

An analysis of the needs of SMEs with regards to investor readiness support on the island of Ireland

InterTradelreland

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Executive Summary

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Background and approach

The overarching aim of this report is to assess the current equity finance awareness and investor readiness landscape that connects the Island of Ireland's ('IOI' or 'the island') SMEs with potential investors. The report culminates in a suite of feasible, contextualised recommendations to help InterTradelreland review the strategic direction of their investor readiness support programmes, currently described under the umbrella term Funding for Growth (FFG).

Remit of this report

Grant Thornton was commissioned by InterTradelreland to undertake a mapping of the equity finance ecosystem across the island of Ireland, and assess the investor readiness support system in place to support this. The specific objectives and outputs of this report are outlined in the Terms of Reference Document and are included in Appendix 4. The research will identify any market failures and determine where any future need for awareness and investor readiness support services will be. Whilst a significant element of the current InterTradelreland Funding for Growth Programme focuses on start-ups and early stage tech-based companies, the report seeks to examine the need for support services across the broader SME category and at various stages of the funding journey. The evidence base concludes with a SWOT analysis of the FFG Programme and makes recommendations, along with supporting actions, to realise these. This research has been conducted within the context of InterTradelreland's unique position in the marketplace, and the opportunities and constraints this presents. This executive summary serves as an overview of the main takeaways from the report's fieldwork, including both primary and secondary research. It provides an outline of the recommendations, following an exploration of the key motivations informing them.

Structure of this report

Phase 1: Domestic Mapping	Phase 2: International Review	Phase 3: Consultations & Survey	Phase 4: Review and recommendations
During this phase of the review, the growth trajectory of equity finance in Ireland was explored, as well as the emerging trends, and how policymakers have been responding to these. Case studies of the Island of Ireland's domestic provision of supports are provided, including through Enterprise Ireland's 'signaling' to investors through the HPSU designation, as well as Invest NI's suite of supports. Publicly available information on an ROI Life Sciences SME is used to illustrate the interconnected nature of support programmes, given its participation in an NI accelerator. The increase in equity supply coming on-stream in 2022 is also discussed.	This section incorporates examples of best practice from near-shore markets (Scotland, Wales and England), Europe (Portugal and France) and further afield (Canada). Examples of successful initiatives being employed across these nations are given, as well as the tools and delivery mechanisms used to realise them. Consideration is given to how these policies have responded to the emerging trends in global private equity, such as the Canadian Technology Accelerator's reflection of the global opportunities that international private equity presents to domestic firms. Many of these trends have been highlighted in the Island of Ireland context in Phase 1.	An extensive primary research element has informed the findings of this report. This section of the report explores the process employed by Grant Thornton in conducting this research. This comprises two main elements: a digital survey distributed by InterTradelreland, Grant Thornton and other organisations to SMEs and support providers across the island of Ireland, and an in-depth stakeholder consultation, comprising a series of one-on-one virtual interviews held with a variety of enterprise bodies, SMEs, accelerators and incubators. The main findings and takeaways, and their implications for the Island of Ireland Investor Readiness support landscape and for FFG, are discussed.	This section of the report brings together the previous primary and secondary research in order to comment on the current and future place of the FFG Programme within the island's investor readiness support landscape. This is done via a SWOT analysis, which highlights the areas of impact (strengths), areas where improvements or reviews may need to be made/opportunities for impact are being missed (weaknesses), areas to target in order to increase impact (opportunities) and the factors needing addressed in order to do so (threats). The section culminates in 10 recommendations for InterTradelreland to consider when reviewing its efforts in the investor readiness space.

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Key themes and findings

Global private equity: increasing momentum

Global private equity is increasing in terms of deal size, deal value and overall potential. Global private equity assets are predicted to reach a record of \$5.8 trillion (€5.2 trillion) by 2025, according to the Deloitte Centre for Financial Services, 29% up on a base of \$4.5 trillion (€4.0 trillion) in 2019. Ireland is no exception to the acceleration, with signs that it may significantly outpace this projected growth. Venture Capital (VC) activity, though not all-encompassing of the various strands of private equity, can act as a proxy for its growth trajectory; for example, 2021 was a record-breaking year for VC investments on the island, with deals totalling €1.3bn, a 44% increase on 2020.

The pandemic has seen accelerated growth in the equity finance landscape, and is prompting changes in its future direction. For example, society is becoming increasingly cognisant of social impact, particularly in relation to environmental sustainability. There has been a subsequent rise in businesses seeking to promote these values, accompanied by increased support programmes and equity deals concentrated in this area. Climate initiatives received 11% of total European VC funding in 2021. In addition, in the post-Covid era, an increasing share of businesses are considering equity, rather than debt, for the first time, with a 2022 British Business Bank report highlighting the divergence between these two avenues; whereas the value of gross bank lending by SMEs recorded a 45% decrease in 2021, equity investment in SMEs grew by 130% in the first three quarters. This increase in potential, demand and attitude needs to be accompanied by targeted support initiatives.

The Funding for Growth Programme

InterTradelreland's suite of equity awareness and investor readiness supports falls under the umbrella 'Funding for Growth' title. This was founded in 2001 as the 'EquityNetwork', 'to promote private equity to accelerate business growth'. The main components of this suite of supports are: Equity Advisory Clinics; the Venture Capital Conference; the Seedcorn Competition and preparatory workshops, and the Funding Advisory Clinics. Ad-hoc collaborations, via webinars, roadshows and presentations have also played a role in this outreach. InterTradelreland's funding support is broader than this and includes financial support to source the right person with the right skills to help businesses grow (such as via the Acumen, Innovation Boost and Elevate programmes). Other elements of support include co-funding and promotion of the HBAN network, signposting and databases of information regarding equity investors.

InterTradelreland is increasingly reflecting the evolving equity landscape in its supports. However, given that the FFG was inaugurated over two decades ago, with the last comprehensive review being in 2015 when it assumed the Funding for Growth title, there are elements of the changed landscape that have not yet been incorporated fully. For example, the internationalisation of equity is a key element that has not been adequately addressed by FFG. Several of this report's recommendations therefore centre on aligning the FFG supports with the current characteristics of the equity landscape, and the emerging trends across the Island of Ireland.

Tackling the information asymmetries and practical barriers to accessing international equity is key

In the European tech landscape, almost one-quarter of deals involved international investment in 2021. This is forecast to be an increasing trend. The prominence of international investors could be even more significant in Ireland, with 57% of venture capital deals in 2021 stemming from overseas investors, according to the 2021 Q4 IVCA VenturePulse Survey. The recognition of the potential represented by international equity investors was communicated throughout the primary research conducted, as well as being reflected in actual deals being realised and in best practice. This is particularly true in niche sectors, where the pool of suitable VC funds or BA investors on the island is limited or non-existent. It is also applicable to the larger deal sizes, particularly in high-growth tech subsectors where deals exceeding €30m are becoming increasingly common.

International best practice demonstrated the role for public bodies to practically enable domestic founders to connect with international funders; the Canadian Technology Accelerator addresses the difficulties faced 'on the ground' by companies in accessing international networks, by establishing offices in centres of technological clusters in the USA and setting up direct introductions with local investors. This is being replicated in Ireland, with the recent establishment of the NiCAP network in NI. In broad terms, NiCap's mission is to map the funding and support pathway for ambitious NI founders to scale. The 'investor forum' strand of this has the direct objective of introducing NI firms to international (including US) investors.

Funding for Growth operates in an active ecosystem with many different providers

There are many different providers of equity finance awareness and investor readiness supports on the island of Ireland, particularly given the multiple jurisdictions reflected in this geographical remit. The scope of services offered to businesses and entrepreneurs also differs according to whether the initiative is provided by the state, the private sector, or is jointly delivered. Case studies of Island of Ireland firms show that many success stories have been those availing of a myriad of supports, e.g. grants, competitions, workshops and accelerators, both North and South.

Being cognisant of the potential for duplicated efforts can help to shape the impact of FFG. InterTradelreland's efforts in the Investor Readiness space can address many areas of need – but not all. By not honing the sectoral focus or strategic remit of FFG, efforts risk being diluted. InterTradelreland should hone its reputation for, and strength in, leveraging an international network of contacts and stakeholders to directly connect founders with investors, as well as educating them in the practicalities of this. It should also consider collaborations with other public bodies.

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Digital tools are being harnessed across the island of Ireland, GB and global landscape

The onset of Covid-19 accelerated the pace at which companies and investors embraced digital technologies. It also signalled the immediate shift to remote delivery, which is transitioning to a hybrid model in the post-Covid era. Funding for Growth successfully incorporated remote delivery into several initiatives, enabling it to continue operating throughout the crisis and assist businesses when they most needed it. However, 'keeping pace' with the changes will not be sufficient to ensure that InterTradelreland maximises its impact on businesses in the Investor Readiness space. Businesses now appreciate both the effectiveness of digital supports and the time-efficiency of them. Many other support organisations are widening their offer of on-demand, digital supports in the Investor Readiness space to meet this expectation.

Best practice illustrates the ways in which digital supports can enhance investor readiness supports. For example, Scottish Enterprise places a focus on digital resources available on demand, in a variety of formats, recognising that watching full events/webinars at specified times can be time-prohibitive. It also provides a bespoke market research service to businesses, providing tailored data to businesses in relation to market potential, competitors and economic context.

The incorporation of digital or hybrid delivery can, however, run the risk of passive participation, whereby participants 'dial in' to events but are not invested to the same degree as being engaged in-person. Best practice also demonstrates how to address this; for example, a 'nudge' approach post-event, whereby businesses are prompted to consider whether they intend to take action as a result of participation and are asked for permission to be contacted three months later by way of follow-up. This was then used as an opportunity to signpost businesses to further supports months following the event, thereby maintaining the relationship with this business.

To maximise impact, Funding for Growth should seek to further incorporate digital tools and approaches in its suite of supports, in order to increase the number of businesses reached and the scope of supports offered, all at a lower marginal cost.

The private equity landscape is changing and supports must keep pace with these in order to stay relevant and maintain impact

Funding for Growth supports are have primarily focused on promoting Venture Capital, followed by Business Angel funding. Recognising that the situation is changing, an under-explored avenue has been that of crowdfunding, the market for which is projected to almost double in value between 2020 and 2025 in ROI, vs 64% in Europe overall (Statista, 2022). Consultees felt it is correct that these alternative sources of equity are featuring more in FFG initiatives as businesses who may not be candidates for Venture Capital funding or angel investing may be able to obtain funding via a successful crowdfunding campaign.

A lack of brand identity reduces awareness of Funding For Growth, whilst strategic identity could maximise its potential

Despite having operated in the investor readiness landscape for over two decades, the consultations and survey process demonstrated a lack of awareness, both among other agencies/support providers and businesses themselves, of the Funding for Growth programme and what it represents. More brand awareness is leveraged by the individual elements, specifically Seedcorn, the VCC and the equity workshops. The FFG Programme is not signposted on the InterTradelreland website, but rather the focus is on highlighting these individual initiatives. As a result of this lack of awareness, a significant source of demand for FFG relies on word of mouth, e.g. by accelerators and business support bodies signposting their members to relevant initiatives such as Seedcorn or the Equity Advisory Clinics. This benefits businesses already involved in an accelerator, but does not reach the majority of the market who may never have considered equity before, or who have not been successful in applying for other incubators/accelerators.

A review of the supports offered by FFG, and through consulting businesses and stakeholders, also revealed a lack of understanding of the Programme's objectives and areas of focus. InterTradelreland's efforts in the equity awareness and investor readiness space can address many areas of need – but not all. By not honing the sectoral focus or strategic remit of FFG, efforts risk being diluted and an element of brand identity is lacking. The programme should be clearly aligned with InterTradelreland's mission statement and strategic areas of focus. As InterTradelreland devises its next Corporate Plan (2023-2025), management should ensure that any revised FFG Programme is closely aligned with this.

Furthermore, a key priority and the overarching mission statement of InterTradelreland is to drive cross-border linkages and all-island trade. This element is missing from current FFG supports; tailoring equity awareness and Investor Readiness initiatives in light of this mission statement would mean facilitating cross-border introductions of founders and investors; incentivising businesses to expand across the border using equity funding; promoting the benefits of cross-border permanent establishments (e.g. relating to supply side tax incentive schemes) and aiding all-island funds/ assisting funds to embrace the all-island market.

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Targeting of supports is key

Funding for Growth supports largely seek to assist early stage companies attain their first raise. This concentration may mean that a cohort of later-stage businesses are not sufficiently provided for. This includes companies who availed of Funding for Growth supports in pursuit of their first equity raise, and were then unsure of how to scale to the next level of growth and/or navigate practical elements of company lifecycle/companies and contractual requirements. By implementing follow-up initiatives (such as the nudge approach outlined overleaf) and gathering real-time feedback and KPI tracking, InterTradelreland could ensure that it serves the wider funding lifecycle.

Furthermore, FFG Investor Readiness supports are predominantly concentrated in the tech sector. The results of the consultations, survey and research review shows that the sectoral composition is much broader than this. For example, the IVCA Q4 VenturePulse Survey shows that food and drink accounted for 11% of all VC funding raised in Ireland, which is a sizeable minority. Though Tech and Life Sciences are much more dominant in both the demand and supply of equity, the lack of representation of alternative sectors in the FFG programme is misaligned with the island of Ireland landscape.

Having developed a comprehensive overview of the domestic situation, international best practice and stakeholders' feedback, Grant Thornton conducted a SWOT analysis of the Funding for Growth Programme in terms of how it has served businesses to date, and how to hone this moving forward. This has informed a set of ten strategic recommendations for the InterTradelreland team to consider, outlined opposite. Each recommendation has been accompanied by a suite of action points to assist the team in implementing these recommendations, should they choose to.

Several of these concern reviewing and refreshing existing initiatives – the Equity Workshops and Seedcorn Competition (3 and 4) – as well as reviewing the additionality and scope of the Venture Capital Conference and continuing to evolve its content (6). Others concern embracing digital technology and delivery, which is a standalone recommendation (7) but also features as a relevant action or implementation point for several others (2 to 6 inclusive). Other important recommendations could align with InterTradelreland's strategic review to inform the 2023-35 Corporate Plan, namely Strategic Alignment clarification (1) and, coupled with this, improved brand identity and targeted marketing of same (8). It is felt that these recommendations are possible within InterTradelreland's capabilities and legislative remit. These recommendations are offered for consideration, and are explored in further detail in Phase 4b and Appendix 5 of this report. InterTradelreland should consider facilitating an internal workshop to consider the next steps and implementation measures.

Snapshot of recommendations

1. **Determine strategic alignment and SMART objectives**
2. **Incorporate an international focus into Funding for Growth**
3. **Expand and refresh the equity advisory clinics**
4. **Assess programme content to ensure provision of practical investor readiness supports**
5. **Review the Seedcorn Competition eligibility and preparatory requirements**
6. **Continue to evolve the Venture Capital Conference**
7. **Embrace digitalisation**
8. **Improved brand identity**
9. **Harness the value of data**
10. **Consider the potential of supply-side initiatives**

