CO-INVESTMENT FUND I

FINAL EVALUATION 2019/20

January 2020

INVEST NI

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FINAL EVALUATION

CONTENTS

APPENDICES

INVEST NI

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FINAL EVALUATION

GLOSSARY OF TERMS

AIM	Alternative Investment Market
ASHE	Annual Survey of Hours and Earnings
BA	Business angel
BBB	British Business Bank
CFM	Clarendon Fund Management
Co-Fund	Northern Ireland Co-Investment Fund
CLN	Convertible Loan Note
EIS	Enterprise Investment Scheme (tax scheme)
ERDF	European Regional Development Fund
HBAN	Halo Business Angel Network
IPO	Initial Public Offering
IRR	Internal Rate of Return
IUL	Innovation Ulster Limited
KPIs	Key Performance Indicators
LCIF	London Co-investment Fund
SCF	Scottish Co-Investment Fund
SME	Small, Medium Enterprise
SSF	Scottish Seed Fund
SVF	Scottish Venture Fund
VFM	Value for Money
VC	Venture Capital

EXECUTIVE SUMMARY

Introduction

Invest NI commissioned Capaxo Ltd and its associate Maureen O'Reilly, to undertake an independent Evaluation of the Invest NI Co-Investment Fund I ("Co-Fund I"). This is the first formal co-investment fund in Northern Ireland and is funded via the European Regional Development Fund (ERDF) budget.

Although this is the final evaluation of investments made under the Co-Fund I contract, further monies were made available under a Co-Fund II contract for investment in Co-Fund I portfolio companies. As such, reference is made to a further 'final' evaluation of Co-Fund I within this report to ensure the effect of all investments into Co-Fund I companies are evaluated and appraised.

Delivery and Performance against Targets

Co Fund I commenced in June 2011 with a fund of £7.2m to be invested over a six year term and managed by Clarendon Fund Managers Ltd (CFM). Following approvals processes, the fund was increased to £12.5m in 2014, and by a further £0.5m to £13m in 2016. Whilst Co-Fund I is no longer investing in new portfolio companies, the portfolio is still managed by CFM and a limited amount of follow on investment (£3m) is available through Co Fund II.

By the end of June 2019, Co-Fund I (and follow on) had invested a total of £14.787m in 37 companies, leveraging a total of £50.3m private investment.

Match funding can originate from business angels (individuals, syndicates or business angel groups), institutions, universities, founders and corporates, as long as the initial match funder is independent, pre-qualified and new to the company.

The intervention by Invest NI is meeting key strategic objectives and market demand (for funding), with additionality deemed to be high.

Co-Fund I has achieved the targets set in 2014 and is expected to fully utilise all funds including the follow on funds available under Co Fund II. There is evidence of:

- An increase in total gross turnover by £20.1m;
- Of the £49.1m sales currently, £42.6m are export sales outside of NI and £26.7 million are export sales outside of the UK;
- 113 NI jobs created and 175 NI jobs safeguarded; and
- Salaries are above the NI average salary levels (average salary is £37,158 and the median salary is £34,497).

In addition, surveyed companies reported the following:

- 75% reported an increase in R&D and Innovation within the company;
- 90% reported further development and growth of the company; and
- Further growth in turnover and employment is envisaged.

There have been two exits to date, occurring in 2015/6, with a Return on Investment (RoI) of 4.63 times on a £200k investment and 2.6 times on an £734k investment. 73% of companies by number and 87% by Co-Fund I investment are exited or continue to trade (although 41%/45% by number/investment have a provision). There have been ten failures.

Six companies are reported at a positive valuation averaging at 2.4 times investment, with the highest valuation being at 4.54 times the cost of the investment.

Of the 25 remaining companies, possibly just six will provide 90% of all the capital returned to Co-Fund I.

One company completed an IPO in 2017 also giving a route to exit.

Co-Fund I has been operating for eight years, with the average age of its investments being 5.2 years. Benchmarks suggests an average period of six to nine years for companies to exit. The overall portfolio is valued at £16.85m as compared to cost of investment of £14.78m, an uplift of almost £2m across the portfolio.

The role of CFM in acting in a more “hands on” role is acknowledged, as is the strategic and commercial value that they bring.

There is evidence of wider benefits including the Co-Fund’s ability:

- to act as brokers to match companies and investors;
- to address the equity gap in NI;
- to open up CFM’s networks and skill base to portfolio companies;
- to attract new funding institutions to NI;
- to create commercial value within companies;
- to introduce informal groupings of angels to pipeline; and
- to bring private sector Lead Investor skills and expertise to companies.

The additional wages impact associated with investee companies to date (net of deadweight) amounts to £53.8m, or £41.9m when an outlier company is excluded. Co-Fund I demonstrates an Economic ROI calculated at £3.55 per £1 cost of Co-Fund I (based on the additional net NI wage - net of deadweight), and this would increase to £4.37 when the receipts from the two exits to date are taken into account.

The view of the Evaluation team is that Co-Fund I in NI compares favourably to other benchmarks. NI is circa ten years behind the more developed Scottish co-fund model (on which it is stated to be based). Much has been done to date. Consideration now needs to be given by CFM and Invest NI to the extent to which companies can be supported in planning for exit, noting for some, that this may be up to seven years away (when the Co-Fund II contract will have expired).

Recommendations

The recommendations from the evaluation of Co-Fund I are:

1) Invest NI should consider the timing of the final Co-Fund I evaluation. The Evaluation Team considers that nine years after the last investment would be appropriate, however Invest NI should factor in the new Thematic Approach to Evaluations in making its final decision.

2) CFM should continue to communicate with private investors in relation to the exit strategy of the company, including potential timescales. CFM to ensure that as the number of exits increases, the statistics in relation to exits will be updated and shared with relevant stakeholders.

3) Support to company exit strategies – the Co-Fund I manager should continue to actively encourage companies, as appropriate, to consider and plan for the exit strategy. Invest NI should give consideration to incentivising the fund manager to continue to drive this forward, potentially by way of a carried interest structure.

4) Leverage of funding network – Co-Fund should continue to leverage its funding network for the benefit of Co-Fund portfolio companies.

5) NI employment should be monitored as well as total employment.

1 INTRODUCTION AND BACKGROUND

1.1 Introduction

Invest NI commissioned Capaxo Ltd and its associate Maureen O'Reilly, to undertake an independent Evaluation of the Invest NI Co-Investment Fund I ("Co-Fund I"). Although this is the final evaluation of investments made under the Co-Fund I contract, further monies were made available under a Co-Fund II contract for investment in Co-Fund I portfolio companies. As such, reference is made to a further 'final' evaluation of Co-Fund I within this report to ensure the effect of all investments into Co-Fund I companies are evaluated and appraised.

Invest NI is committed to actively stimulating and encouraging early stage, high growth businesses in order to develop a world class, knowledge-based economy. The Invest NI Access to Finance strategy promotes a continuum of funding and a deal flow chain. Co-Fund I is an integral part of the strategy, designed to, in part, fill the recognised gap in the supply of funding of deals of up to £3m. In addition, Invest NI recognises the importance of developing the private investor community to support business growth and competitiveness. Co-Fund I is one of the mechanisms by which this development is delivered.

When Co-Fund I was conceived, it was seen by Invest NI as a possible bridge between early stage seed funding (as provided by the techstart NI Fund and its predecessor[1]) and series A funding, which could possibly be provided by one of the two Development Funds[2], or other venture fund sources.

Co Fund I commenced in June 2011 with a fund of £7.2m to be invested over a six-year term and managed by Clarendon Fund Managers Ltd (CFM). An interim evaluation in 2013 concluded the fund was significantly outperforming against its original investment targets and the fund should be increased to ensure it had sufficient funding to run to the end of its planned investment life (May 2017). Following approvals processes, the fund was increased to £12.5m in 2014, and by a further £0.5m to £13m in 2016. Whilst Co-Fund I is no longer investing in new portfolio companies, the portfolio is still managed by CFM[3] and a limited amount of follow on investment (£3m) is available through Co Fund II. Co-Fund I is funded through a European Regional Development Fund ("ERDF") budget. It is the first formal co-investment fund in NI. Interim Evaluations were conducted in 2013 and 2016.

1.2 Aim, Objectives and Targets of Co-Fund I

<u>Aim and Objectives of Co-Fund I</u>

The primary aim of Co-Fund I was *"to stimulate more private investment in Northern Ireland companies, who demonstrate high growth potential, are innovative and are export focused"*.
The economic appraisal of Co-Fund I identified the following objectives:

- "To strengthen the capability of NI to develop and commercialise new technologies and break into growing sectors and markets"; and
- "To address imminent gaps in the availability of venture capital in NI by providing a continuum of funds and a deal flow chain across seed, early stage and development capital".

Co-Fund I has no prescriptive objectives around the development of the supply side of the investment market (a key objective of almost all other co-investment funds globally) other than a general expectation that "*as Halo[4] angels become more sophisticated and syndicated, the Co-Fund manager will become less involved in deals*"[5] and that "*it will be important for the appointed fund*

[1] techstart NI was originally managed by Pentech Ventures; this was a £17m seed fund investing in the range £50k -£250k
[2] Funds managed by Kernel Capital and Crescent Capital, each £30m fund invests between £450k and £1.2m, initially, with follow on up to a total of £3m (over a series of funding rounds).
[3] CFM won the competitive tender for Co-Fund II and the Co-Fund I follow on
[4] Halo was the private business angel network in NI, delivered by the NI Science Park and funded by Invest NI
[5] Submission to Invest NI Board for Co-Investment Fund, May 2010, page 9.

manager to work closely with the Halo business angel network and with the NISPO fund managers"[6].

Co-Fund I Targets

Monies available for investment by Co-Fund I were increased to £12.5m in 2014, as part of an Addendum. The following updated Key Performance Indicators (KPIs) were set for Co-Fund I at the time of the fund size increase:

(i) Complete 14 investments per annum;
(ii) Typically operate in the deal range of £150k - £1m, with an average investment of £170k;
(iii) Make investments on substantially the same terms as pre-qualified investors and to contribute no more than 50% of the funding in any one round and to achieve a ratio of 55:45 private to public funding over the portfolio;
(iv) Invest £12.5m over the term and no less than £2m per annum in years four to six; and
(v) Pre-qualify no less than 12 private investors (i.e. an additional six from 2014).

Co-Fund I Terms

Co-Fund I invests in investment rounds typically between £150k and £1m, and will invest at a ratio of up to 50% of the investment round on *pari passu* investment terms alongside private sector investors. On a portfolio basis, the target ratio is 55:45 private:public.

"The 55:45 ratio makes the deal "commercial" with the private money leading the deal, setting the price and contributing more than the public sector"[7].

This ratio should be interpreted as the ratio over the life of the investment, and not the expected ratio on a deal by deal basis.

1.3 Delivery of Invest NI Co-Fund I

Following a competitive tendering process, Invest NI appointed CFM to manage Co-Fund I through a 'Management Services Agreement'. CFM is responsible for facilitating investments with ownership of the investment (mostly equity through ordinary share capital) being held by Invest NI. A further procurement was undertaken in 2016/17 for the management of Co-Fund II and for the follow on investments into Co-Fund I portfolio companies. CFM were successful in this tender.

1.4 Summary of the Co-Fund I Activity

In total, by the end of year six of the Co-Fund I term (May 2017) Co-Fund I had invested £11.7m in 37 companies through 95 deals[8]. There have been no further companies invested in by Co-Fund I since May 2017, although there have been follow on funding rounds. By the end of June 2019, Co-Fund I (and follow on) had invested a total of £14.787m in the 37 companies. It is noted that for co-funds benchmarked (see section 5), multiple follow on rounds of investment are normal practice and demonstrate good investment practice. CFM estimate that all of the follow on funding will be fully invested by the May 2020 target date.

[6] Submission to Invest NI Board for Co-Investment Fund, May 2010, page 10, NISPO, being the predecessor to techstart NI.
[7] Casework Submission: Co-Fund Uplift, page 8.
[8] As part of a recent internal reporting exercise Invest NI considers the number of Co Fund I portfolio companies to be 36, with one investment now attributed to Co Fund II. However overall Invest NI is content with the way the investments are reported in this evaluation.

1.5 The scope, purpose and objective of the Final Evaluation of the Invest NI Co-Fund

The scope of the final evaluation of the Invest NI Co-Fund I is set out in Appendix I. The methodology followed is summarised as follows:

- Desk top review of strategic context and the Co-Fund I database;
- Benchmarking with other Co-investment models;
- Consultations with participant company representatives and investors, key stakeholders;
- Review of Co-Fund Portfolio and Additionality;
- Benchmarking with other Co-investment models; and
- Analysis of findings and conclusions.

2 STRATEGIC CONTEXT & RATIONALE

2.1 Introduction

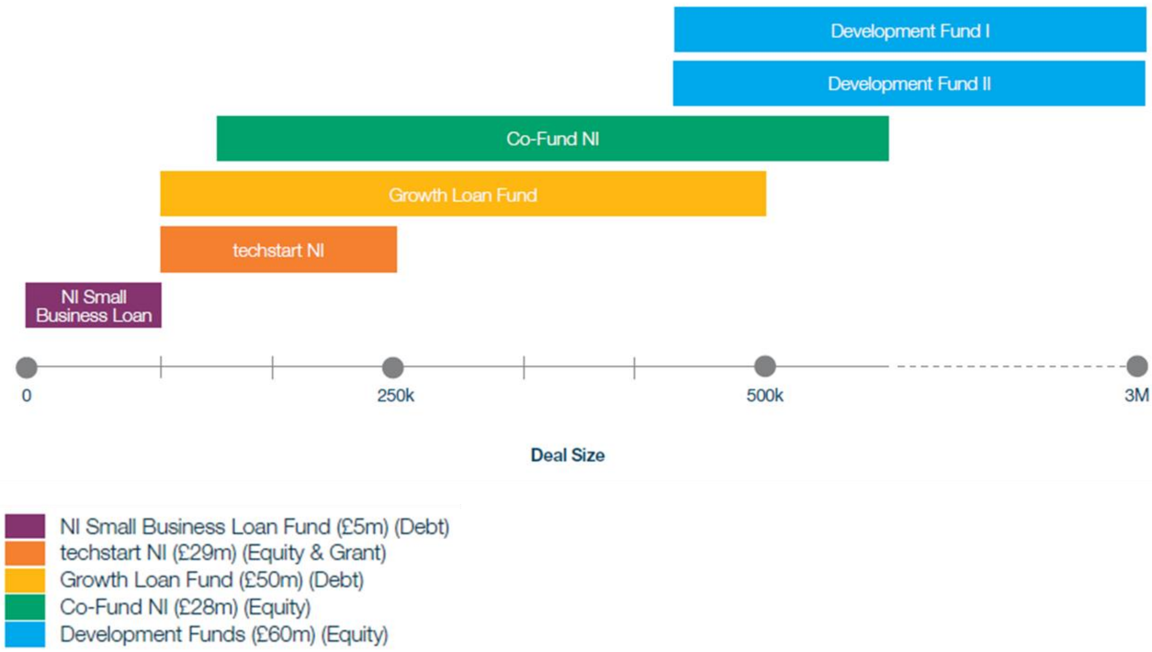
Section 2 is concerned with an assessment of the strategic context and rationale in which the Co-Fund was launched and continues to operate.

2.2 Strategic Context - Access to Finance and Angel Activity

2.2.1 Government Intervention in providing Access to Finance

Encouraging the growth of early stage and high growth potential innovative businesses by way of funding and other forms of support is considered to be central to the aim of growing the NI economy. Invest NI has acknowledged that if NI is to develop a strong, knowledge based economy, then it must put in place appropriate structures to help provide funding and other support for early stage technology (in the widest sense) and growth companies in NI. To this end, Invest NI has established a range of funds to address the equity funding gap in NI, which have been consolidated into Invest NI's Access to Finance Strategy (launched in 2011), i.e. a "Fund of Funds" valued at £170 million. These provide early stage and development funding for SMEs. Co-Fund was designed to sit as follows within the Access to Finance Solution at that time:

A Risk Capital funding continuum – from £1k start up capital to £3m development capital:



The Invest NI Access to Finance Solutions launched in 2011 includes the following:

Invest NI Funds and delivery partner	Details
Loan funds – delivered by Enterprise NI/UCIT for NI Small Business Loan Fund and Whiterock Capital for Growth Loan Fund	Invest NI has a NI Small Business and Growth Loan Fund (lending per business up to £100k and £1m respectively)
NISPO (£7m fund to 2014) and techstart NI (£13m fund from 2014) - delivered by Pentech (from 2014),then Techstart NI(from 2017)	Early stage seed funding up to £250k. Private/match investment as per state aid requirements. Provide separate seed funding into University spin-outs through QUB Equity and UU Equity.
Co-Fund I (£16m fund from 2011 plus £3m follow on) - delivered by CFM from 2011	Funding for innovative and export focussed companies with high growth potential. Matches private equity

Invest NI Funds and delivery partner	Details
	funding. Deal size typically £150k to £1m
Development Funds – delivered by Crescent Capital and Kernel (two £30m funds (each)) from 2013	Follow on funding for deal sizes typically £450k to £2m
Halo – delivered by NI Science Park from 2007/8 – ceased May 2017	Facilitated business angel investment in NI companies. Funded by Invest NI, it also had the remit to develop the angel syndication market and business angel skills in NI. Ceased in May 2017
Halo Business Angel Network (HBAN NI) – delivered by CFM from 2018.	HBAN[9] is an all-island umbrella group responsible for the development of business angel syndicates on the island of Ireland. HBAN is actively working to increase the number of angel investors who are interested in investing in early stage technology, MedTech, AgriTech & food companies and supporting the early stage entrepreneurial community HBAN NI was introduced October 2018 to develop business angel groups and syndicates in NI that invest on a consistent basis

The Access to Finance Solutions follow on from previous financial support provided by Invest NI including Crescent Capital I and II development funding (up to 2005 and 2015 respectively) and the Viridian and NITEC Funds (established in 2001 and 2003 respectively), with the Viridian fund being akin to the Development Funds.

While not stipulated at its inception, it had been envisaged that companies seeking funding would move along the "funding escalator" i.e. Co-Fund I would follow on from techstart NI (and its predecessor) and be a source of funding before the Development Funds.

Co-funds are a relatively new approach by governments to addressing the funding gap encountered by entrepreneurial businesses. They operate on the basis of 'picking partners' (rather than 'picking winners'), investing alongside private investors (mainly business angels) thereby leveraging their networks and experience and minimizing the public sector's transaction costs. That given, the existence of Co-Fund I in NI to support high growth, technology focused businesses fits well with a range of EU, UK and NI strategies, aims and objectives (as noted below).

Co-Fund I, unlike other Co-Investment fund models, does not have any objectives around the development of the supply side of the investment market. In 2018, recognising the continued gap in the market for a Business Angel Syndicate model, Invest NI sought to procure a manager for the HBAN NI programme, with CFM being appointed to this role.

2.2.2 Co-Fund I's contribution to Government strategic aims, objectives, targets and actions

At an EU level, the European Commission has expressed a general policy in favour of promoting VC funds in the European Community as a means of helping businesses become involved in R&D and innovation based activities. This is reflected in the EU2020 strategy which has set targets (covering the period of 2014-2020) to improve access to finance in order to enhance levels of R&D, therefore increasing levels of productivity within businesses in the EU. DG Research and DG Connect will shortly be announcing a new pan European Angel co-fund for ICT firms, specifically targeted at encouraging cross border syndicated/group angel investment. Benchmarking details are included in Section 5.

At a UK level, the Co-Fund is consistent with developments in the UK where access to finance barriers still exist for SMEs, due to the lasting impacts of the economic downturn, and the inherent risks associated with early stage technology companies that create a barrier in accessing traditional bank finance. The UK Angel CoFund was launched in November 2011, initially capitalised at £50m and increased to £100m in 2014. The London Co-investment Fund was launched on 4 December 2014, a £25m fund to be invested alongside six preselected investment partners into companies based in

[9] HBAN is a joint initiative of Invest Northern Ireland, InterTradeIreland and Enterprise Ireland. It is delivered within NI by Clarendon Fund Managers.

London, while the Scottish Co-Investment Fund (“SCF”) was relaunched in 2015 (further details in Section 5).

At a local level Co-Fund I was aligned with the NI Programme for Government 2011-2015 specifically Priority 1 which contains targets to increase levels of investment in the NI economy.

The economy continued to be a major priority in the **Draft PfG Framework 2016 – 2021.** It adopts an outcomes-based approach, with the key outcomes relevant to the Successor funds being “Prosperity through a strong, competitive, regionally balanced economy”.

The **DfE draft Industrial Strategy “Economy 2030”** January 2017 sets out a plan to turn NI into one of the world's most innovative and competitive small advanced economies.

In setting an ambition of transforming the NI economy, Economy 2030 seeks to, inter alia, position NI to be characterised as:

- An economy where more of our companies have an international outlook exporting their goods, products and services outside of our region; and
- An economy where an increasing number of businesses realise their high growth potential and scale up from small to medium sized companies employing more people in the process.

A further priority includes “a strong global presence as the location of choice to invest, do business with, visit, study and live”.

INI’s Business Strategy 2017-2021[10] notes that its focus over the next four years will include:

- Embedding innovation and entrepreneurship to support more businesses with high growth potential to start-up and scale up; and
- Helping more businesses successfully sell outside Northern Ireland.

A key target is supporting customers to achieve additional sales of £3.2bn to £4.2bn, including £2.4bn to £3.1bn external to NI.

All of the above strategies have a similar theme in seeking to build a competitive, outward focused economy, supporting export growth companies, and increasing productivity and competitiveness in NI. Invest NI supports, including Co-Fund I, have a particular focus on supporting high growth businesses which have the potential to compete in global markets and help promote a competitive, outward looking economy. Co-Fund I was therefore a key initiative in supporting the growth potential of early stage and SME companies.

2.3 Operational Fit of the Intervention and Complementarity with other Invest NI programmes

The profile of companies invested in through Co-Fund in NI suggests that some have availed of more than one Fund of Funds initiative, from the early stage techstart NI funding, through to Development funds. This is indicative of the profile of companies, with many being early stage pre-revenue companies and others being more mature, in existence in excess of five years.

As per para 2.2.1, it had been envisaged that companies would move along the funding escalator, reflecting greater funding needs as companies became more mature. There has not, however, been the “structured” progression envisaged, evidenced by the fact that:

- there has been follow on investment from Co-Fund into existing Viridian/NITEC and E Synergy investment companies (previous seed/development funds);
- there has been a follow on post funding via the Growth Loan Fund; and
- Co-Fund has invested alongside techstart NI and has matched against QUBIS and Innovation Ulster.

[10] *https://secure.investni.com/static/library/invest-ni/documents/invest-northern-ireland-business-strategy-2017-2021.pdf*

The level of interaction with other Invest NI and publicly funded initiatives, is set out in the Table below:

Invest NI interaction with Co-Fund I investee companies	No of companies (not mutually exclusive)
Viridian/NITEC	Three pre Co-Fund I
E Synergy	Four pre Co-Fund I
Crescent Capital development fund	Four pre Co-Fund I of which one continued to be supported by CC, two Co-Fund I portfolio companies
techstart NI	Three alongside Co-Fund I
Kernel development fund	Three alongside Co-Fund I
QUBIS	Seven (mix of pre Co-Fund I and matching including one spin in)
Innovation Ulster	Two pre Co-Fund I including one matching
Growth Loan Fund	One (one pre Co-Fund I and a number applied but not yet progressed)
NI Small Business Loan Fund	One post Co-Fund I
HBAN I	Two pitches, one success

Previous investment through Invest NI-supported institutional funds prior to Co-Fund I is estimated to be in excess of £4m, mainly in three heavily funded companies. The 37 companies have also benefitted from Invest NI grant funding, including Grant for R&D, reflecting the innovative nature of the companies and their stage of development.

2.4 Consideration of the validity of the rationale and need for the intervention (original and ongoing)

2.4.1 Need and Demand for Co-Fund I and Follow On

The Evaluation Team are of the view that an intervention is necessary on the demand side (i.e. demand for funds from companies) as there is no evidence that the private sector is yet willing to come forward to the extent necessary to fill funding gaps. The reasons are complex: the size of the private sector within NI remains small, and unsophisticated in its organisation; NI has just (in 2018) commenced its development of business angel groups and syndicates that invest on a consistent basis; there are a lack of examples of successful exits that might encourage private individuals to become investors within NI (two exits from Co-Fund I to date); private individuals who have the capacity to become investors have largely derived their wealth from traditional sources and they are somewhat risk averse when considering entering business sectors such as technology or the life sciences where they have no personal experience or reference points.

Consultations with 19 private/Lead investors at the time of the Interim Evaluation in 2016 (of 28 investee companies at that time), indicates that only six would have invested in the absence of Co-Fund, although a further six stated that they “weren’t sure” if they would have invested, including four “institutional investors”:

Investment without Co-Fund	Yes	No	Not sure	Total
Institutions	2	0	4	6
Private angels	4	7	2	13
Total	**6**	**7**	**6**	**19**
%	**32%**	**37%**	**32%**	**100%**

Seven private angels stated that they would not have invested without Co-Fund I and therefore Co-Fund I provides immediate cash to allow companies to develop in the short – term.

As at June 2019, £14.7m had been invested into Co-Fund I portfolio companies, with demand for the outstanding follow on funds. There therefore has been strong demand for Co-Fund I. The Economic Appraisal for the establishment of Co-Fund I also focused on creating deal flow for larger commercial funds which may in time generate commercial returns and substantial, non-monetary costs and benefits[11]. The experience to date is that there has been two follow up investments by the Development Funds but also that there has been follow up funding negotiated outside of NI, whereby the companies are getting access to new networks as well as money.

[11] Submission To Invest NI Board For Co-Investment Fund Date: 25th May 2010, page 13.

The view of the Evaluation Team is that the market will likely remain in a developing state for a number of years.

Consideration has been given to the impact on demand of equity crowdfunding platforms, such as Syndicate Room and Crowdcube. The view of the Evaluation team is that these are not well used outside of London and are not particularly useful for knowledge intensive businesses (which represent over 50% of the Co-Fund I portfolio) which can be complicated to explain to the crowd investors and which need a lot of follow on funding.

There was originally considered to be a need by Invest NI for an intervention to develop the supply side of private investors. The Co-Fund I investment focus has been on addressing demand side funding shortages, not supply side development issues. To address this gap, and following the 2016 Interim Evaluation and subsequent Economic Appraisal, the HBAN NI network has been operational since October 2018.

In HBAN NI's first year of operation to September 2019:

- There have been 12 deals in 11 companies (six lead deals, six wider ecosystem deals). This includes two investments into a Co-Fund I portfolio company;
- There have been 19 Active HBAN business angels (BA)s who did at least one investment round out of 60 registered HBAN members; and
- £2m has been invested by HBAN BAs alongside £2.5m from other BAs in 12 deals totaling £9.2m

Overall, there is evidence of the need for the Co-Fund I intervention from 2011 to 2019.

2.4.2 Market Failure

A 'market failure' describes a situation where the market alone would not efficiently organise allocation of goods and services.

At this stage, there is evidence that market failure existed (at demand and supply side) to support the strategic rationale for the Co-Fund I programme, namely:

- Equity finance is an important source of funding for innovative and High Growth Firms, but only a small proportion of businesses use equity finance;[12]
- There was risk aversion on the part of the private sector to fill the funding gaps identified by companies;
- The supply side of the market had not been developed in any meaningful way to encourage groups of investors to invest alongside each other and reduce the overall level of risk to the private sector; and
- Linking both was coordination failures – Lack of information in relation to the rewards from investing in a start up or scaling company (with Co-Fund having had just two exits and one IPO).

2.5 Summary of Findings

In conclusion, Co-Fund I was an important element of the funding continuum that existed in NI in its ability to de-risk funding for the private sector and match fund against them and institutional investors.

[12] https://www.british-business-bank.co.uk/wp-content/uploads/2019/02/British_Business_Bank_Small-Business-Finance-Report-2019_v3.pdf

3 OPERATION AND DELIVERY

3.1 Introduction

Section 3 is concerned with an assessment of the operation and delivery of Co-Fund I. Section 3 includes the following:

Para	Details
3.2	The delivery model for Co-Fund I
3.3	Review of the range of investments supported and the basis for the investment
3.4	Identify the main risks and actions taken to manage risks
3.5	Assess the management of exits from investments in order to achieve the best return and the valuation of the portfolio
3.5	Review progress against Action Plan arising from recommendations in the previous evaluation

3.2 The Delivery Model for Co-Fund I

3.2.1 Co-Fund I Operation

The process outlined initially for the operation of Co-Fund I was based upon the ultimate objective of deals being "private-investor" and "market led", with relatively passive involvement from CFM as the Co-Fund I manager. The proposed delivery approach was to be as follows:

- Where new private investors were considering an investment but faced a funding gap, the private investors would approach Co-Fund I who would 'pre-qualify' the investors if they were assessed as "sophisticated" and/or "high net worth" (as defined by the Financial Services and Markets Act 2000[13]);
- The Co-Fund I managers would assess the extent of the funding gap for deals brought forward;
- The private investors would undertake the detailed due diligence and determine the company valuation;
- The Co-Fund I managers would not undertake due diligence for each investment but would provide a challenge function that the lead private investor (Lead Investor) had carried out sufficient due diligence to support the investment decision;
- While it was anticipated that private investors and/or business angels would identify and agree in principle to invest in a potential Co-Investment company prior to contact with the Co-Fund I manager, this would not preclude the Co-Fund I manager from identifying potential co-investment opportunities and introducing them to private investors and/or business angels[14]; and
- While the role of the Co-Fund I manager is not to promote investments and must not provide investment advice, the manager may facilitate an investment led by private investors and/or business angels[15].

3.2.2 Eligible companies

Eligible companies for Co-Fund I were to meet the following:

- Must be a SME with operations substantially based in NI;
- Must not be in prohibited EU sectors and generally be in manufacturing or tradable services;

[13] the Financial Services and Markets Act 2000 defines "sophisticated" as an individual for whom at least one of the following applies: Is a member of a network or syndicate of business angels and have been so for at least the last six months; has made more than one investment in an unlisted company in the two years prior to the date below; is working, or has worked in the two years in a professional capacity in the private equity sector, or in the provision of finance for small and medium enterprises; is currently, or has been in the last two years a director of a company with an annual turnover of at least £1 million.
[14] Co-Investment Fund Management Services Agreement, page 33.
[15] Co-Investment Fund Management Services Agreement, page 33.

- Must demonstrate the existence of a funding gap in a proposed investment. Companies must have tried, and been unable, to raise all required funding from private sources before applying to Co-Fund I; and
- Must already have sourced the majority of the private sector funding (including a "Lead Investor"). Co-Fund I will effect introductions to private investors to help companies fill out the balance of investment rounds where necessary, but will not make introductions to effectively the first private investor.

3.2.3 Eligible Investment Partners

Co-Fund I was permitted from the outset to co-invest (and match) alongside Universities, individual Angels, syndicates of Angels/business angel groups, founders plus corporate and institutional investors.[16]

Once a co-investment partner, who is new to the company, has been identified, Co-Fund I could match not just that new investor's contribution to a round, but also all other contributions to a round, for example including the founders, providing all are investing on the same terms. The exception to this are funds from other Invest NI equity investment vehicles, which cannot be matched.

While Co-Fund I is not exclusive to business angel led deals, it was expected that a high proportion of deals would be co-investment with business angels[17]. This would reflect the position in Scotland - nearly all of this Angel funding is provided through Formal Angel Groups in Scotland, of which there are over 20. This differs to NI where the angel syndication industry has been in its infancy and is now starting to be developed through HBAN NI.

3.2.4 CFM Resources and Approvals

CFM won the tender to deliver the six year Co-Fund I on the basis of the employment of two full time investment executives. This was based on managing a portfolio of 18-22 new investments and 26-30 follow on investments with a fund of £7.2m. Co Fund I commenced in June 2011. An interim evaluation in 2013 concluded the fund was significantly outperforming against its original investment targets and the fund should be increased to ensure it had sufficient funding to run to the end of its planned investment life (May 2017).

Following approval processes, the fund was increased to £12.5m in 2014, and by a further £0.5m to £13m in 2016.

With Co-Fund I now at £13m before the £3m follow on, and CFM winning the Co-Fund II tender and the tender to manage the HBAN NI Business Angel Syndicate in Northern Ireland, CFM have increased its resources which now includes the resources to support both investment, portfolio management and the HBAN network. Total staff increased from three to a total of six FTE, with CFM also having a graduate trainee and a part time resource from a former Intel Capital employee (including these additional roles).

In terms of approvals, Co-Fund has an Investment Committee comprising CFM management based in Belfast, the CFM Non Executive Chairman, and the CFM Non Executive Director, the latter being an ex-CEO of Yorkshire Fund Management Group.

Proposed co-investment projects do not require specific consent from Invest NI unless they fall outside Co-Fund's specific investment remit (e.g. >25% equity position or total investment in a company will exceed £500k). CFM presents a varied level of detail (and notice) to Invest NI prior to each investment drawdown but there is regular pipeline dialogue and also a more formal review at quarterly meetings.

[16] Co-Fund management service agreement (page 10) sets out the definition of private investors
[17] Submission to Invest NI Board For Co-Investment Fund Date: 25th May 2010, page 8

3.2.5 CFM "Hands on" role

It was anticipated that CFM initially would be more "hands on" and assess private investor syndicates and specific investments on a deal by deal basis, but, over time, would move to a position where Co-Fund I had a number of "pre-qualified" partner syndicates, thus delegating responsibility to the Lead Investor. {Note – there was no distinction between syndicates or business angel groups}. The Co-Fund I documentation specifically states that the desire is for Co-Fund I to move towards the "Scottish Co-investment model".

Moreover, initially it was anticipated that Co-Fund I would "*provide assistance and support, where required, to help facilitate the investment process, without leading deals and making investment recommendations*".

Even in the "relatively passive" role originally envisaged in 2014, CFM was expected to have to:

- Assist the private investors with setting out term sheets, discussing valuation principles and providing guidance on due diligence and investment process. (Co-Fund did not set out to do its own due diligence, but expected all due diligence done by the private investors to be shared and would comment on it and guide suggested additional work); and
- Work with investee companies and investors, post investment, to plan for follow on investment rounds.

The intention, when establishing Co-Fund I, was that while "ultimately" it would be the private sector bringing forward the deals, it was seen as necessary that there would be a "professional" fund manager who would facilitate the deal making process in the initial stages. The Management Services Agreement (Schedule 1 para 2) notes that the Co-Fund manager will not be precluded from identifying potential co-investment opportunities and introducing them to private investors and/or business angels.

Owing to the early stage of development of private sector investment in NI, CFM, as the Co-Fund manager, have, in some instances, had difficulty in finding suitably experienced private investors to act as Lead Investor. Because of this NI supply-side market failure, CFM have been more involved in the deal making process and post investment support role than was anticipated at the time of the Co-Fund I launch, as well as taking a more active educational and exemplar role in the deal making process.[18]

Moreover, CFM has had a hands-on role "post investment", with attendance at board meetings of investee companies. CFM is acting as an observer and attending Board meetings in the majority of its investee companies (excluding those in liquidation), with the justification being the need to stay close to companies to be aware of and support future investment rounds.

Even where the Lead Investor is deemed to be sophisticated (as some undoubtedly are and as evidenced by the feedback in para 3.3.2), feedback from companies and investors has acknowledged the value that the CFM team bring to the portfolio company's development.

We note the following developments since the 2016 Interim Evaluation of Co-Fund I:

- HBAN operates across the island of Ireland, and in 2018 CFM won the contract to manage the Northern Ireland network;
- Up until 2016, CFM did not place specific responsibilities/requirements upon the private sector investors, nor was there overt evidence of the assessment of the capability or capacity of the private sector investors. There is evidence in 2019 of much more challenge to the Lead Investors by CFM, with use of a variety of instruments, including Convertible Loan Notes, where Co-Fund I is keen to support a project but has reservations as to the valuation etc; and
- As noted in the 2016 Interim Evaluation, and reconfirmed in 2019, Co-Fund I is managed by professional fund managers who are bringing added value to their portfolio companies. To this

[18] Note that of the 15 Lead investors consulted with as per para 3.3.2, many of these were more sophisticated investors, although all still welcomed the input and support of CFM.

end, CFM have commenced discussions with Invest NI as to the rationale for introducing a Carried Interest type bonus structure relating to Co-Fund I investment activity that will achieve the following three aims:

1. Recruit and retain a deeply experienced local investment team;
2. Align interests; and,
3. Incentivise targeted development of the portfolio (alongside private investors).

It is noted that similar mechanisms exist in techstart NI and the Development Funds.

The latter is currently being reviewed by Invest NI in terms of the approvals required to ensure the fund remains compliant under ERDF guidelines.

3.3 Review of the range of investments supported and the basis for the investment

3.3.1 Investment Activity and profile of investee companies

As of May 2017 (when Co-Fund I investment period ended), there have been 95 investments into 37 companies. CFM has invested £11.7 million, mostly Ordinary Share Capital but with circa £2m by way of Preferred Ordinary shares and Convertible Loan Notes[19]. It is noted that terms may be altered but to remain pari passu the public investor can invest either on the same or better terms than the private.

The total investment in these 37 companies was £14.7m at June 2019.

This £14.7m of Co-Fund I investment at June 2019 has leveraged a total of £50.3 million of investment into the 37 companies, of which Co-Fund I matched against £29.8m and a further £20.5 million was not matched. {Co-Fund I didn't match where its funding wasn't required – i.e. investment was being made by the Development Fund or through IPO, or where the funding round was large enough that a sub-section of investors could be adequately "pre-qualified" in order to justify the Co-Fund I investment}. The total amount leveraged by Co-Fund is therefore £65.1m at June 2019.

Companies are shown by number of investments:

Investment	No of companies	Investment Amount	Total Funding	Pre Q Private Match	Matched Round Size	% Co-Fund of matched	% CF of total	% of Co-Fund
One	37	5,982,588	19,263,586	9,740,946	15,723,534	38%	31%	40%
Two	32	3,503,078	10,539,249	4,451,332	7,954,409	44%	33%	24%
Three	25	1,996,695	6,612,563	3,669,003	5,665,698	35%	30%	14%
Four	17	1,398,552	9,464,620	3,855,255	5,253,807	27%	15%	9%
Five	12	764,744	5,769,802	4,340,332	5,105,076	15%	13%	5%
Six or more	6	1,141,758	6,291,902	3,743,107	4,884,866	23%	18%	8%
No match	2	-	7,199,986	-				
Total	37	14,787,415	65,141,709	29,799,974	44,587,390	33%	23%	100
Percentage	**Total Funding**	**23%**		**46%**	**68%**			

The above includes six companies with six or more investment rounds, 12 companies with five investment rounds, and 17 companies with four investment rounds. Circa 40% of the total £14.7m investment at June 2019 had been in first round investments, with 60% being follow on. The overall ratio of private to public matched funds on a portfolio basis is 67:33.

In terms of its level of shareholding, excluding ten liquidations – see below, Invest NI holds more than 20% in three companies, where total investment was £1.387m (average £462k), and holds/held less than 10% in 11 companies where total investment was £3.936m (average £357k).
The range of investment is shown:

[19] CFM notes that the Co-Fund is a discretionary fund and that it has the discretion to change the terms it offers from that of the private investors (a similar approach is adopted by UK Angel CoFund)

Investment	No of companies	Investment Amount	Average investment Co-Fund	Largest £	Smallest £
One	37	5,982,588	161,692	334,844	75,000
Two	32	3,503,078	109,471	470,000	14,268
Three	25	1,996,695	79,868	190,902	10,000
Four	17	1,398,552	82,268	345,240	15,000
Five	12	764,744	63,729	249,997	25,000
Six or more	6	1,141,758	190,293	250,000	11,038
Total companies	37	14,787,415	399,660		
Total rounds	144	14,787,415	102,690		

The average Co-Fund I round investment is £103k and has ranged from £50k to £334K for a first round investment and from £10k to £470k for individual follow on investments. With Co-Fund I launched in 2011, investments in new companies, by year, have peaked in 2014/15, with the average size of investments declining since this year:

Yr/Pr to	Investment per annum £	No of investments	Average per round £
May 2012	578,875	4	144,719
May 2013	2,409,118	12	200,760
May 2014	2,046,921	13	157,455
May 2015	2,761,164	22	125,507
May 2016	2,286,831	24	95,285
May 2017	1,702,056	20	85,103
May 2018	1,951,734	29	67,301
June 2019	1,050,712	20	52,536
	14,787,410	144	102,690

Investment by year and initial/follow on is shown:

Co-Fund	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/20	Total
Initial investment	488,875	1,300,500	1,279,957	1,625,083	264,999	673,763	349,411	0	5,982,588
Follow on	-	370,905	979,823	1,535,941	1,704,827	1,235,832	1,560,604	1,416,890	8,804,822
Total Investment	488,875	1,671,405	2,259,780	3,161,024	1,969,826	1,909,595	1,910,015	1,416,890	14,787,410
% Initial	100%	78%	56%	51%	13%	35%	18%	0%	42%

As at 30 June 2019, there have been ten liquidations with the Co-Fund I investment in these being £1.862m (13% of investment).

Of the £14.7m investment by Co-Fund I, an uplift in valuation had been recorded in six companies at June 2019, i.e. a surplus of £5.23m on investment of £3.734m. These include three companies where Co-Fund I has invested £2.3m (initial investments in 2011 to 2013) and where the total funds raised in each one was in excess of £6m, i.e. £19.2m in total. One of these has been raised through IPO.

Excluding the liquidations, there had been write-downs in a further 16 companies where the Co-Fund I investment was £7.37m.

	Comp anies	%	Cost £m	%	Value £m	Variance £m	Max Invest ment £000	Average invested £000
Revaluations	6	16%	3.734	25%	8.974	5.240	1,000	629
At Cost	3	8%	0.840	6%	0.840	0	310	280
Provisions	16	43%	7.376	50%	4.181	-3.195	758	447
Exits	2	5%	0.934	6%	2.835	1.901	734	467
In Liquidation	10	27%	1.902	13%	0.022	-1.879	356	190
	37	100%	14.787	100%	16.854	2.066		400

Note that as of June 2019, Co-Fund I had two exits, although none since 2016, with these providing a surplus of £1.9m. This is in addition to the IPO, although Co-Fund I still holds its share in this company.

At 30th June 2019, the Co-Fund I portfolio was valued at £16.85m, an uplift of £2.06m. Write downs are considered annually by CFM although uplifts are only taken on the basis of an external valuation.

Positive financial returns on early stage investing typically take a minimum of six years to achieve, with recent evidence suggesting that this is extending to nine or more years. It is noted that many of the Co-Fund I companies are in existence for eight plus years (two are well established packaging companies which operate within the same group).

There has been investment by Co-Fund I into a range of sectors[20]:

	No of companies invested in	No of Failed companies
Social Media	4	2
Enterprise Software	10	-
Consumer Products	6	1
ICT Security	2	-
Biotech	3	1
Digital Market Places	6	4
Industrial/packaging	3	1
Medtech	3	1
	37	10

Sectoral distribution – Co-Fund I has assisted eight broad sectors including high capital intensive and IP-rich (3 biotech) and low capital intensive ~ low barriers to entry (four social media, six digital market places) and high growth sectors such as enterprise software and ICT security (12). Co-Fund I supported an established, packaging company, where Co-Fund I matched against investment in new technology.

It is evident that Co-Fund I investments have, so far, been reflective of the "emerging" sectors in the current market, with a high proportion of companies in social media and digital market places receiving assistance, but with a broad spread in biotech, manufacturing, medtech, ICT, Enterprise software etc. There has also been a marked increase in investment in the enterprise software sector since the 2016 Interim Evaluation.

Level of Innovation - Investee companies are largely innovative, with 75% of trading companies noting new product development during the investment period[21].

Maturity of the Companies: At the time of the initial investment, 40% of companies were pre-revenue. There were four that had turnover over £1m, accounting for 63% of employees at the point of initial investment, including the one large packaging company[22].

	No of companies by maturity at investment	Employees in 37 companies at initial investment	Company failure by maturity	Employees in failed companies at initial investment
Pre-Revenue	15	43	8	14
Up to £100k turnover	9	46	1	1
£101k - £500k turnover	6	53	1	5
£500k - £1,000k	3	23	0	0
£1,001k - £2,500k	3	65	0	0
£20,000k	1	216	0	0
	37	446	10	20

[20] The sector analysis is as supplied by CFM and does not refer to SIC codes
[21] N=24- being the 25 trading companies less 1 reported as group and results from 2 sold companies from Interim Evaluation
[22] Includes two packaging companies that are part of the same group

Ageing of companies - The investee companies are predominantly very young, with the majority being circa one to three years in existence at first investment, although there are six companies in existence over ten years, including the mature packaging company referred to above.

Export focus of companies – details are not available of the level of exports within investee companies at the time of the initial investment. In 2019, however, of the 23 of the 24[23] surviving companies who are generating revenue, all are trading outside of NI and 20 are exporting outside of the UK.

3.3.2 The Profile of Investees

Across the 37 investee companies, funding was leveraged from business angels, founders/management, QUBIS and Innovation Ulster Ltd ("IUL"), Invest NI supported funds as per para 2.3 (including techstart NI, Crescent Capital and Kernel development funds) and a range of Institutional Funds/corporates/syndicates from the UK and US.

Matched	NI	RoI	GB	Rest of Europe	USA	RoW	Totals
Private Investors	193	17	63	5	5	6	289
Investment Amount (£)	8,443,777	1,011,983	3,552,240	301,409	181,972	225,711	13,717,092
Founders/Management	18		3	2			23
Investment Amount (£)	1,877,713		134,500				2,012,213
Corporates	15	3	5	5	6	4	38
Investment Amount (£)	2,399,065	690,087	1,509,876	772,106	760,426	2,290,349	8,421,909
VC Funds	7		7		2		16
Investment Amount (£)	4,341,171		3,882,277		4,233,453		12,456,901
QUBIS	1						1
across 6 companies (£)	1,478,385						1,478,385
TechStart NI	1						1
Across 4 companies (£)	1,300,514						1,300,514
IUL	1						1
across 3 companies (£)	290,390						290,390
Total Investors	**236**	**20**	**78**	**12**	**13**	**10**	**367**
Total Investment	20,131,015	1,702,070	9,078,893	1,073,515	5,175,851	2,516,060	39,677,404

1. The above table is not definitive as it includes funds that have not been matched against including debt and further equity funding, predominantly during follow on rounds in which Invest NI has not participated. For example this table excludes £5.5m of funding raised through IPO and £0.5m of funding raised by one company with Kernel and other VCs

2.This compares with the total non-Co-Fund investment as per Invest NI returns of £50.2m

3. 6 of the 15 corporates in NI are individuals that have used companies as an investment vehicle.

4. Two of the investors labelled as founders have invested £38,385 as private investors in unrelated Co-Fund portfolio companies.

The 37 deals attracted 289 private business angel investors, 23 founders/existing management, 38 corporates, 16 Venture Capital ("VC") funds plus QUBIS, IUL and Techstart. Of the total of 367 investors, 236 were from within NI and 131 were from outside of NI.

In total, 36% of investors, representing 49% of the amounts invested, or £19.5m, came from outside NI. 35 investors, investing £8.7m, came from outside of the UK.

Co-Fund I has therefore been instrumental in introducing new institutions into NI. There is also some evidence that these relationships are being developed and further new deals presented to them by CFM, e.g. the VC invested in the company that exited in 2016 have since invested in another portfolio company (Company B in the table below in para 3.4.2) although CFM is respectful of the fact that many companies may seek to retain ownership of the investor relationship (so as to not dilute investment in them in favour of another company).

[23] N=24- - there are 25 trading companies but one is reported as group, hence there are only 24 responses to the survey.

The Evaluation Team consulted the Lead Investors (N=15 representing 18 trading companies[24]). These were the Lead Investors in the companies at the time of the initial Co-Fund investment. Two of these represented a US based VC Fund and QUBIS.

Almost all of the Lead Investors have experience in investing in companies, with only two indicating that they had only ever invested in one company (although 13 had only invested in one Co-Fund supported company).

One sophisicated Lead Investor had invested in four Co-Fund I portfolio companies. Consideration of the backgrounds of the Lead Investors indicates that a large number (11 out of the 15) previously/currrently ran their own business, with these having a broad range of sectoral and business experience.

Two of the Lead Investors are now the CEOs of the companies in which they invested.

14 of the 15 Lead Investors currently sit on the Board of the portfolio companies. Of the one no longer sitting on the Board, it was a condition of the US institutional funder subsequently introduced that the private investors no longer had a seat on the Board.

13 of the 14 Lead Investors who sit on the Board of their companies stated that they are very active (10) or reasonably active (three) in providing direction to the investee companies. Of the one Lead Investor who is no longer active in their Co-Fund I investee company, they are the CEO of another Co-Fund I company.

All of the 15 Lead Investors were positive as to the role of CFM, although the level of support required from CFM did vary.

A consultation was also conducted with two Lead Investors in a liquidated company. Both noted the role of CFM in seeking to support the companies as best they could.

3.3.3 Consideration of the Basis for the Investment

Co-Fund I has made investments on the basis of the quality of the management team, the product/service offering and opportunity, and the quality of the lead investor. The calibre of the Lead Investor is often paramount in determining whether or not to match an investor, including their sectoral knowledge, experience in taking companies to exit etc. That said, the CFM team have each brought their own skills to strengthen the Board and management team where this is perceived to be necessary. Even where an experienced board does exist, feedback on the role of CFM has been positive in terms of their strategic advice and support.

3.4 Main risks and actions taken to manage risk

3.4.1 Key risks

Consideration has been given to the main risks at the commencement of Co-Fund I and the actions taken to mitigate the risks. These are summarised in the following table:

[24] There were two Lead investors who had invested in more than one company

Risk type	Perceived Risk	If risk materialised?	Commentary and Risk Reduction-Strategy/Measure
Insufficient demand	There was a risk that demand was lower than projected and the £7.2m was not spent, was invested in poor quality projects, or was invested in funds that did not require a match	No – funds all drawn down into deserving projects and a top-up (to £13m) was required	There was a challenge process within CFM with an Investment Committee. The level of due diligence by the lead investor was scrutinised and CFM provided additional due diligence and challenge. CFM also exercised discretion as to the amount of monies invested and the funds matched.
Insufficient match funding from privates	There was a risk that there was insufficient match funding from private investors and that the target ratio set at 55:45 private:public (no more than 50% on individual project) was not achieved	No – private match exceeded 55%	Co-Fund I was able to match alongside a wide range of private partners, as long as the investor (to which funding was matching) was independent to the company. There was discretion as to funds matched against. At June 2019, the actual ratio was 67:33 private:public on matched funds and 77:23 private:public on total funds.
Insufficient skills base amongst Lead investors	There was a risk that the lead investors had insufficient skill base to assist the company in its development, with subsequent failure to achieve the business plan and meet performance target	Partially – in some instances CFM have to supplement the lead investors	The majority of the lead investors were considered to be of a high calibre, with the experience to bring value to the companies. Lead investors were also replaced in a number of companies, as new investors came in with additional funds, new networks and sectoral experience etc. In addition, CFM played a wider role in providing strategic advice etc. to companies and were able to complement the skills in place.
Lack of commercial successes to encourage private sector investment	There was a risk that there was insufficient evidence of commercial successes to encourage private sector investment in companies such as those typically found within a Co-Fund Portfolio	Partially - there have only been two exits to date and one IPO	Positive financial returns on early stage investing typically take a minimum of six years to achieve, with evidence suggesting that this is extending to nine or more years. Moreover, commercial returns in an Angel investment portfolio are typically highly concentrated in winners; 90 percent of all the cash returns are produced by 10% of the exits. Co-Fund I has had two exits to date, both in 2016 and both with positive returns. CFM note that these are the first significant returns back to Invest NI (or DfE) under its Access to Finance suite of Funds or predecessors. There have been ten failures (either wound up or fully provided for with no likelihood of recovery) of the original 37 investments. There are six companies reported at a revaluation; combined with

Risk type	Perceived Risk	If risk materialised?	Commentary and Risk Reduction-Strategy/Measure
			the two sales, these represent 22% by number of companies and 32% by investment. Two companies are preparing for exit, with one company having completed an IPO. Of the 21 companies participating in the survey, the average period to exit is three to four years. At least three are considering an IPO. With the average investment period being 5.2 years, and the oldest being 7.2 years, many of the Co-Fund I portfolio should be starting to work towards their exit strategy. It is not the role of CFM to provide strategic support on investments, however there is active support to the companies in this area. There did seem to be fatigue amongst one investor grouping in one company as to the length of time to exit, and the average timescales (nine or more years) was probably not well understood by private investors at the outset (especially when the focus was on the EIS time line of three years). In some instances, this has meant a lack of investment by investors in other start up or growth companies.
Fund managers	There is a risk that the fund manager had inadequate resources or expertise to manage Co-Fund I	No - the fund managers are experienced	The feedback on the Co-Fund I managers is extremely positive, including on the adequacy of their skills and expertise. It is noted that CFM also won the Co-Fund II tender (and the HBAN tender), with additional resources introduced.
Risk of insufficient follow on funding for portfolio companies	There was a risk of insufficient follow on funding for portfolio companies, and that companies had insufficient capital to meet their funding needs to bring them to a satisfactory exit	Partially – 17 of the companies (n= 21) state that they still require follow on funding.	Co-Fund I has had a number of top ups since 2011, first to £12.5m and then to £13m. A follow on fund of £3m was also introduced in 2017 as part of Co-Fund II. These funds have leveraged a further £49.8m of funding. There has therefore been sufficient funds made available to companies. The low number of exits is further discussed above.

We note that the overall approach to risk management would appear to be robust and proportionate.

3.4.2 Management of Exits from each investment to achieve the best return and valuation of the portfolio

Consideration has been given to the management of exits from each investment to achieve the best return and maximise the valuation of the portfolio.

In terms of exits and planned exits, details are:

	Comp-anies	Investment Cost £000	Value £000	Planned exit	Planned exits at cost £000	Planned exits at value £000
Revaluations	6	3,734	8,974	1	674	878
At Cost	3	840	840	1	175	175
Provisions	16	7,376	4,181	0	0	0
	25	11,950	13,995	2	849	1,053

Co-Fund I investment in companies held at a revaluation

Co-Fund I hold shares in six companies where the shares (costing £3.734m) are held at a revaluation of £8.874m). Co-Fund I is showing a revaluation uplift in these six companies ranging from £27k to £3.5m. Of the £3.734m investment in these six companies, these have been matched against funds of £10.31m, where the total funds raised was £26.95m.

In respect of these six companies:

- Funds raised included from US investors, GB investors, local corporate investment, QUBIS, IUL, Invest NI Development funds, Techstart ni, private investors and founders/management, as well as the IPO;

- These represented five sectors, with multiple funding rounds in all but one company;

- Co-Fund I reported an increase in valuation ranging from 3.85% (where the estimated uplift is £27k) to 25.05% (where the estimated uplift is £843k); and

- With the exception of one company that secured £113k of Co-Fund I investment, Co-Fund I represented 20% or less of total funds raised.

One company has already floated on the AIM market and a further three consider IPO as a potential route for Co-Fund I exit. For the existing plc, Co-Fund is likely to exit any date from 2020 (two years post flotation), subject to a favourable share price.

One of the companies, an investment since 2015, has recently gone to market to secure an exit. CFM resource (ex-Intel with domain knowledge) has observer status at board meetings and is actively supporting the exit process.

We note that CFM are Board members (by invitation by companies) of five of the six companies below. It is not formally on the Board of the plc as a Co-Fund representative, but the CFM chairman is a Board member.

Case studies are included in respect of two companies with uplifts, Sisaf Limited and Cirdan:

SiSaf
Co-Fund I first invested in bio-pharmaceutical company (and Ulster University spin-in) SiSaf in 2013 and has followed a further three investment rounds. The most recent was in mid 2018 when SiSaf closed a $6.8million interim funding round led by US based institutional investor, Vickers Venture Partners, with additional capital injections by Co-Fund I and IUL. Speciality chemicals giant Croda International also took a minority stake in SiSaf as part of a new strategic partnership as part of this funding round. Capital will drive pipeline development and manufacturing capability in dermatology, cosmetic skin care and other therapeutic areas.

SiSaf
The company has used its patented technology to launch a range of products in the USA under subsidiary companies. SiSaf's ProSilic® bio-courier technology takes even the most challenging molecules to their target and optimises their efficacy and safety. The partnership with Croda covers the use and development of SiSaf's patented bio-courier ProSilic, a novel drug delivery technology. It will primarily focus on Croda's Health Care market, but research projects are also expected to take place in much wider applications. SiSaf has an expanding portfolio of pharmaceutical companies that it is in discussions with, in relation to dermatology, ophthalmology and oral drug delivery to develop programmes for new human preparations. This has included a number of technology development commercial funded projects and also technology licensing deals. SiSaf has and continues to undertake clinical trials and expects to release improved drug molecules reformulated with SiSaf's patented technology to the market. Since 2013 SiSaf has also been involved in and awarded several UK and EU R&D Grant funding projects. One of the CFM managers sits on the Board of Sisaf in a personal capacity, at the request of the Board and CEO, and is actively involved in the Company strategy. The CEO, Dr Suzanne Saffie-Siebert, has been very complimentary about the role of Co-Fund I and CFM. The Company is currently fund raising for a $30m Series B investment round (being led by existing VC investor Vickers) which is expected by the Fund Manager to lead to at least a 50% increase in the current Fund valuation, which would leave it with a MOIC (Multiple on invested capital) valuation in excess of 6x cost.

Cirdan Imaging
Cirdan Imaging designs, manufactures and supplies innovative medical imaging solutions for the detection and treatment of cancer in surgery, radiology and pathology. The founder, Dr Hugh Cormican, is the founder of Andor Technology and has many awards and accolades. Pre Co-Fund - there were three fund raising rounds supported by the co-founders and staff, and used for R&D and staffing costs. Co-Fund's investment enabled Cirdan to become a spin-in into QUBIS, matching QUBIS and a small number of independent privates. A follow up round was particularly instrumental in funding the acquisition and then integration and commercialisation when Cirdan acquired the IP and assets of the Centricity Laboratory Division of GE Healthcare IT, in collaboration with Kainos Software Limited, in Oct 2013. The responsiveness of Co-Fund was key to enabling the deal to happen. The Company exports globally and have offices in Canada and Australia. Published sales to date are in excess of £4m with the staff complement having grown from six staff pre Co-Fund I to 56 currently, including 41 in NI. Cirdan did consider VC development funds at the time of the initial investment but didn't progress with these as the fit wasn't considered by management to be right at that time - they had anti-dilution clauses that were not appropriate for seed capital. Since Co-Fund I, Cirdan has raised further funding from the Kernel Development fund with Kernel, Co-Fund and Kainos participating. Kainos' investment will enable the two companies to work closely together for their mutual benefit and it is envisaged that Cirdan could become an important reseller of Kainos' Evolve solution in the US, Canada and Australia. As part of this development, Cirdan has entered into a five year Evolve SaaS agreement carrying an annual license fee and additional potential revenue depending on platform usage. The continued involvement of CFM and expertise they bring is considered by the founders to be invaluable. The Company is currently fund raising (with advice from PwC) for a £7.5m Series B investment round expected to close in H1 2020, which is expected (by the Fund Manager) to lead to a doubling

Cirdan Imaging
of the current Fund valuation which will leave it with a MOIC (Multiple on invested capital) valuation of circa three times the cost.

The following is also noted in respect of exited Company – PathXL

PathXL
PathXL is a company operating in the medical and life sciences technology sector. It seeks to replace the use of microscopes and glass slides in pathology with digital images, and then applying advanced software and algorithms to aid the diagnostic process, making labs more efficient and eliminating the risk of error. PathXL started out as a Queen's University spin-out firm in 2004. With investment support from a variety of Invest NI funds, including Co-Fund I and Crescent Capital II, the company successfully developed its technology and capability, until it was acquired by Philips Healthcare in 2016. Now known as Philips Digital & Computational Pathology Belfast, it now employs over 50 in NI, with turnover in excess of €2m. It has plans to further grow staff in NI to over 100.

3.5 Progress against the Action Plan (as per 2016 Evaluation)

Details of progress against the Action Plan prepared following the 2016 Interim evaluation of Co-Fund I is as set out below. It is noted that many of the recommendations were in relation to developing the supply side of the business. It is noted that this is outside the responsibility of CFM, as fund managers:

No.	Recommendation in 2016	Status per Evaluation Team
1	Consider the opportunity to further develop the supply side of the market, including a more rigorous challenge of the Lead Investor's capability and potential cost implications	Developing the supply side of the market was a key issue in 2016. With regards to this supply market, a new angel investor syndicate was launched in Northern Ireland in late 2018 with the goal of increasing the level of investment being made in high-growth businesses. The HBAN Business Angel Syndicate in NI seeks to bring private investors together to support early-stage startups with high growth potential. The Syndicate is targeting businesses who are seeking investment rounds of up to £500,000. There is also an Investor Forum for a wider group of investors who are keen to support companies at a lower but still significant investment level. The syndicate has to date resulted in twelve significant deals from business angels. Three Co-Fund I companies have pitched to HBAN with two being successful. In terms of a more rigorous challenge of the Lead Investor's capability and potential cost implications, this is seen in the increased adoption of Convertible Loan notes (CLNs). Co-Fund I have invested circa £2.0m by way of Preferential Ordinary shares and Convertible Loan Notes with £1.145M CLNs since 2016s. In two instances, discounts have been applied in determining the valuation on conversion.
2	In the event that Invest NI moves to a co-fund model with a supply side remit, in keeping with benchmarked regions, consideration should be given as part of an Economic Appraisal as to the necessary transitionary period	A consideration in 2016 was the need to incentivise the private sector, making a contribution to costs, similar to Scotland. Invest NI has decided not to financially support the Lead Investors. Instead, Invest NI launched a competitive tender process to appoint a manager to manage the HBAN Business

No.	Recommendation in 2016	Status per Evaluation Team
	arrangements and the need to financially support Lead Investors if they are to assume the level of responsibility as seen in benchmark regions, to incentivise them to undertake a more proactive role.	Angel Syndicate in Northern Ireland. CFM was the successful bidder. The approach would appear to have been successful with £2M invested to date by HBAN business angels alongside £2.5M from other business angels in twelve deals totaling £9.2M. Seven of the 60 members previously invested in Co-Fund I.
3	In the event that the Feasibility Study finds that there is not an appetite to develop the supply side of the market, the Economic Appraisal should consider how the Co-Fund model in NI can be made more sustainable. This should include investigating how best to manage the Co-Fund manager's level of hands on involvement in existing portfolio companies in line with existing contractual terms/investee company needs, and also how to reduce the Co-Fund manager's hands on involvement in future portfolio companies.	Consideration had been given to the capacity of CFM to manage the Co-Fund I portfolio, given the increasing number of investments and demands on the fund manager's time, far beyond contractual obligations. Since 2016, it has been accepted by Invest NI that the CFM fund managers play an important role in the development of companies' strategies and their growth plans. CFM have also been successfully appointed to manage Co-Fund II and the follow on to Co-Fund I. Subsequently, the resources deployed by CFM have increased, with a total FTE staff of six (from three in 2016) (see point 4 below) plus Graduate trainee and a Part Time resource.
4	Consideration should be given as to how the Co-Fund can increase the capability of Lead Investors and increase their appetite for involvement in investee companies (or where there is scope to introduce Non Executive Directors, as paid for by the companies). The role of the Lead Investor should be more clearly defined as part of any future Co-Fund, setting out roles and responsibilities.	This recommendation arose from an acknowledgement of the draw on the CFM resources. The current CF papers and process focus on the quality of lead investors with strong relationships being built with the highest caliber ones, referred to as preferred investors. Where possible (and through HBAN work) CFM are trying to get the less experienced investors socialized and working on deals alongside both CFM staff and more seasoned angel, investors. Feedback from CFM is that this is the best sort of "on the job" training.
5	Going forward, the Co-Fund's database of prequalified angels should be used to ensure that angels benefit from investor training programmes, by Co-Fund and/or others, subject to the relevant consents on the part of the angels.	See comments above - some training and experience offered through HBAN process, but CFM note that the best experience is working on deals alongside experienced investment professionals.
6	Co-Fund investments should continue to be market led and reflect the interest of the private sector, including in pre-revenue companies.	Co-Fund would appear to be continuing to be market led. Of the nine investments since 2016 Evaluation, seven have been in Enterprise Software and two in Consumer Products, with four being pre-revenue.
7	Consideration should be given as part of the Economic Appraisal as to the level of Co-Fund total finance to be retained for follow-on funding, reflecting the balance required between protecting fund investments and securing successful exits, demonstrating the commercial returns to be made from investment in companies such as in the Co-Fund portfolio, as well as avoiding crowding out the private sector.	The 2016 Evaluation noted that at least 50% of funds invested should be into follow on funding rounds. It is noted that in Co-Fund I, including the follow on funds, 40% of funding has been in round 1 and 60% in follow on. Co-Fund II was launched in 2017, a £14.7m fund to invest in initial and follow on rounds up to May 2023, with a further £4m approved for follow on beyond May 2023.
8	The funding needs of the company, to reach exit or cash breakeven, and defining targets for sales and cash	Outlined in investment paper but only really determined by attendance at Board meeting. Whilst CFM are only Board members of five of the remaining 25 active companies and

No.	Recommendation in 2016	Status per Evaluation Team
	generation (internally generated through sales or externally raised), should be clearly defined at the approval stage and as part of the assessment of the investment partners, to ensure that there is capacity and/or a plan to provide follow on funding at the levels required.	the CFM Chairman is on the Board of one company, they attend Board meetings for all of the other 19 portfolio companies, including attendance by some of the new team members on Co-Fund I portfolio.
9	The Economic Appraisal should further consider: The appropriate size of any future Co-Fund. The appropriate number of deals, including a "range" for "new" investments. The rationale for maintaining the minimum investment round at £75,000, and if this limit should be introduced for follow on investments also. The scope to increase the maximum funding per company above £1m, subject to recognition that any one investment should not exceed 10% of the Co-Fund.	Co-Fund II was launched as a £14.7m fund. Average first round Co-Fund II investment of £175,000 – total first round fund size of £7.35m to May 2023 and follow on fund size of £7.35m to May 2023 - £14.7m in total Typically operates in the deal size range for Co-Fund monies of £150,000 to £1,000,000 – assumes minimum investment of £75k for first round funding and maximum investment of £500k per deal Maximum Co-Fund investment per company of £1.25m (8.5% of total) and overall 65:35 private to public funding
10	Any future Co-Fund should: Consider the objectives of the Co-Fund, including which institutions it is appropriate to invest alongside, having regards to additionality and the need for co-terminus private angel investment so that supply side objectives are also met. Continue to restrain from matching solely against the founders of a company. Continue to match against EIS and SEIS, subject to the Lead investor investing a minimum amount (relative to a limit of £40k in UK Angel CoFund).	For Co-Fund II, match funding can originate from business angels (individuals, syndicates or through Business Angel Groups), Venture Capital institutions, universities, founders and corporates, as long as the Lead match funder is independent of the company. Minimum of three private business angels where match funding is Business Angel led. Minimum of £25k from Lead Investor
11	The Co-Fund should continue to improve its monitoring and reporting processes.	CFM report annually to Invest NI on Company Turnover, EBITDA, Payroll, GVA, employee numbers
12	Any new Co-Fund should have activity KPIs relating to the number of new investments per annum, the number of new Lead Investors (as defined by UK Angel CoFund), the classification of investors (privates, institutions, NI/other locations etc), the mix of public to private investment, number of follow on rounds.	Co-Fund II has the following targets: Target of a range of new round one investment deals from 5-9 per annum, averaging seven new investments (in new companies) per annum from June 2017 to May 2023 (42 in total). There were no targets set for the "number" of follow on investments on the basis that this would vary with milestones etc. To contribute no more than 50% of the funding in any one round and to achieve a ratio of 65:35 private to public funding over the portfolio (subject to private monies being eligible for matching)

No.	Recommendation in 2016	Status per Evaluation Team
		There was no target for the number of new investors, however, as a minimum, for each deal where match funding was Business Angel led, there were to be three private business angels Targets were set for syndicated deals – with seven initial deals and seven follow ons, to be completed by 2023/24
13	Co-Fund managers should report annually to Invest NI against activity KPIs, the position of portfolio companies against their original plan (e.g. sales, employment, cash position) and an annual updated position on funding needs to cash breakeven and/or exit. Reporting requirements should reflect investment levels.	Annual reports provided and verbal updates provided throughout the year. Very regular contact between CFM and main INI contacts, and through to client executives as required.
14	Consideration should be given as part of the Economic Appraisal as to the preferred option regarding how best to cater for the fund management aspects of the current Co-Fund portfolio post the end of the current Co-Fund funding period.	CFM have been successfully appointed to manage the follow on to Co-Fund I (as part of the Co-Fund II tender).

3.6 Conclusion

Section 3 has considered the operation and delivery of Co-Fund I. The above indicates that CFM has managed the Co-Fund I well and that the delivery model is appropriate, although more “hands on” than originally envisaged. There has been a spread of investments across 37 companies in a range of sectors. Risks have been managed and the Action Plan from 2016 has been satisfactorily actioned. The number of exits is low (two exits and one IPO) although two are actively seeking to exit. The average investment period is however 5.2 years (the first investment was 7.5 years ago) and timelines are within industry norms for the Business Angel market.

4 PERFORMANCE & IMPACT

4.1 Introduction

Section 4 is concerned with an assessment of the performance and impact of Co-Fund I. Section 4 includes the following:

Para	Details
4.2	Performance against its specific targets and appropriateness of targets
4.3	Assessment of inputs, outputs, outcomes and impacts and overall economic and wider impacts
4.4	Assessment of the impact of Co-Fund I in increasing equity investment and addressing barriers to SMEs seeking finance to support growth plans

4.2 Performance against its specific targets and appropriateness of targets

4.2.1 Assessment against KPI targets

An assessment of Co-Fund I's performance against the KPI targets set by Invest NI would indicate that all are being met or exceeded. It is noted that all were investment activity related targets, namely:

<table>
<tr><th>Original Key Performance Indicator</th><th>Update on Progress at March 2014</th><th>Revised Key Performance Indicator in 2014</th><th>Progress against revised targets at June 2019</th><th>Performance against targets</th></tr>
<tr><td>To complete eight investments per annum for six years to May 2017 (to new companies and follow on)</td><td>Completed 25 investments. Includes 18 companies and seven follow on deals.</td><td>To complete 14 investments per annum for the last three years (June 2014 to May 2017) (to new companies and follow on). Follow on £3m (June 2017 to May 2020)</td><td>Completed 144 investments across 37 companies against target of 66. Follow on funding of £3m in 2017 as part of Co-Fund II. Total invested at June 2019 was £14.787m, with pipeline to £16m
<table>
<tr><th>Yr ending</th><th>No of Investments</th></tr>
<tr><td>May 2015</td><td>22</td></tr>
<tr><td>May 2016</td><td>24</td></tr>
<tr><td>May 2017</td><td>20</td></tr>
<tr><td>May 2018</td><td>29</td></tr>
<tr><td>June 2019</td><td>20</td></tr>
<tr><td></td><td></td></tr>
</table></td><td>Target exceeded by a considerable margin.</td></tr>
<tr><td>To typically operate in the deal size range for Co-Fund monies of £250,000 to £450,000. This will include an average</td><td>Average size of the Co-Fund investment completed: £176,802[25]

Range of total deals completed (including Co-</td><td>To typically operate in the deal size range of £150,000 to £1,000,000 (i.e. total round size of both Co-Fund and private leverage</td><td>Year to June 2019 - Total funding of £14.787m. Average deal size £400k per 37 companies and £103k per 144 investment. Maximum investment £1m. Investment per year as per table below:</td><td>Target achieved - some variation with smaller investments in later years</td></tr>
</table>

[25] Co-Funds only

<table>
<tr><th>Original Key Performance Indicator</th><th>Update on Progress at March 2014</th><th>Revised Key Performance Indicator in 2014</th><th>Progress against revised targets at June 2019</th><th>Performance against targets</th></tr>
<tr><td>deal size of £150,000 per annum.</td><td>Fund and private sector): from £100k to £2m with an average of £448,988</td><td>investment). This will include an average investment from Co Fund monies of £170,000 per annum - provided that follow on investments shall not be included for the purpose of calculating this average as follow on investments are typically smaller than initial investments. (Invest NI consent required over £500k)</td><td>
<table>
<tr><th>Yr ending</th><th>Investment Per annum £000</th><th>Average investment per round £000</th></tr>
<tr><td>May 2012</td><td>579</td><td>145</td></tr>
<tr><td>May 2013</td><td>2,409</td><td>201</td></tr>
<tr><td>May 2014</td><td>2,047</td><td>157</td></tr>
<tr><td>May 2015</td><td>2,761</td><td>126</td></tr>
<tr><td>May 2016</td><td>2,287</td><td>95</td></tr>
<tr><td>May 2017</td><td>1,702</td><td>85</td></tr>
<tr><td>May 2018</td><td>1,952</td><td>67</td></tr>
<tr><td>June 2019</td><td>1,051</td><td>53</td></tr>
<tr><td></td><td>14,787</td><td>103</td></tr>
</table>
</td><td></td></tr>
<tr><td>To make investments on substantially the same terms as pre-qualified investors participating. To contribute no more than 50% of the funding and no less than the ratio of 55:45% private to public funding in each year.</td><td>Deals completed have not exceeded the 50% ratio. The public sector ratio contribution ranges from 18% to 50% with the majority (16 out of 25) of the completed deals being between 45% and 50%.

Average public sector contribution across the all deals is 39% and private sector contribution is 61%.</td><td>To make investments on substantially the same terms as pre-qualified investors participating. To contribute no more than 50% of the funding on an individual deal basis and no less than the ratio of 55:45 private to public funding in each year (on an aggregate basis).</td><td>Mainly pari passu but two exceptions where Co-Fund matched the terms of the institutional investors and not privates; and where Co-Fund took convertible loan notes (with privates being entitled to the same).

Noted that Co-Fund is a discretionary fund.
Overall ratio of private to public matched funds on a portfolio basis is 67:33.

The public sector ratio contribution ranges from 18% to 50%.</td><td>Target achieved for investment terms

Target exceeded for public:private</td></tr>
<tr><td>To invest £7.2million over the term and no less than £1million per annum by way of investment and follow on investment as required</td><td>After 2 years and 10 months, the Co- Fund has invested £4.420m - which equates to approximately £1.56m per annum.

(On a pro rata basis of £1.2m per annum the expected level of investment at this stage would be £3.4m).</td><td>To invest £12.5million over the term and no less than £2million per annum in each of Years four to six by way of investment and follow on investment as required.</td><td>Total invested at June 2019 was £14.787m. This total includes a portion of the £3m follow-on monies available under the Co Fund II contract which are to be invested during the period June 2017 to May 2020 – see table below:</td><td>Target achieved</td></tr>
</table>

<table>
<tr><th>Original Key Performance Indicator</th><th>Update on Progress at March 2014</th><th>Revised Key Performance Indicator in 2014</th><th>Progress against revised targets at June 2019</th><th>Performance against targets</th></tr>
<tr><td></td><td>Investment to date is split £3.069m in initial investments and £1.351m in follow on investments.</td><td></td><td>Investment of £2m pa achieved 2015-2017 and £1m pa in 2018-2019
<table>
<tr><th>Yr ending</th><th>Investment Per annum</th><th>Average per round</th></tr>
<tr><td>May 2012</td><td>579</td><td>145</td></tr>
<tr><td>May 2013</td><td>2,409</td><td>201</td></tr>
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<tr><td>May 2017</td><td>1,702</td><td>85</td></tr>
<tr><td>May 2018</td><td>1,952</td><td>67</td></tr>
<tr><td>Jun 2019 -13 mths</td><td>1,051</td><td>53</td></tr>
<tr><td></td><td>14,787</td><td>103</td></tr>
</table></td><td></td></tr>
<tr><td>To pre-qualify no less than six private investors as pre-qualified investors over the term. At least three will be qualified in the first two years of the term.</td><td>At May 2014, CFM indicated that they have over 30 pre-qualified investors who are non-Halo</td><td>To pre-qualify no less than a further six private investors as pre-qualified investors over the remaining three years.</td><td>At June 2019, the 37 deals had attracted 289 private business angel investors, 23 founders/existing management, 38 corporates, 16 Venture Capital (“VC”) funds plus QUBIS, IUL and Techstart, ie total of 367 investors.

This compares to June 2016 when there were 218 investors including 164 private investors.</td><td>Target achieved</td></tr>
</table>

In addition,

- Co-Fund I has assisted eight broad sectors including high capital intensive and IP-rich (three biotech) and low capital intensive ~ low barriers to entry (four social media, six digital market places) and high growth sectors such as enterprise software and ICT security (12);
- At the time of the initial investment, 40% of companies were pre-trading. There were four that had turnover over £1m, accounting for 63% of employees;
- Co Fund I’s investment of £14.878m has matched against £29.8m of pre-qualified investment, with a further £20.5m non matched by Co-Fund I. Total investment in Co-Fund I companies is therefore £65.1m; and
- CFM has provided details of the source of £39.6m of the £50.3m introduced (the balance includes monies which Co-Fund I has not matched against – for example, £5.5m of funding raised through the IPO). In total, 36% of investors, representing 49% of the amounts invested, or £19.5m, came from outside NI. 35 investors, investing £8.7m, came from outside of the UK.

In summary:

- The Co-Fund has achieved all of the stated target KPIs;
- There were no KPIs around private angel investor supply side development (capacity or capability); and
- The KPIs do not include any measurement of the increase in syndications or the sophistication of private sector angels.

4.2.2 Assessment against Other Targets introduced in 2014

Additional monitoring criteria/measurements were introduced by Invest NI in 2014, with these being recorded for Invest NI purposes only and not used to drive the performance of the Co-Fund managers. These were based on an increased fund size of £12.5m:

- Jobs created/ safeguarded: between 233 and 427 (mid-point 330);
- Additional turnover of between £28m and £82m (mid-point £55m; and
- Target: Additional GVA of £16.4m to £35.3m (mid-point £25.9m).

The Evaluation team has not been presented with the detail to determine the period the monitoring criteria refers to, or if these are reported gross or net, although the Economic Appraisal prepared for Invest NI in 2014 would indicate that projected activity levels have been benchmarked against the SCF[26].

Achievements to date at a gross reporting level are noted as per para 4.3.4 and 4.3.5, namely:

Measure	Target[27]	Gross Performance	Status
Employment - Jobs created/ safeguarded	Between 233 and 427	Total jobs increased by 145 NI jobs increased by 113. There was one packaging company where jobs declined (from 240 to 175). 145 gross jobs created; 175 gross jobs safeguarded Total 320 jobs created and safeguarded	Achieved with safeguarded jobs included
Additional turnover	Between £28m and £82m	Turnover increased from £29.013m to £49.162m, an increase of £20.149m.	Limited progress has been made against target
Additional GVA	Between £16.4m and £35.3m	The additional wages impact associated with investee companies to date (net of deadweight) amounts to £53.8m, or £41.9m when an outlier company is excluded.	The target was for a minimum of £16.4m GVA while reporting is based on additional wages (and not GVA) at £53.8m. It would be reasonable to assume that the target has been achieved.

4.2.3 Overall Assessment against Aims and Objectives

The primary aim of Co-Fund I is *"to stimulate more private investment in Northern Ireland companies, who demonstrate high growth potential, are innovative and are export focused"*.

The economic appraisal that was completed for Co-Fund I identified the following objectives:

- "To strengthen the capability of NI to develop and commercialise new technologies and break into growing sectors and markets" and
- "To address imminent gaps in the availability of venture capital in NI by providing a <u>continuum of funds</u> and a deal flow chain across seed, early stage and development capital".

[26] As per Economic Appraisal Uplift "Net additional economic impact of SCF (based on investment of £33.6m): Employment: current 449-644 jobs; and future 176-505 jobs which equates to between 625 and 1149 jobs. Given the COIF (£7.2m), the pro rata equivalent is: between 134 and 246 jobs." It is not clear what SCF figures have been used or if these are gross or net
[27] It is not clear if this is a gross or net target

Co-Fund I has been investing cash into companies and meeting demand side requirements for cash. There is evidence of:

- Increase in export sales (of the 23 of the 24 surviving companies[28] who are generating revenue, all are trading outside of NI and 20 are exporting outside of the UK);
- Investment in a range of sectors (eight sectors invested in); and
- Investment focused on R&D (75% of the surviving companies surveyed had invested in product development).

There is evidence of growth, innovation and export potential within the majority of the portfolio companies that are still trading. Ten companies have failed (which is to be expected – as per para 5.2.2, for the Archangel Fund in Scotland, 44% of companies have failed) and two investments have been made in a packaging group which has seen significant decline, albeit there has been recent recovery to circa pre-investment levels). Other companies reported on the investment in technology and commercialisation of such technology, including Sisaf and Cirdan (whose case studies are included in para 3.4.2). Overall, the view of the Evaluation team is that the demand side aims and objectives are being met, including the development and exploitation of new technologies.

In assessing the performance of the Co-Fund and CFM's overall performance, the following is also noted:

- Co-Fund I can match against all other sources of private funds, providing at least one is a new investor to the company in the initial investment. There is no restriction on follow on funding, as long as the matching funds qualify. There is no imperative to specifically match against private angels;
- There is some complementarity with other Invest NI funding initiatives; of the 24 surviving companies, three have had co-investment from Techstart ni, five have had post Co-Fund I investment from the Development Funds (note that three had monies from the Development Funds prior to Co- Fund I engagement);
- CFM is also being active in originating deals and matching deals to investors (three of the 37 deals were organised by Co-Fund I);
- Investment decisions are made for a variety of reasons – ranging from CFM being presented with a good company, or good investor skills. The public purse is being protected by Co-Fund I taking a view on the financial instrument to be used, e.g. Use of CLNs where there is support for the company but the valuation is considered to be high;
- CFM resources are heavily involved in post investment development and monitoring, in part as a result of a lack of experienced lead private angels. Typically, they provide a level of post investment involvement in each company (quasi Director status), but likely to be reduced where the Lead Investor is sophisticated or an Institutional investor. That said, the CFM team have domain knowledge that is being called upon by sophisticated investors (see para 3.3.2); and
- There is evidence of good work by CFM in networking (business development and funding).

4.3 Assessment of inputs, outputs, outcomes and impacts and overall economic and wider impacts

4.3.1 Assessment of Inputs, outputs, outcomes and impacts

Co-Fund I Inputs

	Budgeted cost	Actual Cost
Co Fund I investment	£13,000,000	£13,000,000
Co Fund I investment and follow on	£16,000,000 to May 2020	£14,787,415
Co Fund I and follow on - Leveraged matched funding	£19,555,555	£29,799,974
Co Fund I and follow on - Leveraged non-matched funding	n/a	£20,554,319
Co Fund I and Follow on - Total investment	£35,555,555	£65,141,709
CFM - Co-Fund Delivery Agent costs (incl. VAT)	£1,658,400	£1,658,400
Invest NI staff time	£370,000[29]	£387,791

[28] Two companies are reported as part of one group
[29] For period to May 2017

Invest NI legal advisors (estimated)	£30,000	£39,741
Invest NI procurement costs (estimated)	£15,000	£15,000
Invest NI evaluation costs (2 interim evaluations and 1 final evaluation)	£60,000	£61,281
Total Cost to Invest NI before receipts from exits	£18,133,400	£16,949,628

Outputs

Components	Targeted output	Actual output
Length of investment period in Co-Fund I portfolio	Six years investment from June 2011 to May 2017, with follow on from June 2017 to May 2020	Six years investment from June 2011 to May 2017, with follow on from June 2017 to May 2020
No of companies invested in	Target of minimum of 66 investments | | No | | To 2014 | 24 | | 2014 to date | 42 | | Total | 66 |	Actual 144 investments across 37 companies | | No | | To 2014 | 29 | | 2014 to date | 115 | | Total | 144 |
Private sector leverage	Overall 55:45 private to public funding	Overall 77:23 private to public funding on total funds and 67:33 on matched funds
Initial and follow on investment	Target of 50/50 initial and follow on	Actual 42/58 initial and follow on
Average investment per company	Average Co-Fund I investment per round of £150k to £170k per annum.	Average Co-Fund I investment per round of £103k, ranging from £67k to £201k per annum
No of failures	No target for failures – noted that 57% of new businesses collapse within five years[30]	27% of the 37 investments by number and 13% by cost, have failed. Of the ten companies that failed, eight were at pre-revenue stage at the initial investment. Six were in social media/digital market place sectors (with 60% of investments in these sectors failing).
Targeted sectors and exports	Focus on innovative technologies and export orientated companies	Focused on eight broad sectors including 12 companies in high growth sectors such as enterprise software and ICT security. Investment include in an established, packaging company. In 2019, of the 23 of the 25 surviving companies who are generating revenue, all are trading outside of NI and 20 are exporting outside of the UK. 75% of trading companies noted that there was new product development during the investment period[31].
Targeted business evolution	SMEs from start ups (pre revenues) through to growth companies	At the time of the initial investment, 40% of companies were pre-revenue and 60% were generating revenues. In June 2019, 3% are still pre-revenue (one company), 70% were generating revenues and 27% were liquidated.

[30] https://realbusiness.co.uk/business-survival-statistics/
[31] N=24- being the 25 trading companies less 1 reported as group and results f

rom 2 sold company from Interim Evaluation

Outcomes	
Increase the availability of funding to NI companies that demonstrate high growth potential, are innovative and are export focused	37 companies receiving funding, totalling £65m. £5.982m invested in initial investment, £8.804m invested in follow on – Co-Fund I totalling £14.787m. 16 companies where total funds raised is £1m+ (8 at £3m+, 3 at £6M+). 37 deals attracted 289 private business angel investors, 23 founders/existing management, 38 corporates, 16 VC funds plus QUBIS, IUL and Techstart. Of the total of 367 investors, 236 were from within NI and 131 were from outside of NI. 36% of investors, representing 49% of the amounts invested, or £19.5m, came from outside NI. 35 investors, investing £8.7m, came from outside of the UK.
To support entrepreneurship in NI leading to high growth potential, innovative, export focused companies	15 pre-revenue companies receiving funding Nine revenue generating companies with revenues at £100k or less, receiving investment
Financial Return - To return investment (RoI) (undiscounted)	There have been two exits to date and one IPO (although Co-Fund I is not yet exited). Of the two exits, the RoI was 4.63 times on a £200k investment and 2.6 times on a £734k investment Two further companies are at exit planning stage. Four companies are considering an IPO.
Impact	
Growth in gross sales/external sales of beneficiary SMEs	Total gross sales grown from £29.0m to £49.1m – including a printing company at £20.8m of gross sales
Number of new gross jobs created/safeguarded in investee companies	Total employment has grown from 454.5 to 599, an increase of 145. NI employment has grown from 446.5 to 558, an increase of 112.5. 175 gross jobs have been safeguarded.
Increase in GVA	Total gross EBITDA is a negative (£6.113m) – only two companies reporting positive EBITDA
Wages impact	The additional wages impact associated with investee companies to date (net of deadweight) amounts to £53.8m, or £41.9m when an outlier company is excluded.
Wider impacts	Role in developing the skill base of the NI Investor Market Acted as platform to establishment of HBAN NI Role in addressing the equity gap in NI Networks and skill base available to Portfolio companies

4.3.2 Financial Management and Output Monitoring arrangements

The Invest NI Co-Fund is funded 100% by ERDF funding. A European Court of Auditors audit on the Audit Authority (AA) review of Co Fund was recently completed, and although the AA is awaiting the final report it is satisfied that Co Fund meets ERDF requirements.

As noted in para 3.2.4, CFM resources were increased in September 2014. Total CFM costs are circa 11% of total funds invested as at 30th June 2019. There have been no additional fees taken since 2017, with CFM paid now through the Co-Fund II contract (the Co-Fund I contract has effectively ceased).

Total investment before receipts, is shown:

Co-Fund	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/19	Total
Investment	488,875	1,671,405	2,259,780	3,161,024	1,969,826	1,909,595	3,326,905	14,787,410
CFM fee (incl VAT)	115,000	138,000	203,000	360,000	388,800	388,800	64,800	1,658,400
%	24%	8%	9%	11%	20%	20%	2%	11%
Invest NI fully loaded cost	79,241	61,550	61,877	55,153	55,705	56,262	18,004	387,791
Total Costs	683,116	1,870,955	2,524,657	3,576,177	2,414,331	2,354,657	3,409,709	16,833,601

Including other out of pocket costs (for legals, evaluations etc), the total cost to date for Co-Fund I is as follows:

Co-Fund	Total Co-Fund I	Total Co-Fund I and follow on
Investment	13,000,000	14,787,410
CFM fee (incl VAT)	1,658,400	1,658,400
Invest NI fully loaded cost	387,791	387,791
Other INI costs	116,022	116,022
Total Costs	£15,162,213	£16,949,623

Investment monies are transferred directly to the investee company from Invest NI (via solicitors) and are not handled by CFM.

4.3.3 Financial Performance

Assessment is made of the financial impact (financial return) of Co-Fund I through discussions with investees, clearly separating actual and anticipated impacts.

There were two successful exits in 2016. Of the two, Return on Investment was 4.63 times on a £200k investment and 2.6 times on a £734k investment. There are two exits in planning and one existing IPO where Co-Fund I can exit at an opportune time. The average age of investment is 5.2 years. At end June 2019, the oldest investment has been held 7.5 years.

There have been no dividends paid to investees to date across the portfolio. Positive financial returns on early stage investing typically take a minimum of six years to achieve, with present evidence suggesting that this is extending to nine or more years. It is therefore not surprising to find that Co-Fund I has to date recorded just two positive investment exits.

Wiltbank's studies have demonstrated that cash returns in an Angel investment portfolio are highly concentrated in winners; 90 percent of all the cash returns are produced by 10 percent of the exits[32]. Of the 37 companies invested in, to date, just four will likely provide 90% of all the capital returned to the Co-Fund. Of the six revalued companies in para 3.4.2, and excluding the company where the exit is being planned, the average investment term of the remaining five companies is 6.5 years. The implication for Co-Fund I is that for these, further exits may not be achievable, or indeed identifiable for a further two years or more.

IRR targets for other co-funds are reported on in Section 5. Overall, it is considered by the Evaluation Team to be too early to report on potential IRR targets for the NI Co-Fund (see para 5.2.2), however the expectation is that there will be a positive IRR.

[32] See "Angel Investors Do Make Money, Data Shows 2.5x Returns Overall", Oct 13, 2012 by Robert Wiltbank, PhD, http://techcrunch.com/2012/10/13/angel-investors-make-2-5x-returns-overall/

That withstanding, both companies and investors were questioned in relation to the exit strategy in place for the company and the responses are set out in the Tables below. Caution should be exercised in assigning any degree of reliability to the data provided during the consultations. Experienced investors know that it is virtually impossible to predict which companies in a portfolio will prove to be the winners, and that entrepreneurs and company managers are inevitably over optimistic.

Potential Exit (can be more than 1 response)	Company respondents	Investor respondent[33]
Trade sale	20	16
Stock exchange flotation	4	4
VC/Private Equity Buy Out	3	3
Potential Strategic partner	2	1
Don't know/too early to tell	0	3
N=	**22**	**18**

The estimated timing of the exit was also provided:

Potential timing of the Exit of Co-Fund	Company respondents	Investor respondent
Less than 1 year/completed	4	4
1 – 2 years	4	5
2-4 years	11	7
5-7 years	2	1
Don't know	1	1
N=	22	18

As would be expected, the majority of respondents are positive as to the potential for a successful exit. The types of forecast exits vary, with trade sales to US partners, including strategic partners, being the most widely cited. There has been one IPO to date and a further four are under consideration.

As noted in para3.3.1, Co-Fund I is showing a positive valuation of c£2m after prudent write downs. There are six companies held at a positive valuation where the current uplift on Co-Fund I monies invested is 2.4 times. 16 companies (43% by number and 50% by investment cost) are being held at a provision. There have been ten failures to date.

Access to funding continues to be an issue when only two companies are reporting a positive EBITDA. Of Co-Fund I's remaining companies (at June 2019), 17 (n= 21) state that they require follow on funding, with a potential £934k of the remaining £1.2m on the follow on funds being earmarked for companies at September 2019.

Only one benchmarked Angel fund (Archangels) has had an evaluation of its financial performance, with details set out in Section 5.

4.3.4 Baseline of Economic Performance

The economic impact analysis for Invest NI evaluations would generally consider gross and net impacts, considering gross GVA and employment, taking account of deadweight and displacement.

For the purpose of the Final Evaluation of Co-Fund I, the Evaluation Team would note that many of the investee companies were young pre-revenue/pre-profit companies. Pre investment, 24 had no turnover, with only six having annual turnover at £500k plus. This includes an outlier with turnover at £20m at commencement.

Accordingly, very little of their GVA impact potential around profits particularly will have, as yet, materialised. In addition, if the target of the Co-Fund is to support technology companies[34], it must be appreciated that very many of them will not trade profitably whilst held within Co-Fund I. Profitability is not the primary indicator of value within such companies in their early years. The specific value drivers for any individual company will depend upon the industry sector. For example,

[33] There were 15 investors commenting on 18 companies
[34] The Co-Fund objective, as per para 1.2, include to strengthen the capability of NI to develop and commercialise new technologies and break into growing sectors and markets.

the value driver of an Internet company may be the number of users or the number of "hits". The value of a life science company is likely to be based upon its patent portfolio and the specific data proof points it obtains from different stages of its clinical development.
CFM prepared a report in June 2019 that sets out investee company information in relation to turnover and FTE employees at commencement. We note that CFM also report on net profits, employment costs and GVA[35]. The Evaluation team has added to this with detail on NI FTE employees at the pre investment stage. This is summarised below and includes a scenario where the large packaging group is excluded for illustrative purposes[36]:

Investee Company data	Investment Amount (At June 2019)[37]	FTE employees pre investment	FTE NI employees pre investment	Turnover pre investment	EBITDA (as per CFM)
	£'000			£'000	£000
Companies – all	14,787	454.5	446.5	29,013	(4,217)
Companies – excluding largest by turnover	13,787	210.5	206.5	6,594	(5,557)

The table above includes the ten investee companies that have been liquidated to date.

FTE employment above includes non-NI staff and NI staff, although, as noted above, non-NI staff represents a small proportion of the total (2% or eight jobs).
Overall, there was a negative EBITDA of -£4.2m, which increased to -£5.5m when the outlier is excluded. Based on CFM data, at this point there were four companies with a positive EBITDA totalling £1.45m, 22 companies with a negative EBITDA of -£5.67 and one that had not yet commenced trading.

4.3.5 Current Economic Impact - Turnover and Employment Performance

The current turnover and employment has been calculated on the basis of data provided by CFM (from their monitoring data) and amended by the evaluation team for two companies where more up to date information has been provided. For the two companies that exited, the turnover at date of exit (2015/16) is used in one instance and up to date information from the Company in another instance (reflecting the limited information available). There is no current data included for the ten liquidated companies.

The current position and increase is estimated as follows:

All companies	Total Gross Sales	Gross External sales outside NI	Gross Export sales outside UK	Total FTE employment	NI FTE employment[38]	EBITDA (per CFM)
	£'000	£'000	£'000			£'000
At investment	29,013	n/a	n/a	454.5	446.5	(4,217)
Current	49,162	42,616	26,238	599	558	(6,113)
Increase[39]	20,149	n/a	n/a	145	112	(1,896)

Current NI FTE employment is noted at 558. These figures include all companies. When the one large packaging group outlier is excluded (with 240 staff at commencement and 175 staff currently), there were 206.5 NI FTE jobs at investment, 383 currently, hence 176.5 new jobs, (with 175 jobs safeguarded in the outlier). Similarly, when the outlier is excluded from total gross sales, turnover at investment is stated at £6.594m and currently at £28.274m, an increase of £21.680m.

35 Calculated by CFM as net profit/(loss) plus employment costs, with data taken from statutory accounts, management accounts etc with estimations made where data was incomplete.
36 Including a packaging company in East Belfast, invested in in 2011/12 and with a sister company and while the turnover and employment has fallen from levels pre investment, this remains a substantial employer in the area (with over 175 staff).
37 Co Fund 1 and follow on
38 These figures include all companies.
39 There was a fall in total local sales, which is consistent with the fall in sales of the large packaging company

Companies excluding outlier	Total Gross Sales	Gross Export sales outside NI	Gross Export sales outside UK	Total FTE employment	NI FTE employment	EBITDA (as per CFM)
	£'000	£'000	£'000			£'000
At investment	6,594	n/a	n/a	210.5	206.5	(5,557)
Current	28,274	26,950	19,553	424	383	(8,108)
Increase	21,680	n/a	n/a	213.5	176.5	(2,551)

External sales from NI were £42.6m in total, with sales outside the UK currently totalling £26.2m.

In terms of salaries, the Archangels Evaluation report[40] notes that early stage, high risk companies are not typically well-paying employers relative to the skill levels of their staff (although typically above the NI average median) – they have to manage cash flow carefully and are focused on developing their unique selling point in the products or services that they are trying to sell. However, the Archangels' experience is that companies start to increase their employees' salaries significantly as they grow. The NI experience is that technology companies[41] incentivize their senior staff through share option schemes in the earlier years. This suggests that Co-Fund I has the potential to grow the number of high-value added jobs within NI over a longer period of time.

4.3.6 Forecast Economic Impact - Turnover and Employment

Forecast turnover and employment was also provided as per the company consultations (see tables below). There were no responses from two companies and their current position is included. Details are included for the two sold companies on the same basis as their "current" position.

	Total Gross Sales	Gross Export sales outside NI	Export sales outside UK	Total Gross FTE employment	NI Gross FTE employment
	£'000	£'000	£'000		
Current	49,162	42,616	26,237	599	558
Forecast in one year	60,636	53,506	31,817	n/a	n/a
Forecast in three years	184,547	174,898	115,676	1,001	856

The current position is included for all companies.

The results shown are also shown exclusive of two outliers (two companies with significant growth forecasts where they are forecasting turnover growth of between £30m and £48m):

Excludes two outliers	Total Gross Sales	Gross Export sales outside NI	Export sales outside UK	Total Gross FTE employment	NI Gross FTE employment
	£'000	£'000	£'000		
Current	49,162	42,616	26,237	575	548
Forecast in one year	55,988	48,858	28,564	n/a	n/a
Forecast in three years	*106,883*	*97,234*	*59,928*	939	840

It is recognised that there are significant limitations associated with the projections above, given the nature of the intervention and companies involved. Notwithstanding this, it is noted that projected employment in NI is estimated to be 856 in three years' time, with gross turnover at £184m.

[40] N. MacKenzie and M. Coughtrie, "Archangels Impact Evaluation of Activities, 1992-2015," Hunter Centre for Entrepreneurship, University of Strathclyde. https://pure.strath.ac.uk/portal/en/publications/archangels-impact-evaluation-of-activities-19922015(428ad4b1-100d-450d-85e2-7fbc240f212d).html

[41] As per para 1.2, Co Fund's objective was to strengthen the capability of NI companies to develop and commercialise new technologies.

Comments from companies:

"We have achieved all we set out to, we expect to achieve the intended goal of commercial success within the next year" "The business has started to establish itself in the US & North America market place, typically each new contract is between $100K - $300K spend". "The company is intending to IPO in 2021, and we expect sales to have quadrupled in that timeframe"

4.3.7 Wider Impact

Role in developing the Skill base of the NI Investor Market

Co-Fund I has had a limited reported role in developing the skill base of the NI investor market, with 20% (n=15) of investors stating that they have increased their general knowledge of angel investing as a result of being involved with Co-Fund I[42]. Moreover, Co-Fund I would appear to have added value to a number of the investors, for example, working with small groups of investors in portfolio companies to develop capability by mentoring NEDs and Lead Investors, providing domain knowledge, as well as support through follow-on round corporate finance fund raising, exit planning, insolvency and HR restructuring.

4.3.8 Role in addressing the Equity Gap

Co-Fund I's impact is more immediately apparent in the extent to which it has addressed the "equity gap" for NI portfolio companies, with over 50% of surveyed companies (n=22) noting that Co-Fund provided access to angel and VC investment that would not otherwise have been accessible. Co-Fund I was launched in 2011 and invested in new portfolio companies until 2017. It is noted by companies and investors that the equity market has improved over this period, from seed to Series A funding. Co-Fund I monies were instrumental in giving investors comfort that they were sharing in the risk as well as giving extra headroom to companies. It is noted that while the UK Angel CoFund (para 5.2.2) has made more than 80 investments to date, only two are into NI companies. Hence, the availability of a NI focused Co-Investment fund is seen to be invaluable.

Co-Fund I's main reported benefits are:

- It has enabled investors to undertake larger funding rounds and to make follow-on funding arrangements. The Co-Fund has provided 'stretch funding' to enable more rapid access to larger amounts of funding in an equity gap ranging from £200,000 to at least £2m. Feedback from companies indicates that this has facilitated more rapid R&D and commercial development than would otherwise take place;
- It has helped to attract new institutional and corporate investors to NI as per para 3.3.2, giving experienced institutional investors insight into the experience of the management team etc;
- It has facilitated QUBIS to introduce a spin in company (with IUL already an investor in a Co-Fund supported company);
- CFM has used its experience and significant networks to build Series A funding relationships (with one of the UK institutions now investing in other Co-Fund companies and a number having considered other NI companies for investment);
- The confidence of the private investors has been raised, with seven of the 60 registered HBAN members being investors in Co-Fund I. Co-Fund I has therefore acted as platform to establishment of HBAN NI; and
- Co-Fund I has also maximised the potential for companies to succeed, responsibly supporting investors providing "buying time" cash. It is noted that of the Co-Fund I ten failures, this

[42] These 15 investors were investing in 18 trading companies that are performing well

represents 27% by number and 13% by cost. This compares favourably with Archangel (para 5.2.2) where failures represent 44% by number and 15% by cost.

Networks and skill base available to Portfolio companies

The feedback from the company and investor engagement highlights the value that CFM and Co-Fund I has brought to its portfolio companies:

- The CFM team is highly regarded, the skill base is considered to be sound and their input at a strategic level is valued;
- It has trusted CF advisers that it can use to help challenge company valuations and other impediments to securing investments for good companies;
- It is well networked and seeks out business development and funding opportunities, with a number of customer gains arising from CFM introductions; and
- It has developed some informal angel grouping to present pipeline projects for funding, with these now being formalised through HBAN NI.

The feedback would emphasise the fact that the CFM team is seen as ‘professional investors’ rather than fund managers.

Co-Fund Role in creating Commercial Value

In terms of the value of the portfolio, six companies have had a value increase since its initial investment and two companies have successfully exited, with a further company having an IPO.

It is noted that for the 24 companies still trading in the portfolio at June 2019, total gross turnover have increased by £20.1m; of the £49.1m sales currently, £42.6m are export sales outside of NI and £26.7 million are export sales outside of the UK. There have been 113 NI jobs created and 175 NI jobs safeguarded.

For the surveyed companies:

- 75% reported an increase in R&D and Innovation within the company;
- 90% reported further development and growth of the company; and
- For all, further growth in turnover and employment is envisaged.

Co-Fund I has also been instrumental in attracting 21 non NI investment funds to its portfolio companies and has secured follow on investment from both of the NI Development funds.

4.3.9 Other Benefits to companies from private investor engagement

The Co-Fund has brought wider benefits to companies from their engagement with private investors who might not have otherwise invested and brought the Lead Investors’ expertise to the companies/boards. The companies surveyed (n=22) indicated that these derived benefits from investors domain knowledge, networks, support in the development of the Company’s strategy, as well as funding, i.e. for one company now preparing for exit:

> “The Lead Investor has assisted with the strategic direction and funding strategy of the Company. They also previously assisted with the introduction of other investors”.

There are three instances where the Lead Investor has gone on to act as CEO or Executive Chairman, and five instances where the Lead Investors have been instrumental in changing the management team, with resultant company benefits.

Development of the Business Angel model and Informal syndicates

CFM has taken a more active role in identifying angel investors (albeit limited) than anticipated. There is evidence that Co-Fund had made some inroads also into facilitating informal groupings or syndicated deals. This has been formalised through CFM’s role as the HBAN NI manager.

It is noted that in one instance where the Lead Investor (or any private investors) were no longer on the board of the company (at the request of the new institutional investors), there was an expectation that CFM could provide more insight into the Company's performance. In this instance, the investors noted that a lack of visibility of company performance was having a negative impact on their willingness to invest in other companies. In discussion, this is probably a company rather than a Co-Fund issue and it is difficult to see how Co-Fund can influence this position.

It is noted that for the same respondee, the length of investment is longer than expected and the investor would like to see increased emphasis on exits, especially for well funded projects.

4.4 Assessment of the impact of Co-Fund I in increasing equity investment and addressing barriers to SMEs seeking finance to support growth plans

As noted earlier, Co-Fund I has been instrumental in leveraging a total of £29.8m of matched funding into companies in the period to June 2019. A further £20.5m has also been invested, although this includes funding where Co-Fund I has not matched, i.e. at the IPO, or when funds raised by Development funds etc.

60% of funding has been in follow on rounds. Angel investors would normally be advised to reserve a similar level as their initial investment for follow on support. The UK Angel CoFund reserves half of the fund value for follow on.

Co-Fund I funds have been successful in derisking the investment for the private sector or giving a level of comfort to non NI investors, including institutional investors, who are seeking to invest in NI, often for the first time (i.e. Vickers Venture Partners into Sisaf as per para 3.4.2). While almost all respondents noted that, in 2019, there is now more interest in investments from non NI institutional, the barriers to securing investment are still high.

Earlier sections of the report set out the successes of Co-Fund I to date in providing access to finance, with Co-Fund I achieving and exceeding its KPIs. CFM has demonstrated that it has been actively working a pipeline, with the matching of companies (with better defined valuations) to investors, and with Co-Fund I matching against a range of investors including institutions, corporates etc.

Circa 40% of companies invested in by June 2019 were pre-revenue, with only two of the 24 companies still trading reporting a positive EBITDA. These early stage companies are typically the most difficult to finance. Getting sufficient runway, in cash terms, to make key hires and complete product development is key to companies' success. Co-Fund I has in many cases worked alongside the other INI Access to Finance mechanisms, including techstart NI, to ensure that companies' cash flows needs are met, and to give companies and investors comfort (where justified) that there is sufficient cash to implement the agreed strategy.

4.5 Conclusion

This section of the report considered the performance of Co-Fund I against its specific targets and note that these were largely being achieved with the exception of the turnover target where progress has been made.

Targets appear to be appropriate, although the Co-Fund I manager should record the number of NI jobs.

The assessment of inputs, outputs, outcomes and impacts and overall economic and wider impacts from Co-Fund I indicates that Co-Fund I has made a positive contribution to the NI funding landscape. The Return on Investment is considered in para 5.3.

Finally, this section considered the impact of Co-Fund I in increasing equity investment and addressing barriers to SMEs seeking finance to support growth plans, noting its role in supporting start up and early stage companies.

5 RETURN ON INVESTMENT & VALUE FOR MONEY

5.1 Introduction

Section 5 is concerned with an assessment of the Return on Investment and Value for Money from Co-Fund. Section 5 includes the following:

Para	Details
5.2	Benchmarking
5.3	Consideration of the Return on investment
5.4	Economy, efficiency and effectiveness of Co-Fund I
5.5	Assessment of Value for Money
5.6	Equality

5.2 Benchmarks of Co-Investment Funds

5.2.1 Benchmark funds

Scottish Seed Fund (SSF)

SSF was launched in November 2006 as a £14m fund to address the equity gap for businesses in the £20,000-£250,000 range for start-up and very early stage companies that seek to grow. It is managed by the Scottish Investment Bank (SIB) and was the subject of a formal economic impact review in 2013[43]. SSF formed an initial part of a potential funding escalator of co-investment funds for SMEs, together with the Scottish Co-Investment Fund (SCF) and the Scottish Venture Fund (SVF) which focus on larger businesses at later stages in their development. The formal review in 2013 reported that SSF provided £6.7m funding for 83 different businesses, and that this has levered in some £14.5m from other funding sources, primarily the BAs and VCs, a leverage ratio of 2.2, i.e. every £1 of public investment leveraged £2.20 private investment. The total amount invested via SSF was, therefore, £21.2m.

The annual survival rate of companies receiving SSF was 95% over the first three years (after three years, 72 out of 83 survived). Up to March 2011 there had been three income returns from SSF shares totalling £285k. These arose from investments totalling £250k, which represents a return of 14%. In each case, the returns were made after one year.

Scottish CoFund (to May 2015)

The Scottish CoFund (SCF) was established in 2003 and has been capitalised twice, initially £60m (SCFI) and then a further £67m (SCF II), partially funded by the ERDF. It is managed by the Scottish Investment Bank (SIB), part of Scottish Enterprise. The co-investment model was designed to increase capacity within the Scottish investment market. The fund directly encouraged more investors into the Scottish market and increased the incentives for investors and angels to operate within syndicates.

SCF provided equity financing (very occasionally convertible loans) of between £100,000 and £1m into company financing deals of up to £2m. This total amount may be allocated in multiple tranches. All deals were sourced by SCF co-investment partners.

During these investment processes, a single entity cannot own more than 29.9 % of the company's voting rights. In addition, public money cannot exceed 50% of the total risk capital funding. In the period 2009 to December 2013, SCFII has invested £45.5m in a total of 139 businesses and levered private sector SCFII Partner investment of £74.6m – a private to public sector leverage ratio of 1.64:1.

The ERDF Programme, which partly funded the SCF, came to an end in 2015. SIB carried out an assessment of operations and delivery in response to changing market needs. The minimum Fund investment was reduced from £100k to £10k and the maximum cumulative investments into any one company led by Accredited Partners increased from £1m to up to £1.5m on a cumulative basis. The maximum deal size for SCF investments will rise from £2m to £10m. This reflects an increasing focus

[43] Economic Impact of the Scottish Enterprise Seed Fund. Final Report, PACEC, April 2013.

on 'scale up' companies rather than start-ups, and a wish to address the relative lack of formal follow on VC funding available in Scotland.

Scottish Enterprise Report: The Risk Capital Market in Scotland Annual Report 2018

Business angel groups, where individuals come together to invest, remain the most active type of investor in Scotland, and have seen consistent growth from year to year. Figures produced by LINC Scotland, the national angel capital association, describe the investments of its 21 member groups, with Archangels being one of the oldest. In 2018, total investment by LINC members was £29.8m, up 16% from the previous year. In the 83 deals represented by this total, a further £21.0m was contributed by other private investors and £17.6m from the public sector (mainly the Scottish Investment Bank's co-investment funds), giving a total investment for the year of £68.4m, 27% up on 2017. This was despite a small drop in deal numbers, as the average investment per deal increased by a third, from £460k to £610k.

This average is influenced by deals over £1 million; LINC member groups led 22 deals over £1m in 2018. Over a third (36%) of these deals over £1m were in life sciences companies, a rather higher proportion than for all companies with angel group investment, where the life sciences and digital & IT sectors both took 29% of all deals.

Some of the largest deals with participation by angel groups illustrate the way in which these groups are now co-investing, with other angel groups as well as with different types of investors, i.e. VCs. Scottish Enterprise's co-investment funds participated in all these deals.
Scottish Investment Bank co-invested in 83% of deals in 2018 which had angel group participation.

SIB noted its overall results for 2011-2016 (which will include VC funds):

- Total SIB income - £78.9m
- 35 exits over last five years
- Income from exits – £52.6m
- Net return on investment - £23.2m
- Average hold period – 5.7 years / 7 year industry average from first investment

In 2017 24% of all UK angel deals were in Scotland according to data research firm Beauhurst[44].
£56 million of investment by Scottish angel groups and individual angels was identified for 2017[45].

43% of angel investor's portfolio companies are achieving 20% or more growth in turnover and 45% are achieving 20% or more growth in employment numbers[46].

Evaluation of Archangels[47]

An evaluation of Archangel (1992-2015) noted that companies backed by Archangels have generated c3,000 high value (with salaries above the national average) jobs since its inception in 1992. The group also generated high quality deal flows for VCs/IPOs, having exited 18 companies. Further, the study also showed that for every £1 of business angel investment, business angel-backed companies contributed between £7 and £9 of gross value added (GVA) to the Scottish economy. Average investment period was eight years for exited companies (3.66 years for failed companies).

UK Business Angels CoFund

The UK CIF is an example of a Supervised Delegation Fund (SDF). It operates in the relatively mature investment market of the UK, primarily in England.

[44] The Deal. Equity investment in the UK 2017, Beauhurst, 2018.
[45] The Risk Capital Market in Scotland Prepared for Scottish Enterprise by Beauhurst and Young Company Finance Annual Report 2017.
[46] Data provided by Archangels, September 2018
[47] N. MacKenzie and M. Coughtrie, "Archangels Impact Evaluation of Activities, 1992-2015," Hunter Centre for Entrepreneurship, University of Strathclyde. https://pure.strath.ac.uk/portal/en/publications/archangels-impact-evaluation-of-activities-19922015(428ad4b1-100d-450d-85e2-7fbc240f212d).html

The fund was launched in November 2011, financed by a loan from the British Government Regional (15 year term non-subordinated loan). It is managed by the Governments development agency, the British Business Bank (BBB).

The Angel CoFund has a specific headline objective to seek to increase the quality and quantity of business angel investing in the UK. A focus of the fund is to ensure it achieves a commercial rate of financial return (although no specific IRR target has been set) in order to demonstrate to potential new private sector investors that it is possible to achieve attractive financial returns acting as a Business Angel. The Fund invests amounts between £100,000 and £1m in SMEs alongside syndicates of Business Angels, on an up to 50:50 ratio. The fund may not hold more than 30% of a company's equity. The fund reserves 100% of the fund value for follow-on investments.

From inception in November 2011 to end December 2018, the Angel CoFund has enabled 82 businesses to secure c.£280m in investment[48]. The fund has invested and committed £41.5m, alongside a further £238m from business angels and other investors. Every £1 invested by the Angel CoFund has leveraged around £5 from business angel syndicates. The portfolio companies now employ around 1,500 people in sectors such as life-sciences, clean technology, advanced materials and digital technologies.

As at 2017, there had been 4 exits. The return on the Government's investment has been strong so far – 3x on average across four exits, with three companies listing on the AIM stock market.

London Co-investment Fund ("LCIF")

The London Co-investment Fund was launched by the local government agency for London, Greater London Authority (GLA) in 2014. It is managed on behalf of GLA by Funding London and Capital Enterprise. The LCIF is notable in that its private sector partners are selected from institutional venture funds and an equity crowdfunding platform as well as a local business angel network.
Although it has been reported as a £80m fund it is in practice a £25m fund with the expectation of leveraged funding (at a rate of 2.9:1) being provided by the six selected investment partners. The CIF will co-invest in seed rounds between £250,000-£1m.
The Fund is expected to invest in more than 150 small businesses plus spur the creation of up to 2,600 new jobs. The £25m fund is expected to recover the value of the fund, via profitable exits, plus a profit of £19m, by 2023, an eight year period. This represents a target IRR of 8%, assuming the initial fund value of £25m is invested over the initial three year period.
The business plan base case presented assumes a 33% investment failure rate and 80% of investment returns being generated from achieving multiples of three or ten of the original investments.
First exits are not expected before year six (i.e. year 2020).

Welsh Development Bank Angel Co Fund

The Welsh Angel CoFund is a £8m fund which aims to boost angel activity in Wales. Launched by the Development Bank of Wales (DBW) in May 2018, it is available to syndicates of Investors (a minimum of 3 individual angels) looking to co-invest in Wales based SMEs. Each syndicate will be led by an experienced angel investor, who will be investing their own money in the deal. Lead Investors will have been pre-approved by Angels Invest Wales, as established DBW, with pre-approval based upon the individuals' experience and track record of angel investing. The lead investor and the other syndicate members may not be based in Wales, but all companies invested in need to be Welsh. There are equity and loans from £25,000 - £250,000, with the maximum exposure to any individual syndicate being £700,000. The Fund will contribute up to a maximum of 50% of the total deal.

HBAN Ireland

HBAN, the business angel network established by Enterprise Ireland and InterTradeIreland to represent angels across the island of Ireland (and modelled on LINC Scotland) reported total investment of £11.5 million across all of Ireland[49].
HBAN currently has over 180 investors in the network. While the majority of companies pitching are start-ups or early stage, HBAN also works with established companies. The HBAN programme is managed by Dublin BIC and delivered within NI by CFM.

[48] https://www.british-business-bank.co.uk/ourpartners/angel-cofund/
[49] https://www.hban.org/

5.2.2 Comparisons

A comparison of Co-Fund to key benchmark data indicates:

Components	NI Co-Fund 2011-2019	Archangels Performance 1992-2015	UK Angel CoFund 2011-2018[50]
Investment period	5.2 years	7.57 years (exited companies)	n/a
Total invested	£14.787m	£91.5m	£41.5m
Private funds leveraged	£50.354m - additional 3.4 times	Not applicable	£238m - additional 5.7 times
Companies invested	37	80	82
Companies still in portfolio	25 (with £11.9m investment)	22 (with book value of £37.9m)	64
Average co-fund funding per company	£400k[51]	£1,143k	£506k
Exits	Two exits - RoI was 3.03x on investment of £934k	£100.4m returned on cost of £36.6m - RoI 2.74x: Three IPOs, One MBO, 14 trade sales	Confidential - 8 per Crunchbase
Failures	Ten (27%) with £1.9m (13%) investment	36 (44%) with £13.6m investment (15%) Three dormant companies	n/a
Employment	599	2,954	1,500

Co-Fund I has a target internal rate of return (IRR) of 0%.

The Casework Submission: Co-Fund Uplift document states at page 39 that *"not making a return would not be considered a failure for this type of fund"*, with the key issue not being the return to government but that the benefits of co-funds are demonstrated to the private investors.

The SCF has a target IRR of 20% as set out in its initial ERDF funding application (although it did not report against this), and a specific objective of "*demonstrating to potential investors that returns could be made by investing in the "equity gap" thereby stimulating the growth of the venture capital industry*".

The UK Angel CoFund, while not having a target IRR, does have a target that the co-fund will be a demonstrator to angel investors that it is possible to make a commercial return from this class of investment. There is no evidence that these IRR "targets" are being achieved.

Co-Fund I has currently (June 2019) a positive valuation position. It will remain to be seen if the targeted IRR of 0% is achieved.

5.3 Consideration of the GVA return on Investment

5.3.1 Economic Impact of the Co-Fund I investment

Consideration has been given to the economic impact of the investment made by the Fund on the NI economy although recognising the very early stage of the funding cycle. As agreed with Invest NI, this has largely focused on the wages impact on NI as it is the Evaluator's view that it is too early in the company development process to assess the Gross Value Added (GVA) impact of Co-Fund. The

[50] Details as per https://www.british-business-bank.co.uk/ourpartners/angel-cofund/
[51] As per para 4.3.3, Note that para 5.5.1 refers to one year only

GVA calculation focuses on the additional profits and wages generated by the funded companies. The Evaluation Team note that only two companies are currently profit generating. There have also been two exits.

As such, the GVA impact assessment has focused on the increased wages contribution brought about as a result of new jobs generated through the investments made, albeit at a relatively early stage in the investment process for some.

Consideration has also been given to the average wages generated by assisted companies compared to the Northern Ireland average. The average annual wage among companies funded through Co-Fund I currently amounts to £35,000 which is significantly above the Northern Ireland private sector average of £22,000[52].

5.3.2 Calculation of GVA as per the Evaluation Team

The GVA calculation details are as per Appendix V.

In overall terms, annual gross wages in funded companies have increased by £74.8m over the funding period (before taking account of additionality).

The surveys provided an additionality rate of 92% and the net GVA figure was £68.8m. Given the particularly high level of additionality, which was self-certified, consideration was given to the additionality noted in the Interim Evaluation of 72%, which although still high, is perhaps a more realistic reflection. Applying an additionality rate of 72% would result in the gross wages in the funded companies having increased by £53.8m over the funding period. We note that businesses are at different stages and in different sectors etc and companies reported challenges in attracting funding. Ten companies accounted for 69% of all private funds raised, reporting additionality of 72%.

The GVA calculation is calculated using information from 1) all Co-Fund I assisted companies (including the two sold) and 2) excluding one significant outlier which shed 69 jobs (65 in NI) (from 244 to 175) over the Co-Fund I assistance period. GVA is therefore calculated as follows:

£000	All Co-Fund I Companies	All Co-Fund I Companies – excluding outlier
Gross NI Wages – base at point of assistance	£9,270	£4,880
Gross NI Wages – current (2019)	£18,316	£13,752
Additional Gross NI Wages since assistance	£74,780	£58,209
Additional Net NI Wages net of 92% deadweight	£68,798	£53,552
Additional Net NI Wages net of 72% deadweight	£53,841	£41,910

In overall terms, annual gross wages in funded companies have increased by an estimated £9.0m over the funding period[53]. When the significant outlier is excluded, this increase is £8.9m.

When deadweight[54] is taken into consideration, the figure of £9.0m falls to £6.5m (based on an overall additionality level of 72%). Excluding the significant outlier, additional wages and salaries, net of deadweight, falls from £8.9m to £6.4m. Following discussions with Invest NI, the Evaluator has not taken displacement effects into account. This again reflects the largely early stage in the company development process and feedback from the companies themselves, demonstrating very limited competition for their products/services within NI[55].

Consideration has also been given to the average wages generated by assisted companies compared to the NI average. The average annual wage (full-time equivalent) among companies funded through Co-Fund currently amounts to £35,000, being above the NI private sector average of £22,000[56].

[52] ASHE 2018 Private Sector Weekly Basic Pay – Figure rounded
[53] Note: 1 full year of assistance has been assumed for those companies where assistance has taken place within the last year
[54] Based on the Interim evaluation survey of assisted companies
[55] 85% of current sales are outside of NI
[56] Annual Survey of Hours and Earnings (ASHE) 2018

Average annual full-time wages in Co-Fund assisted companies are high when reviewed against sectoral median averages in NI.

5.3.3 Economic Return on Investment

As noted above, the additional wages impact associated with investee companies to date (net of deadweight) amounts to £53.8m, or £41.9m when an outlier company is excluded.

As per para 4.3.2, the total cost of Co-Fund I, including CFM costs, Invest NI fully loaded costs and the investments made, totals £15,162,213 (before receipts from exits).

£000	All Co-Fund I Companies	All Co-Fund I Companies - excluding outlier
Additional Net NI Wages net of deadweight	£53,841	£41,910
Co-Fund I costs	£15,162	£14,342[57]
ROI	£3.55	£2.92

The ROI is therefore calculated at £3.55 per £1 cost of Co-Fund I (based on the additional net NI wage - net of deadweight), reduced to £2.92 per £1 cost of Co-Fund I when the outlier is excluded (from wages and costs).

This ROI would increase to £4.37 when the receipts from the two exits to date are taken into account:

£000	All Co-Fund I Companies	All Co-Fund I Companies - excluding outlier
Additional Net NI Wages net of deadweight	£53,841	£41,910
Co-Fund I costs	£15,162	£14,342
Less Co-Fund I realisations	(£2,835)	(£2,835)
Net Co-Fund I costs	£12,327	£11,507
ROI net of realisations	£4.37	£3.64

The current level of wage effects has therefore already yielded an Economic Return on Investment (before applying any discount).

It is noted that companies anticipate their NI employment to increase by 298 (to 856) in the next three years. There has been no forecasts on future economic return.

5.4 Economy, Efficiency, and Effectiveness of Co-Fund I.

Consideration is given to the economy, efficiency and effectiveness with which public funds have been used on Co-Fund I.

In terms of economy - ('doing things at the right cost'), Invest NI has implemented a robust Economic Appraisal process to assess, amongst other things, the reasonableness of cost components. The Co-Fund managers were appointed under a competitive tendering process, with uplifts justified and appraised. As such, it is the Evaluation Team's view that Invest NI has made appropriate efforts to ensure that Co-Fund I was delivered at least cost to NI.

In terms of efficiency, ('doing things the right way'), as noted previously, the Co-Fund I is operating in substantially different ways to other co-investment funds, with Co-Fund managers much more active and involved, both in the deal making process, and in companies post-investment. As a result, Co-Fund I is structured in a manner that requires three highly experienced commercial fund managers. We note that there are three fund managers for Co-Fund I, based on 25 remaining companies in its portfolio at June 2019. The £100m UK Angel CoFund, with a present portfolio of 64 companies operates with a staff of 4. Other co- funds do not therefore require the same level of skill or expense as the NI Co-Fund because of the delegation of the detailed fund management activity to their co-investment partners, and, rather than paying salaries or management fees, they pay much

[57] Excludes the investment in the outlier plus an estimated reduction of 5% in INI costs and legal costs etc

smaller one-off deal fees. Because of the additional overhead costs included within the NI Co-Fund as a result of its operating structure and practice, it is likely that, on a deal by deal basis, the costs are higher than those incurred by other co-funds (where monitoring is not done by a professional fund manager). The detailed operating costs of these other co-funds are however held confidentially and salary details are not available to allow any further comparison.

Notwithstanding this, individual investments made by Co-Fund have been subject to due diligence by CFM in many cases or following discussion of the due diligence process adopted by the Lead Investor. A formal approval process is in place and parameters set as to when Invest NI consent is required. The feedback from companies and investors report a high level of satisfaction with Co-Fund managers. The current “hands on” approach by Co-Fund managers is understandable but not sustainable. The HBAN scheme has been introduced in order to build the business angel network in NI, in order to address this issue of sustainability. In the short to medium term, the level of Co-Fund resource is therefore likely to be justifiable (especially given the number of Co-Fund I companies to exit and as Co-Fund II continues to roll out).

With regard to effectiveness ('doing the right things'), Co-Fund I is meeting its aims and objectives. Co-Fund I is achieving the deal activity targets set in 2014 (see para 4.2.1), with the revised fund size of £13m fully utilised and a pipeline identified for the majority of the follow on funds. There is evidence that commercial success has been achieved for many of the companies, although many companies are still at an early stage in their development and 10 have gone into liquidation.

It is noted that Co-Fund I did not have objectives around supply side business angel development. Invest NI has addressed this through the introduction of HBAN NI.

5.5 Assessment of Value for Money

Consideration is given to the extent to which Co-Fund I represents good Value For Money (VFM) and appropriate use of public funds across the full spectrum of relevant VFM indicators. Value for money is considered against relevant indicators:

<table>
<tr><th colspan="2">Summary of Value to Money</th></tr>
<tr><th>VFM Indicator</th><th></th></tr>
<tr><td>Strategic Fit</td><td>The focus for the NI Executive is on strengthening the economy, with investment in innovative companies being key to driving productivity and economic growth. Allied to this, Co-Fund I is clearly aligned to the focus of the NI Economic Strategy and NI Innovation Strategy, a key part of the Invest NI Access to Finance Strategy, and addressing funding gaps in NI companies seeking to develop and commercialise new technologies and break into growing sectors and export markets.</td></tr>
<tr><td>Need & Market Failure</td><td>Demand for Co-Fund I has been high, with £14.787m invested to June 2019, being all of Co-Fund I (£13m) and some follow on. In terms of market failure:
An intervention is necessary on the demand side as there is no evidence that the private business angel sector or indeed institutional investors are yet willing to come forward, to the extent necessary, to fill funding gaps of NI companies;
This market failure on the demand side is attributed to a range of issues including the quality of projects being presented, size of the private sector and risk aversion of the private sector;
On the supply side, most co-funds seek to create an Angel investment market where previously there was none. The typical primary objective of co-funds is to alter the behaviour, capacity and capability of potential and exiting private investors to invest in businesses that have potential for growth and an acceptable return;
This Evaluation has noted that NI is some ten years behind the Scottish industry in terms of the supply side development; and
The supply market will likely remain in a developing state for a number of years.</td></tr>
</table>

Summary of Value to Money	
VFM Indicator	
	It is noted that Invest NI and its partners have introduced HBAN NI to develop the supply side.
Additionality	In terms of their ability to access funding in the absence of Co-Fund I, feedback from company respondents would suggest that additionality is high (92%). For prudency, the Interim Evaluation figures of 72% have been used (as additionality should decline for subsequent funding rounds).
Displacement and complementarity	Displacement is likely to be low or non existent. 91% of company respondents at the time of the Interim Evaluation in 2016 (when 28 companies had been invested in) noted that 76%+ of competitors are outside of NI, with evidence of a global customer and competitor base. This reflects the largely early stage in the company development process and feedback from the companies themselves, demonstrating very limited competition for their products/services within NI[58]. £14.787m of Co-Fund I funding (and follow on) has leveraged £50.35m of total funds into 37 companies, of which £29.79m has been "match" funding. Projects have secured follow on private funding of £37.2m from the initial investment.
Economy Efficiency and Effectiveness	Co-Fund I is performing well in terms of economy, efficiency and effectiveness as per para 5.4 above, albeit with a higher resource cost than originally envisaged. However we note that investments are also higher than anticipated. The additional wages impact associated with investee companies to date (net of deadweight) amounts to £53.8m, or £41.9m when an outlier company is excluded.
Cost effectiveness	Co-Fund I has exceeded its targets for private investment. The comparison to UK Angel CoFund (para 5.2.2) would indicate that NI deals are smaller (£400k v £506k), with UK funds leveraging more than the Co-Fund investment (1:5.7 versus 1: 3.4 in Co-Fund NI).
EET	The average period of investments by Co-Fund I in the 37 companies is 5.2 years. There have been two exits to date (with a 3.03x return); and the fund is showing a positive evaluation of £16.85m v £14.78m invested. There are only six companies showing a positive valuation. The experience of Archangel would be that significant returns are possible but cannot be predicted with any certainty. Co-Fund I demonstrates an Economic Return on Investment. The ROI is calculated at £3.55 per £1 cost of Co-Fund I (based on the additional net NI wage - net of deadweight),and would increase to £4.37 when the receipts from the two exits to date are taken into account.

Overall, Co-Fund I is considered to have demonstrated a positive contribution across all Value for Money indicators.

5.6 Equality

This section of the report provides an Equality assessment of the Co-Fund. Invest NI details in its Equality Scheme how it continues to meet its Section 75 responsibilities through its arrangements for monitoring any adverse impact of policies on the promotion or equality of opportunity.
The Evaluation Team's review of the programme's activities indicates that the programme is available to all eligible businesses and investors.

[58] The exception is the packaging company referred to in para 4.3.1 where there will be some displacement to be expected

6 OVERALL ASSESSMENT & LESSONS LEARNT

6.1 Introduction

A key focus of this evaluation of the Co-Fund I is the assessment of the outcomes, value for money and wider economic benefits gained from the delivery of Co-Fund I from June 2011 to June 2019 and the extent to which objectives have been met.

6.2 Conclusion on Co-Fund I

Co-Fund I commenced in June 2011 with a fund of £7.2m to be invested over a six year term. Following approvals processes, the fund was increased to £12.5m in 2014, and by a further £0.5m to £13m in 2016.

It is the first formal co-investment fund in Northern Ireland and is funded via the ERDF budget. CFM manage Co-Fund I and whilst the investment period ended in May 2017, the portfolio continues to be managed by CFM. A limited amount of follow on investment (£3m) is available through Co-Fund II (also managed by CFM).

Co-Fund I has invested a total of £14.7m in 37 companies as at June 2019, leveraging a total of £50.3m private investment. Out of this £50.3m Co-Fund I matched against £29.8m, with the remaining £20.5 million not directly matched against. The total public and private funding leveraged by Co-Fund is therefore £65.1m at June 2019.

At June 2019, circa 40% of the £14.7m investment had been in first round investments, with 60% being follow on. The overall ratio of public to private matched funds on a portfolio basis is 33:67, with this increasing to 23:77 public:private when all funds are considered.

Match funding can originate from business angels (individuals, syndicates or business angel groups), institutions, universities, founders and corporates, as long as the initial match funder is new to the company.

Co-Fund I has achieved the targets set in 2014 and is expected to fully utilise all funds including the follow on funds available under Co Fund II. There is evidence of:

- An increase in total gross turnover by £20.1m;
- Of the £49.1m sales currently, £42.6m are export sales outside of NI and £26.7 million are export sales outside of the UK;
- 113 NI jobs created and 175 NI jobs safeguarded; and
- Salaries are above the NI average salary levels (average salary is £37,158 and the median salary is £34,497).

In addition, surveyed companies reported the following:

- 75% reported an increase in R&D and Innovation within the company;
- 90% reported further development and growth of the company; and
- Further growth in turnover and employment is envisaged.

There have been two exits to date, occurring in 2015/6, with a RoI of 4.63 times on a £200k investment and 2.6 times on an £734k investment. 73% of companies by number and 87% by Co-Fund I investment are exited or continue to trade (although 41%/45% by number/investment have a provision). There have been ten failures.

Six companies are reported at a positive valuation averaging at 2.4 times investment, with the highest valuation being at 4.54 times the cost of the investment.

Of the 25 remaining companies, possibly just these six will provide 90% of all the capital returned to Co-Fund I.

Two companies have a planned exit strategy that is currently being executed, these having an investment of £849k, combined sales of £3m, and 55 staff.

One company completed an IPO in 2017 also giving a route to exit.

The overall portfolio is valued at £16.85m as compared to cost of investment of £14.78m, an uplift of almost £2m across the portfolio.

Co-Fund I has been operating for eight years, with the average age of its investments being 5.2 years. Benchmarks suggests an average period of six to nine years for companies to exit.

A reasonable number of companies and investors (>65%) remain optimistic about sale prospects and future successful exits whilst acknowledging the challenges; however, for two investors involved in one deal, the length of investment is longer than expected and the investor would like to see increased emphasis on exits, especially for well funded projects.

The role of CFM in acting in a more “hands on” role is acknowledged, as is the strategic and commercial value that they bring.

There is evidence of wider benefits including the Co-Fund’s ability to:

- act as brokers for match companies and investors;
- address the equity gap in NI;
- open up CFM’s networks and skill base to portfolio companies;
- attract new funding institutions to NI;
- create commercial value within companies;
- introduce informal groupings of angels to pipeline; and
- bring private sector Lead Investor skills and expertise to companies.

Moreover, Co-Fund would appear to have had a less formalized (and measurable) role in developing the skill base of the NI private investor market but has added value to investors. For example, Co-Fund I managers have been developing capability within portfolio companies by mentoring NEDs and Lead Investors as well as by providing support through follow-on round corporate finance fund raising, exit planning, insolvency and HR restructuring.

The additional wages impact associated with investee companies to date (net of deadweight) amounts to £53.8m, or £41.9m when an outlier company is excluded. Co-Fund I demonstrates an Economic Return on Investment calculated at £3.55 per £1 cost of Co-Fund I (based on the additional net NI wage - net of deadweight), and this would increase to £4.37 when the receipts from the two exits to date are taken into account.

Co-Fund I is consistent with developments in GB, where barriers still exist due to the lasting impacts of the economic downturn continuing to restrict access to finance for SMEs and the inherent risks of early stage technology companies that creates a barrier in accessing traditional bank finance. There are various co-funds globally, and schemes differ in design, primarily concerning whether they are assessing investors or deals. Co-Fund I compares favourably to other benchmarks.

The intervention by Invest NI is meeting key strategic objectives and market demand (for funding), with additionality deemed to be high.

The view of the Evaluation team is that NI is circa ten years behind the more developed Scottish co-fund model (on which it is stated to be based). Much has been done to date. Consideration now needs to be given by CFM and Invest NI to the extent to which companies can be supported in planning for exit, noting for some, that this may be up to seven years away (when the Co-Fund II contract will have expired).

6.3 Findings and Lessons Learnt during the Evaluation of the Co-Fund

Overall, this evaluation concludes that the Co-Fund I intervention in NI has met its aims, objectives and targets. As noted above, Invest NI has launched Co-Fund II and HBAN NI. Many of the lessons to be learnt from Co-Fund I were identified in the interim evaluation and actioned via the Co-Fund I action plan. The key issues remaining relate to:

- **Timing of the final evaluation** – Invest NI should consider the timing of the final Co-Fund I evaluation, to allow for consideration of the final exits. The Evaluation Team considers that nine years after the last investment would be appropriate, reflecting the length of time for companies to typically exit. However Invest NI should factor in the new Thematic Approach to Evaluations in making its final decision.

- **Communication to investors in relation to exits** – Many investors are keen to exit but recognise the need to consider the optimal timing from a share value perspective. There appears to be a better understanding of the minimal investment period for EIS tax relief but not the industry norms for exits of angel backed companies. Moreover, for a number of companies, the role of the Lead investor has evolved, with less involvement by them as companies mature and secure more experienced and institutional investors. Investors can therefore have limited communication from companies on their exit strategies. Better understanding of exit periods may be instrumental in encouraging further angel investment into other companies. CFM should continue to communicate with private investors in relation to the exit strategy of the relevant company, including potential timescales, and ensure that as the number of exits increases, the statistics in relation to exits are updated and shared with relevant stakeholders.

- **Exit strategies** – we consider that the Co-Fund manager should continue to play a role in encouraging companies to consider and plan for their exit strategy. This should include planning for funding to get to the exit stage, and leveraging the CFM funding network. That said, the average age of investment of only 5.2 years, and seven companies are only invested in in the last two to three years. Invest NI should also give consideration to incentivising the fund manager to continue to drive this forward, potentially by way of a carried interest structure.

- NI employment should be monitored as well as total employment.

6.4 Recommendations

The recommendations from the evaluation of Co-Fund I are:

1. Invest NI should consider the timing of the final Co-Fund I evaluation. The Evaluation Team considers that nine years after the last investment would be appropriate, however Invest NI should factor in the new Thematic Approach to Evaluations in making its final decision.

2. CFM should continue to communicate with private investors in relation to the exit strategy of the company, including potential timescales. CFM to ensure that as the number of exits increases the statistics in relation to exits will be updated and shared with relevant stakeholders.

3. Support to company exit strategies – the Co-Fund I manager should continue to actively encourage companies, as appropriate, to consider and plan for the exit strategy. Invest NI should give consideration to incentivising the fund manager to continue to drive this forward, potentially by way of a carried interest structure

4. Leverage of funding network – Co-Fund should continue to leverage its funding network for the benefit of Co-Fund portfolio companies.

5. NI employment should be monitored as well as total employment.