ Management Service Agreement (MSA) with each Fund Manager



Design and set-up

- Co-Investment Fund

Procurement of Fund Manager



Design and set-up

- Co-Investment Fund



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

- In line with TO3 and the OP, as well as confirmed in the ex-ante assessment
- Targeting co-investment in SMEs incorporated under the laws of NI with operations substantially based in NI
- Operating in accordance with best VC industry practice and Financial Services and Markets Act



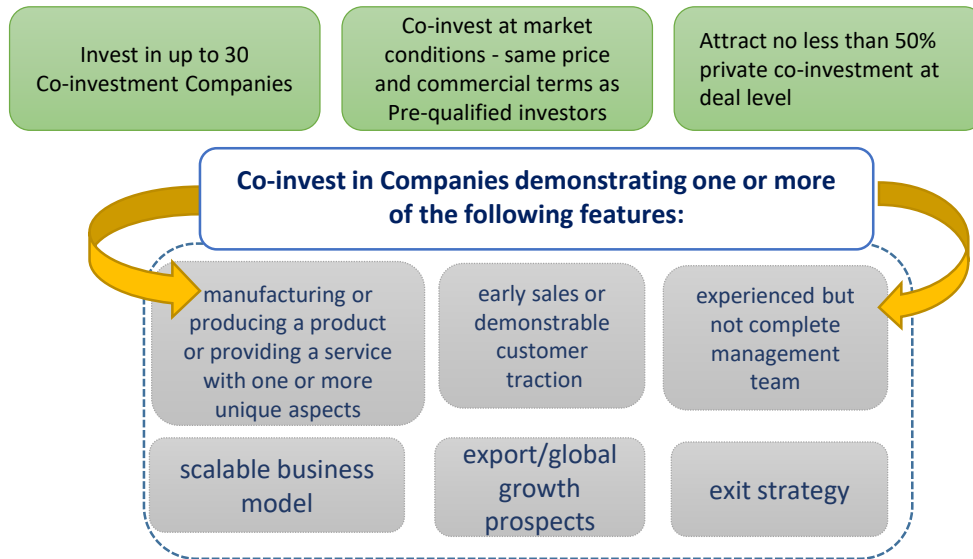
KPIs

- 8 Investments per annum in 6 years
- Deal size range of £250,000 - £450,000 and average Investment of £150,000 per deal p.a.
- Invest pari-passu with pre-qualified investors
- Average private to public funding in the portfolio of 55:45
- Invest £7.2m over the term and no less than £1m p.a. by way of 1st investment and follow on as required
- Pre-qualify ≥ 6 private investors and/or business angels as Pre-qualified Investors over the Term
- At least 3 are to be pre-qualified in the first 2 years of the Term.

Design and set-up

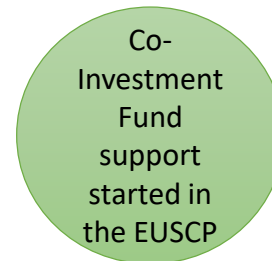
- Co-Investment Fund

Investment strategy and business plan



Design and set-up

- Co-Investment Fund

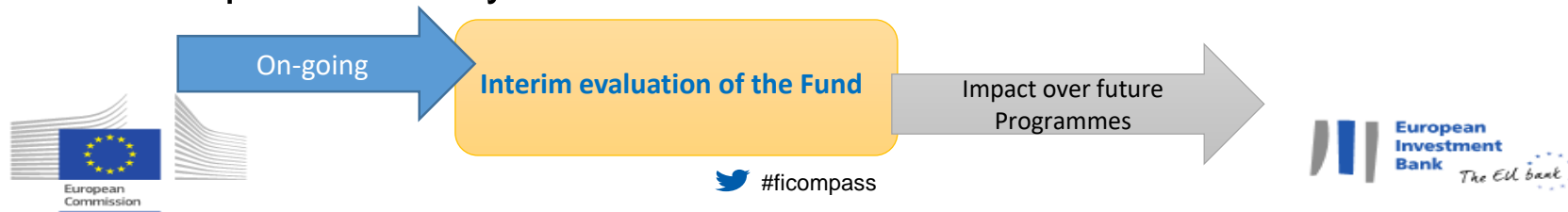


Implementation timeline

Co-Fund from June 2011 to May 2017.

It is anticipated:

- ✓ Co-Fund will be succeeded by a further co-investment fund.
- ✓ Tender process early 2017 with an award date in 2017

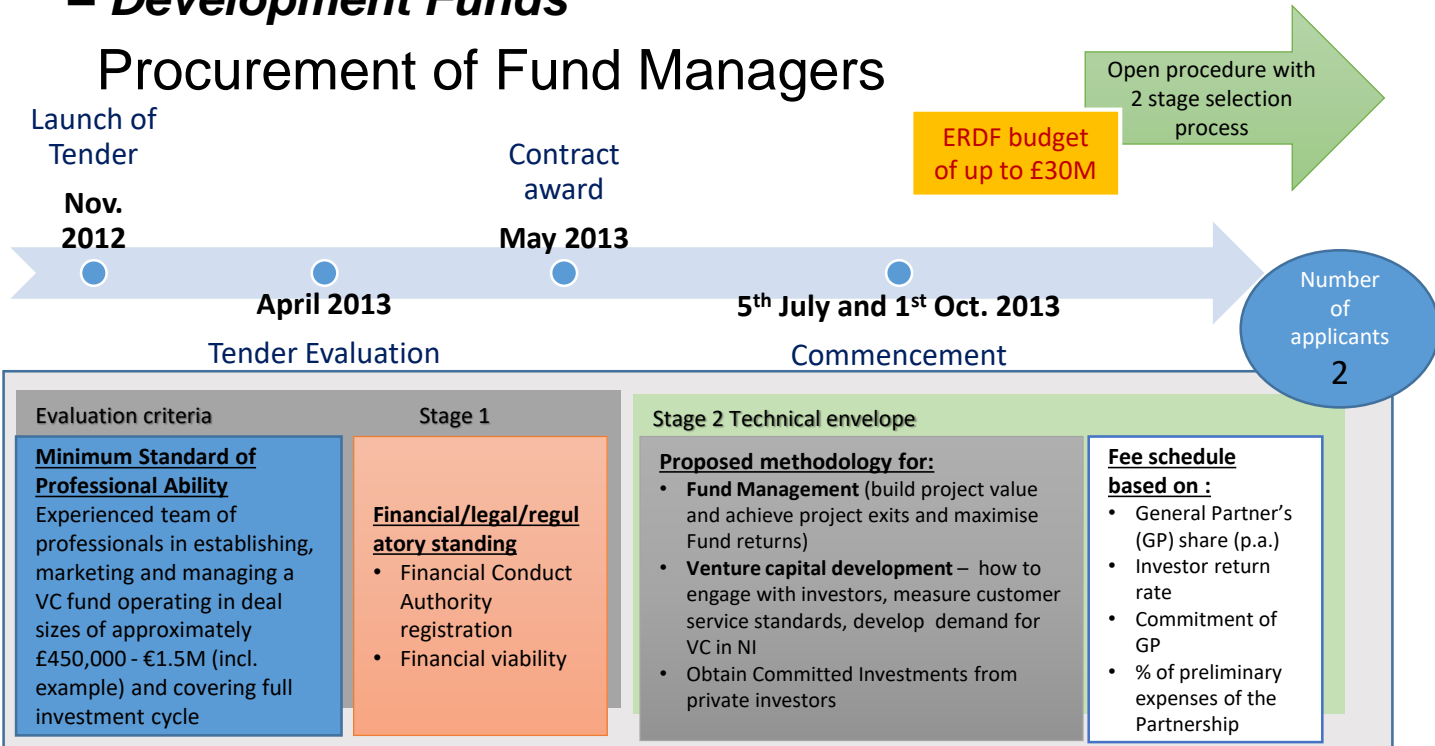


Design and set-up

– Development Funds



Procurement of Fund Managers



Design and set-up

– Development Funds



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

- In line with TO3 and the OP, as well as confirmed in the ex-ante assessment
- Targeting investment in innovative businesses (SMEs) incorporated under the laws of NI with operations substantially based in NI
- Operating in accordance with best VC industry practice and Financial Services and Markets Act



Invest in approx. 15
Portfolio Companies
with 40 deals

Deal size range of
£450,000 - £1.2M

Raise private
investment at fund
level of at least £15M:
- £7.5M at first close
- £15M at final close



Design and set-up

– Development Funds



- Investment strategy and business plan

Establish and manage 10 year limited partnership as the funding vehicle

Raise private investment of at least £15M

Build and manage a balanced and diversified portfolio in early stage and development ventures

Invest in approx. 15 Portfolio Companies (SMEs) with 40 deals

Provide equity to SMEs of up to €1.5 million in a single tranche

Invest in compliance with GBER

Seek to invest in Companies demonstrating one or more of the following features:

management teams with track record

potential to generate high returns

businesses with attractive entry price

scalable business model

export/global growth prospects

exit strategy

Design and set-up

– Development Funds



Implementation timeline



- **Crescent Capital** - from July 2013 to July 2023
 - ✓ 5 year investment period July 2013 – July 2018
 - ✓ Further 5 year managing out period to July 2023
- **Kernel Capital** - from Oct. 2013 to Sep. 2023
 - ✓ 5 year investment period Oct. 13 – Sep18
 - ✓ Further 5 year managing out period to Sep. 23

2016

Interim evaluation
of both
Development
Funds scheduled



Design and set-up

– Techstart NI

Procurement of Fund Manager

Integrated suite of 4 products to promote “Enterprise Escalator”

SME Fund
£17M

2x University
Funds
2x £1.5M

SME Proof of
Concept
Grant fund
£3.6M

Investment
Awareness
Programme

Launch of Tender

Nov. 2013

Contract award

April 2014

February 2014

Tender Evaluation

July 2014

Commencement

Design and set-up

– Techstart NI



Procurement of Fund Manager

Open procedure with
3 stage selection
process

ERDF budget of
up to £23.6 M.

Number
of
applicants

11

Stage 1 - Selection Criteria

Minimum Standard of Professional Ability and Financial Solvency

- Experienced team of professionals (at least 4 based in NI) in managing of which:
 - x1 for seed and early stage VC fund (deals sizes £50,000 - £250,000) and covering full investment cycle
 - x2 for seed and early stage VC investments including prospects from the Higher education/University sector (deal flow to create spin outs/spin ins)
 - x1 in managing and delivering a grant management function
- Financial Viability

Stage 2 Mandatory Award Criteria

FCA declaration or undertaking to apply for **FCA authorisation** and copy of completed FCA application pack

Stage 3 - Award Criteria (Qualitative Criteria)

- **Fund Management** (ability to identify and build deal flow, due diligence capacity, marketing and promotional plan, engage with limited partners, employ sufficient internal systems, monitoring and reporting of KPIs, risk management, local team in NI)
- **Venture capital development** – approach how to develop seed and early stage VC market for SMEs, linkages to private investors and VC community, manage portfolio of seed and early stage investments, introduce commercial practices in backed companies
- Experience in establishment, marketing, managing and delivering of a Proof of Concept grant management function
- Manage and deliver an Investment Awareness Programme to educate investment readiness.

Quantitative Criteria

Core cost:

- General Partner's (GP) share (p.a.)
- Grant Fund Management fees
- Investment Awareness Programme

Monitoring fee (daily)





Design and set-up

– *Techstart NI*

techstart^{NI}

Purpose: Provide seed and early stage investments with special focus on technology based and innovative services with high growth potential.

- In line with TO3, the OP and ex-ante assessment
- Implement Techstart NI, an integrated suite of equity and grant funds and a capability programme for Investment Awareness
- Targeting investment in innovative NI based SMEs
- Operating in accordance with best VC industry practice and Financial Services and Markets Act
- Fund Manager has absolute discretion on Investment decisions and management of Portfolio Companies

	
	
54 – 64 Investments over the first 5 years of the Term	
Ensure private investment at deal level in compliance with State aid rules	
Invest in approx. 9 – 13 companies (not in the Portfolio) p. a. in the first 5 years	
Deal size range of a minimum of £50,000 and a maximum of £250,000	
Drawdown at least 70% of the Loan Commitment over the first 5 years of the Term and the remaining 30 % between the 6 and 8 year	
Ensure dedicated team for management and control of the Partnership	

Design and set-up

– Techstart NI

Investment strategy and business plan

Establish and manage 10 year limited partnerships as the funding vehicles for each of the equity funds

Fund manager team based in Northern Ireland

Build and manage a balanced and diversified portfolio

Complete on annual average in 9 – 13 investments over 5 yr period

Fund manager to support wider development of VC in NI

Invest in compliance with GBER

Equity funds will seek to invest in companies demonstrating one or more of the following

techstart^{NI}

product/service with one or more unique aspects (strong intellectual property base)

early sales or demonstrable customer traction

experienced, if not complete, management team

exit strategy

scalable business model

export/global growth prospects

Design and set-up

– *Techstart NI*



Techstart NI - Implementation timeline:

- SME Equity Fund - July 2014 - July 2024
- QUB Equity Fund - July 2014 - July 2024
- UU Equity Fund - July 2014 - July 2024

All techstart equity funds:

- ✓ 5 year investment period 09 July 2014 – 08 July 2019
- ✓ Further 5 year managing out period to 08 July 2024



Interim evaluation
of Techstart funds
scheduled.

techstart^{NI}





Section 4

Implementation & Performance

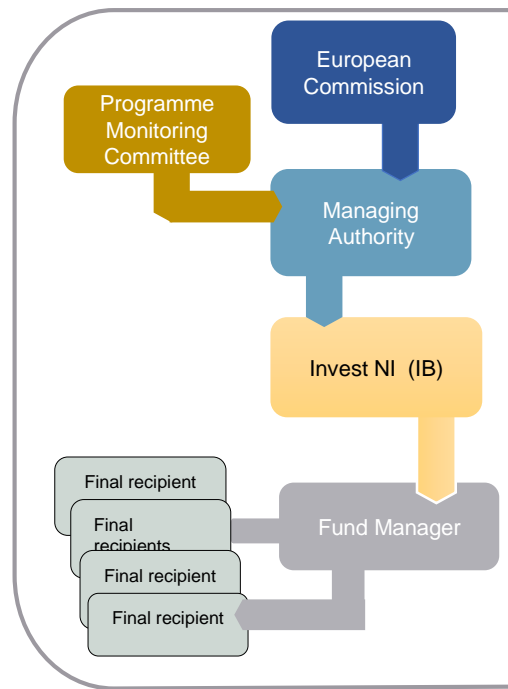
Implementation

Monitoring and Audit

- Invest NI is responsible for verification activity (administrative and on-the-spot)
- MA supplements checks already conducted by the IB to meet the regulatory requirement to oversee the process (via Service provider)
- Invest NI closely monitors Fund manager performance
- Funding agreements with Fund managers include rights of access of respective audit and controlling organisations

Tools: seats in Fund Advisory Boards, regular roundtables, monthly updates, quarterly monitoring meetings

Monitoring FI implementation

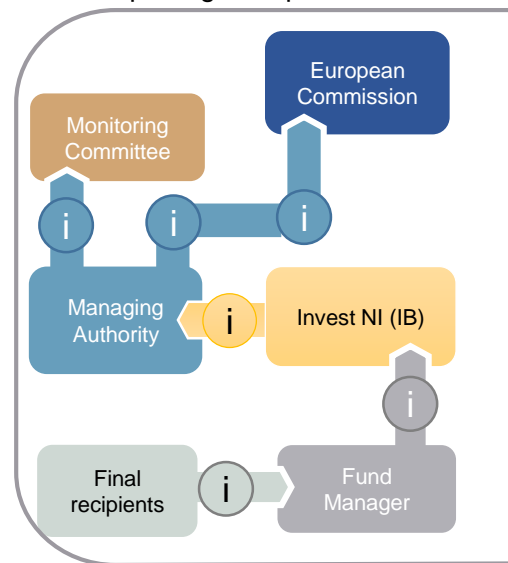


Implementation

Reporting

- Invest NI records all investment data on database
- Invest NI completes an EC reporting template per fund each year for Annual Implementation Report (AIR)
- MA submits AIR to the EC
- Invest NI provides summary position against key indicators for each PMC meeting

Reporting FI implementation



Implementation

Payments

- For Co-fund, a drawdown notification is made to Invest NI by Fund Manager seeking ERDF on an investment by investment basis
- For Development and techstart Funds, ERDF financing deposited in tranches with Fund Managers
- Payments are made from Funds to Investees
- Verification of expenditure by Invest NI & MA then certification by CA
- Inclusion of eligible expenditure in statement of expenditure to EC by CA
- Reimbursement from EC to CA then to IB

Implementation

Fund Manager

- Financial Conduct Authority (FCA) approved with robust management, governance and reporting functions in place
- Raise private finance upfront (fund level) and lead/participate in investment rounds which target additional leverage at deal level
- Identify, make, manage and realise investments. Process is fully commercial
- Investment policy aligned with Invest NI's objectives for economic development

Implementation

Fund Manager's costs

- Fees established as part of competitive tendering process, OJEU advertised
- Procurement scoring criteria focus on both cost and fund management methodology
- Fees are a blend of fixed annual costs (to include identification of full-time named executives to manage the Fund) and incentive payments that reward Fund Manager for performance
- Fees reflect intensive pre-investment processes and post investment support to help maximise financial (and economic) returns
- Annual fees across fund lives of the equity funds average 1.97% p.a. of committed funds; 2.4% during the investment period, 1.53% during the realisation phase
- Fees per industry sources generally 2 - 2.5% during investment period, reducing by about 10% p.a. each year of realisation phase
- It should be noted that there are small funds included in the suite of funds and fees reflect the lack of economy of scale

Implementation

Returns and Exits

- Investment exit decisions made by Fund Manager
- Returns to investors in line with investment agreements
- ERDF recycled through appropriate mechanisms for SME support
- Fund wind-up based on evaluation/market-need or in line with original agreement timeframes

Implementation

Monitoring requirements

The MSA details monitoring requirements, targets, etc. for each Fund

- Fund Managers provide a monthly activity update
- Quarterly monitoring meetings are held with each Fund Manager
- Annual returns must be submitted by the Fund Managers detailing turnover, jobs created etc.

Implementation



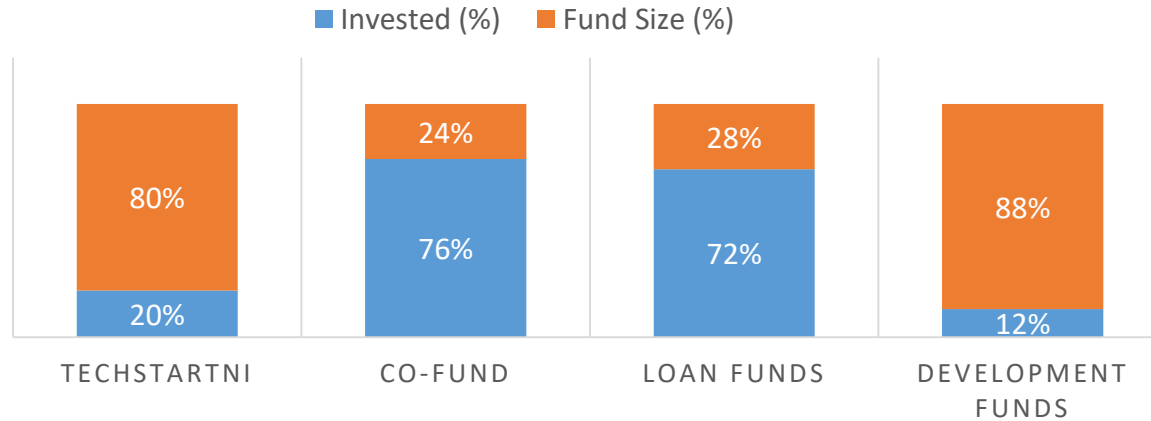
Audit requirements foreseen in the MSA

- Invest NI to maintain all records on procurement, appointment and State aid assessment/compliance.
- Financial Intermediary responsible for records related to investments and fund activity.
- Inspection and Information Rights at the level of Financial Intermediary granted to EC, ECA, AA, MA, CA, IB or agents appointed by these bodies.
- Disclosure, Publicity, Confidentiality provisions also covered in MoU and MSA



Equity Funds Performance

Percentage of approved funding invested at 31st March 2016





Equity Funds Performance

April 2014 to December 2016

Fund	Total Invested	No of investments	No of investee SMEs
Co Fund	£15.6	56	32
Crescent Development	£7.2	7	5
Kernel Development	£6.7	10	5
Techstart SMEs	£6.6	25	19
Techstart University (QUB)	£1.2	5	3
Techstart University (UU)	£0.25	1	1
TOTALS	£37.55m	104	65

Access to Finance Performance 2015/16



Overall Access to Finance performance from April 2014 to March 2016:

- 412 Deals
- Total Investment £70.1 million
- 386 Businesses Supported

Section 5

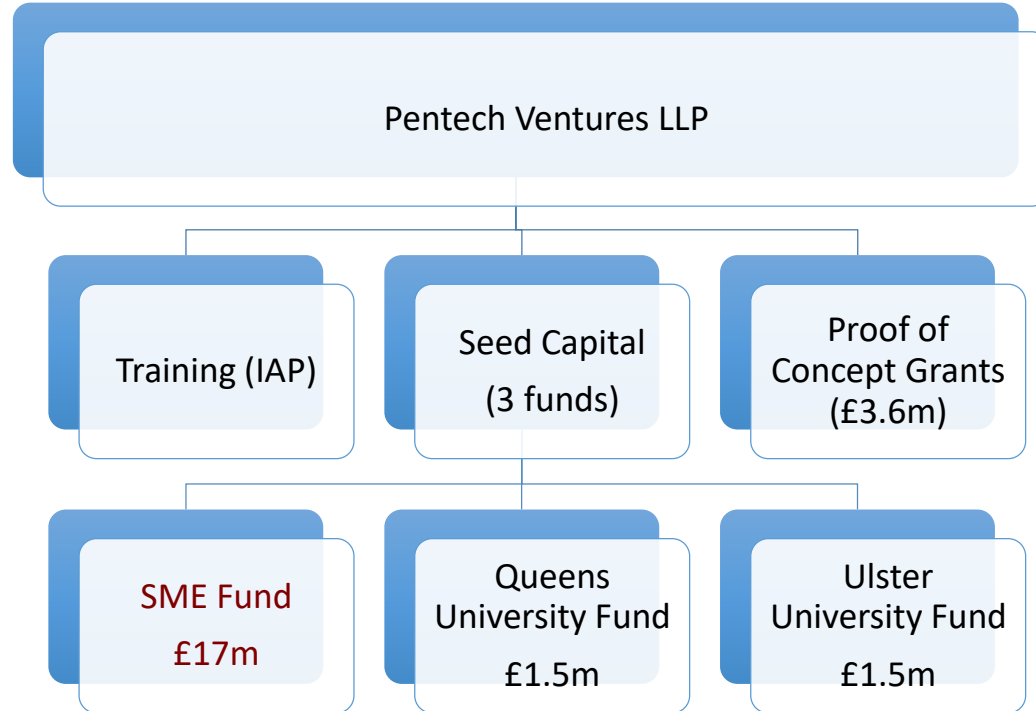
pentech
VENTURES

Who are Pentech Ventures LLP

- Edinburgh based venture capital fund management business
- Operating since 2001
- Three funds under management \approx £100m
- Core business is software focus at seed and Series A stages of investment
- Belfast office established to manage dedicated NI funds
- Deeply integrated into UK and Irish tech investment ecosystems



Funds Structure



Overview

- Integrated suite of products focused on start up and early stage company market in NI – branded tech**start**
- Provides
 1. Advice via an Investment Awareness Programme
 2. Proof of concept grants
 3. Seed capital via three funds
- Holistic support to tech entrepreneurs
- 1 and 2 are contracts for services between Invest NI and Pentech – each running for 5 years
- 3 is delivered via three 10 Year Limited Partnership structures

Marketing

- Team deeply embedded in NI technology ecosystem
- Selective sponsorship of other party initiatives
- IAP, grants and equity promotional talks
- Social media, quarterly newsletter and mailing lists
- Invest NI client executives training/awareness program participation

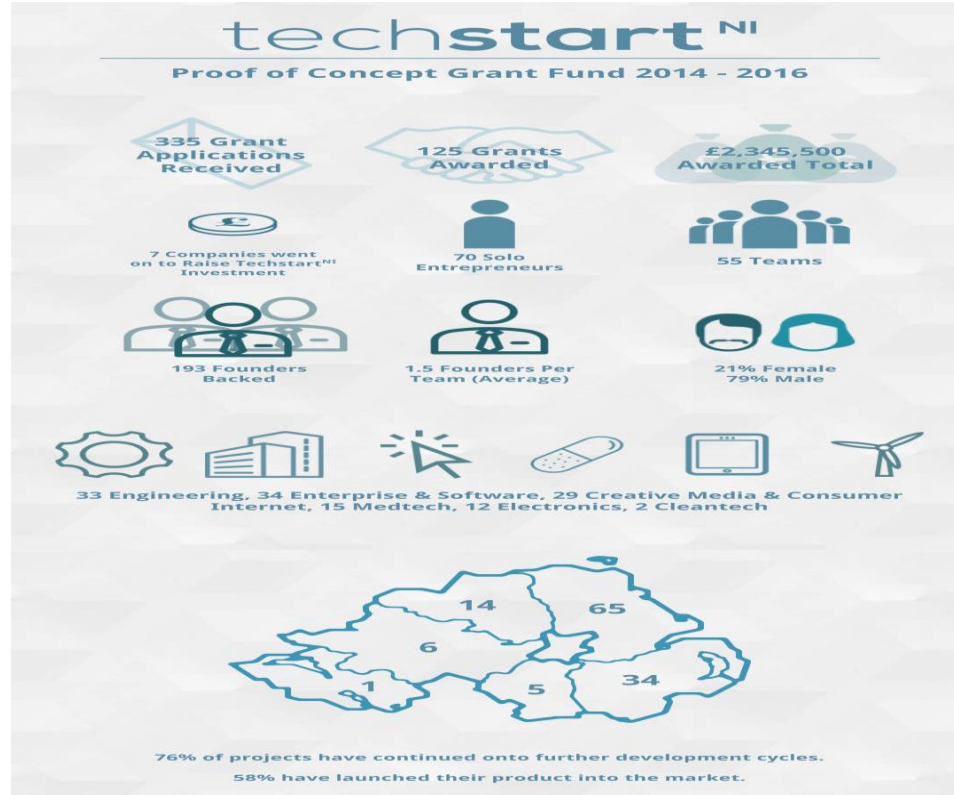


Investment Awareness Program

- Seeks to add value to the start up ecosystem
- Series of workshops and events focused on helping entrepreneurs gain insights into difficult issues they will face i.e.
 - Leadership
 - Marketing
 - Recruitment
- We involve individuals who have faced down these issues and have real life experience to share

Proof of Concept Grants

- Grants to tease out whether or not an idea has commercial potential
- Recipients can be individuals or companies
- Focus is on novelty
- Amounts of up to £25,000
- Processes established that involves quarterly awards of £10,000 grants and half yearly awards of £25,000 grants
- Targeted number of awards 222 over 5 years

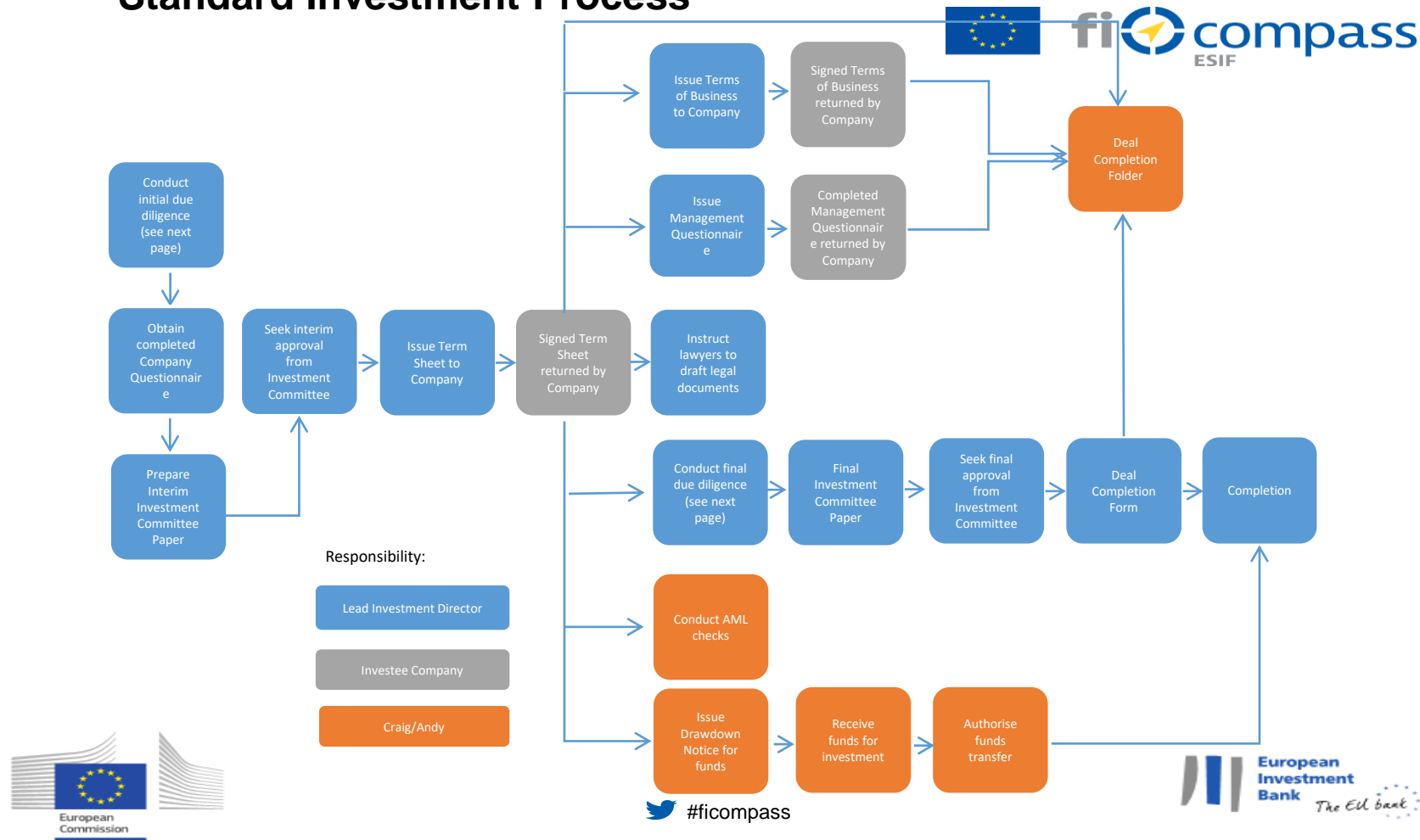




Seed capital

- Three separate funds – two targeted at the region's two universities and one targeted at the SME market
- Capital sourced from Invest NI and the two universities
- Focus on broad technology market
- Initial investment range of £50,000-250,000
- Investments made via equity or convertible loan notes
- Traditional LP model
- Managed commercially within investment policy and State Aids frameworks
- Targeted number of investments 54-64 over five years

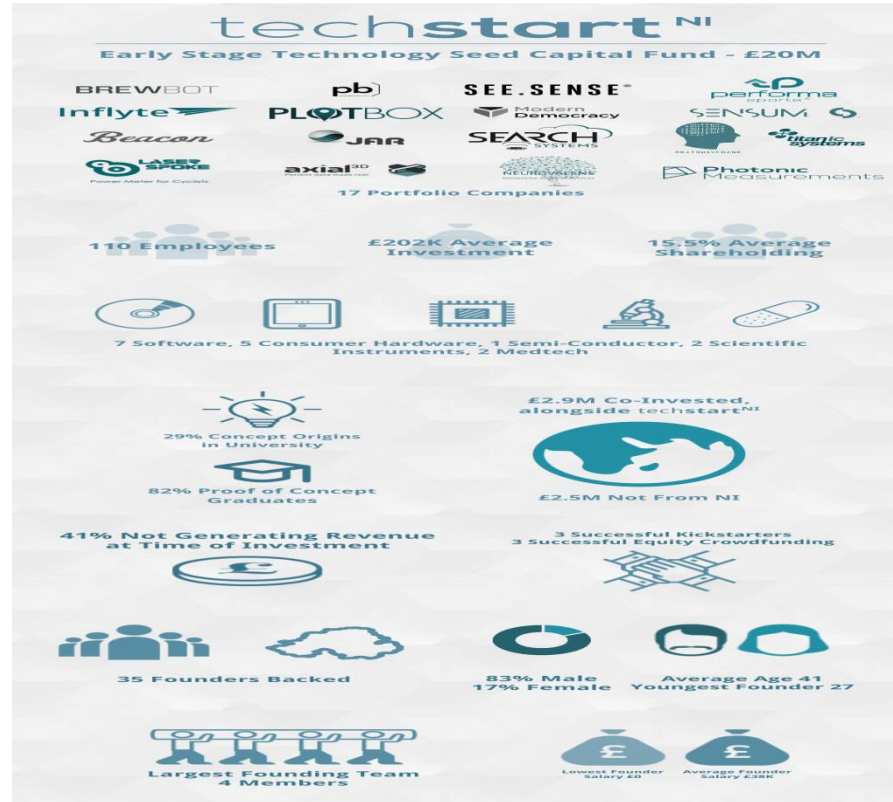
Standard Investment Process



Due Diligence



Pre Term Sheet	Post Term Sheet
Vision and Product: <ul style="list-style-type: none"> • What we are investing in • Why it is different • Key dependencies and risks 	Finance: <ul style="list-style-type: none"> • Review most recent management accounts • Assess existing finance function
Market: <ul style="list-style-type: none"> • Market opportunity • Size and growth • Go-to-market strategy • Competition 	Legal: <ul style="list-style-type: none"> • Review capital structure and prior investments • Review Articles • Review employment agreements • Review key commercial contracts
Team: <ul style="list-style-type: none"> • Existing team (strengths and weaknesses) • Gaps (and plan to fill) 	IP: <ul style="list-style-type: none"> • Ensure IP owned by investee company (if not, assignation required)
Business Plan: <ul style="list-style-type: none"> • Key milestones • Key quarterly objectives 	References: <ul style="list-style-type: none"> • Team • Customers
Funding Strategy and Exit: <ul style="list-style-type: none"> • Use of funds • Plan for raising Series A • Exit scenarios 	Interim Investment Committee: <ul style="list-style-type: none"> • Any actions arising



What's good

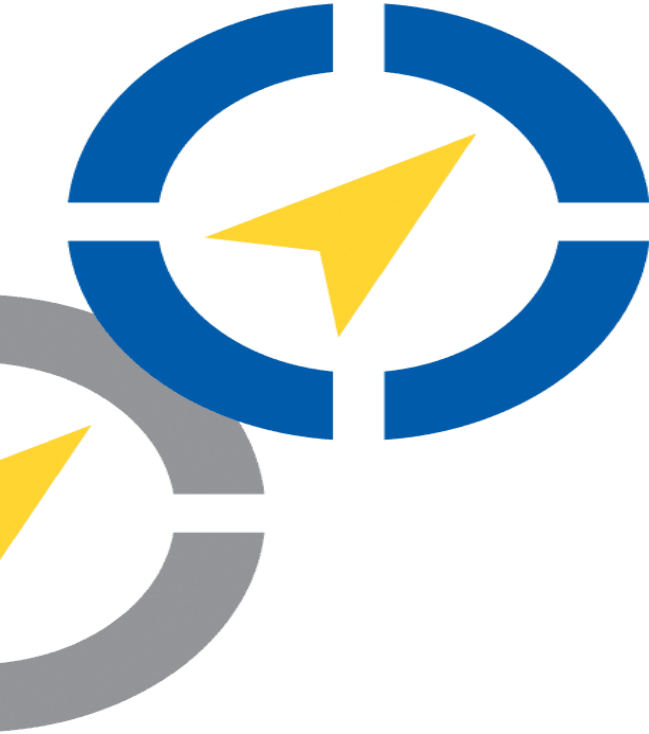
- PoC grants provide a good feeder to equity activities
- PoC grants provide early sight of projects and individuals so that there is a period of getting to know one another
- The KPI's agreed are ambitious but not unrealistic given commercial mandate
- University and SME funds can co-invest

What's not so good / still to be proven

- Five separate components of initiative require five separate reporting regimes which is time/resource consuming
- Whether the local fund manager ecosystem will work together from a co-investment perspective



financial instruments
added value **ERDF** funding agreement
governance revolving **ESF** capacity building
technical support seminars leverage **ESIF** EU guidance
co-financing financial intermediaries ex-ante assessment
investments **fi-compass** microfinance
business plan **Thank you** case studies
advisory services guarantees banks loans **EaSI** final recipients
private investors life cycle thematic objectives equity
EAFRD conferences factsheets combination of support
fund of funds **EMFF** investment strategy **CF**
managing authorities manuals



Questions & Answers

Moderation: Bruno ROBINO, EIB

Maeve HAMILTON, Department of Economy, NI

Charles HAMILTON, Invest Northern Ireland



Financial instruments for enhancing SME competitiveness

Brussels, 14 March 2017