

Thank the heavens for investors

An estimated €90m of angel funds is up for grabs for those in need of cash to kick off their venture, writes **John Kennedy**

The angels weren't looking down on Trustev when the Cork e-commerce company went looking for capital. If anything, the angels were looking up the start-up's credentials.

Late last year, the company, which develops anti-fraud software, raised €3m from an impressive array of local and international venture capital investors.

It also found an angel investor in Liam Casey, founder of PCH international, a global technology supply chain specialist.

Trustev was one of the largest seed capital investments in Europe last year, franking Ireland's reputation as a good place to start a technology business.

Converser, a Galway software company, raised €1.2m, and Metabolomic Diagnostics, based in Cork, attracted funding of €750,000.

Total seed funding raised in the first nine months of last year amounted to €48.5m, compared with €34.2m for the same period in 2013.

Start-ups are tapping into funding of €130m available from four key funds: AIB Seed Capital Fund, AIB Start-up Accelerator Fund, Bank of Ireland Equity Fund and Bank of Ireland Emerging Sectors Equity Fund.

An estimated €90m of angel funds is available through the formal business angel networks throughout Ireland, according to the Halo Business Angel Network (HBAN).

Supplementing the start-up and seed capital funds, Enterprise Ireland operates the Competitive Start Fund, which offers

up to €50,000 for a 10% stake in seed funding.

Individuals unemployed for at least 15 months and who start their own unincorporated business can also receive a two-year exemption from income tax under a new Start Your Own Business scheme revealed in last year's budget.

Within the funding mix, angel invest-

ment has become a critical component.

In Ireland, there are two distinct angel investment communities being forged with the support of Enterprise Ireland and InterTradeIreland.

HBAN co-ordinates investor syndicates while the Halo Business Angel Partnership (HBAP) is a federation of individual, seasoned angel investors who like to invest alone.

In the past five years, start-ups raised €55m in investment from angel investors, according to the HBAP.

Michael Culligan, national director of HBAN, said the key task is managing investor and start-up expectations.

"The angels need to understand the risks and their responsibilities if follow-on investment is required," Culligan said. "The founders need to realise it isn't just about the money but also the expertise and contacts provided by the right angel investor."

In European terms, the amount of angel and seed capital available to tech start-ups here is above average, Culligan said.

"One factor in our favour is that, in certain sectors, such as software and medical devices, there are seasoned entrepreneurs who are instinctively attracted to being involved in a rising company for the second or third time."

Syndicates, Culligan said, tended to be regionally based or focused around specific sectors where co-investors cut their teeth.

"Some syndicates are prepared to do six investments over a couple of years as a group," Culligan said.

From his experience, angel investors who invest as a group have a better chance of succeeding and the rule of thumb is that 10% of angel investors will enjoy a return of 10 times their original investment.

Before individuals can join the syndicates, they are screened, Culligan said.

"Business is all about people, and that becomes even more challenging when you bring money into the equation," he added. "It's important for start-ups that investors go the distance, and the real test is when the bad times come."

Ultimately, the syndicates are looking for entrepreneurs who are strong enough to be leaders, and open enough to take on advice, said Culligan.

John Phelan, who manages HBAP, said

the calibre of angel investors in Ireland has changed, morphing over several years from speculators to calculating and shrewd investors. "It has become a more mature asset class," he said. "People are beginning to use it to drive returns."

He said the key is that this is "smart money", where experienced investors pursue markets they understand. They "get" the technology and feel a bond with the founders of the company they are investing in.

It is more than just writing a cheque. Endeco, a smart-energy company, last year raised €1.6m in second round funding from sources including AIB Seed Capital Fund, AIB Start-up Accelerator Fund and Enterprise Ireland.

It originally sought €750,000 but investors who had significant European retail

experience increased the figure and helped it to get into a large number of sales channels, said Phelan.

Investors are cautious about areas they struggle to understand, such as social media, and want to see evidence of a potential return on investment, said Phelan.

"A lot of angels want to see some sales traction or validation of a demand for the product," he added.

Eanna Dáibhis, partner with the AIB Seed Capital Fund, said the involvement of angels in funding start-ups is critical, and not only from the financial perspective.

"They are people who have invested before or, very often, were themselves entrepreneurs," he said. "The fact they've succeeded in their respective industry is of incalculable advantage and critical to bringing a company to the next level."

The AIB Seed Capital Fund made 32

investments totalling €5.2m during 2013, including 12 new start-up and early-stage companies.

Dáibhis said there are challenges surrounding maturing start-ups getting access to development capital or follow-on series A and B funding.

As a result, all eyes are on the €175m venture-capital scheme the government established through Enterprise Ireland last year.

It is hoped that the government cash will attract a further €525m in private sector funds. A separate initiative, Innovation Fund Ireland, a joint €125m commitment by Enterprise Ireland and the National Pensions Reserve, hopes to leverage a further €375m and has already attracted international funds such as DEJ Esprit, Highland Capital, Polaris and Sofinnova Ventures.

Dáibhis said that the AIB Seed Capital Fund plans to make 10 new investments during 2014. The main focus will be existing portfolio companies, allowing them to reach a suitable size and scale to attract follow-on investment.


Eamonn May, manager in charge of growth capital at Enterprise Ireland, said the key challenge for tech start-ups in 2014 will be demonstrating they can grow revenues. “The seed and angel activity we saw in 2013 augurs well for the year ahead,” he said. “The real trick has been aligning the right investors with the right companies.”

Follow-on funding will be tough, May said, for investors and management teams.

“Getting the follow-on funding is an international challenge, not just an Irish one, but the right steps are being taken to address the problem.”



**IT ISN'T JUST ABOUT
THE MONEY BUT ALSO
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Metabolomic Diagnostics, based in Cork, was given funding to build upon its work predicting the condition pre-eclampsia in early pregnancies