

**Irish firms looking to North America for investment need to be aware the game has changed, but opportunities still exist for those who want it most, writes Niall Byrne.**



# ON THE DOLLAR

**A** aficionados of 'Dragon's Den' might have formed an impression about venture capitalists (VCs) that they are constantly weighing up pitches from the public, avidly seeking to add to their portfolio of companies. The truth would make rather less interesting television: the majority of venture partners over the course of their lifetime will nurse only a handful of companies to growth.

At the moment, many Irish companies are looking abroad for funding as the recession at home has dug its heels in. News that American investors don't view their job as throwing darts at a board and hoping some stick explodes some of the myths about venture capital: that there is a lot of it to go around; that a good idea is itself enough to succeed; capital is global and therefore boundary-less; and the less investment sought the more chance of getting it.

"A partner in a venture capital firm will typically shepherd three to four companies over their lifetime, maybe five or six companies in exceptional cases," says Antoin Russell, CEO, Powervation. "It's a huge personal commitment for a partner in a venture capital firm to take up a company."

Powervation, which provides chip solutions for power control, has raised more than US\$20m in funding since its inception in 2006, the most recent investment secured from New York-based Braemer Energy Ventures in November.

With such careful scrutiny of prospective companies for their portfolios, venture capital firms take an interest in their investees that goes beyond merely writing the cheques.

"You can assume that American VCs have a number of partners that take a seat on the board

and help build the company. What companies are really competing for is not so much investor money as mindshare."

"A good investor is an investor who can contribute to helping the company to grow," says Peter Smyth, CEO of RedMere. RedMere, which supplies smart active cable solutions, raised US\$5.6m in funding in December from Celtic House Venture Partners, Toronto.

Smyth iterates that VCs are far more likely to want to get involved in a company in which they can bring their experience to bear, be it offering advice to management or opening doors to helpful contacts and customers.

This raises an obvious question for Irish companies looking to tap funds in an increasingly tight credit landscape: how do you satisfy an investor that they will be able to have a hands-on role in a company that is headquartered on the far side of the Atlantic Ocean?

## **US PRESENCE: TO BE OR NOT TO BE**

Before embarking on a fundraising round, it is critical to research who to approach. Some US VCs are quite happy to invest in overseas companies; others aren't. A good indicator of a VC's amenability to invest in Irish firms is if they have done it before.

"Many VC funds would look at the value proposition of the company, such as the technology and the market, but it might be too much stress for them to bring in one company located in Ireland into their portfolio," notes Smyth. "If they have made investments before with that geographical location issue overcome, they're more likely to do it again."

Short of the VC having made a previous



**Conrad Burke**  
President & CEO, Innovalight



**Peter Smyth**  
CEO, RedMere



**John Quinn**  
CEO, Surface Power

investment in Ireland, Irish firms can make themselves more attractive if they have an existing Irish-based VC backing them.

“Those VCs that can and will go outside the US would always prefer to have a participatory entity in the country in which they are investing,” says Paul Grillo, President of New York-based financial consulting firm P.A Grillo Associates. “If an Irish company can bring an existing Irish VC to the table, even if they have a much smaller percentage, it bodes enormously well for the company.”

Promoting increased syndication between US and Irish VCs is one of the objectives of an initiative being rolled out by Enterprise Ireland to help Irish companies overcome hurdles when seeking funding in the States, according to John McIntyre, Enterprise Ireland’s US West Coast Manager.

Some VC firms are prevented by their charter from investing outside North America. However, McIntyre says that this need not be an insurmountable obstacle. Companies can, without too much difficulty, structure themselves to create a US entity as well, and Enterprise Ireland can point them in the direction of good legal advice in this respect, he says.

That said, geographic distance can be an issue for some VCs, McIntyre acknowledges. Paul Grillo agrees: “When you’re pitching your company you are trying to get all the negatives off the piece of paper in the valuation for a VC. It adds confidence to the VC if you have at least a sales office or some type of presence here.”

Powervation bases its marketing and sales vice-president positions in California. Surface

Power, a provider of specialist renewable energy technology, is another Irish company that has seen the advantages of having a base in the US. The company is actively negotiating with American VCs at the moment.

“We used people on the ground in California and Florida who got doors opened for us that we couldn’t have gotten opened from Ireland,” remarks John Quinn, CEO, Surface Power. “In California, we used Enterprise Ireland; in Florida, we put our own consultants on the ground. I’m not a believer you can make everything in Ireland and sell it around the world. Big global companies don’t do that. You’ve got to factor in a location in the US.”

Wicklow-man Conrad Burke is President and CEO of Innovalight, a California-based solar energy start-up that raised US\$18m in January. Burke is also part of the management team of the Irish Technology Leadership Group, a group of Irish or Irish-American senior executives from Silicon Valley technology companies committed to helping Irish entrepreneurs.

For Burke, having a presence in the US is about access to customers as much as funding. “A lot of the Irish entrepreneurs tend to be in the IT sector, and there’s enough enormous client opportunities here in Silicon Valley and the US generally that warrants having a presence here of some description.”

Any export-led Irish firm should be considering having a presence in the US anyway just from a sales perspective, he suggests. “To grow into a big company, you can’t neglect the US as a market. I don’t think it requires you to have the whole operation there but some sort of presence is a help.”



American venture capital may not be the goose that lays the golden egg anymore, but with proper preparation, it needn't be a wild goose chase either. After a tough 2009, things are starting to loosen up again.

Redmere's Peter Smyth, likewise, believes proximity to investors is not as important as proximity to customers. "At any stage in a company's development, it will open new offices, usually close to customers or sources of additional funding, but I'd put the customers ahead of funding any day."

Smyth asserts an investor will swallow the logistical pain that has to be taken when investing in a foreign company if it's a really interesting product and market to get into. "RedMere is an Irish start-up. If we were a Valley start-up, we'd be in the Valley. The most important consideration when soliciting VC funding is that the investor matches your market."

**GIVE THEM WHAT THEY WANT** American venture capital may not be the goose that lays the golden egg anymore, but with proper preparation, it needn't be a wild goose chase either. After a tough 2009, things are starting to loosen up again, but the criteria for a good investment have changed. The pitches that will make American investors sit up and listen in 2010 are those for game-changing products, which demonstrate management expertise, which have proven customer sales potential and, of utmost importance, ones that help VCs solve existing problems within their portfolios.

"A lot of the companies VCs have funded over the past few years are run by technologists, not by people who can steer the ship, so the VCs themselves have had to get strongly involved," notes Quinn. "They are looking for revenue-generating synergies with their current portfolio because they've funded far too many enabling technologies."

His advice is simple: "If you want to get in

front of people who are busy managing projects they've already invested in, you have to give them something that solves their current problems."

**HOW MUCH IS TOO LITTLE?** A common mistake Irish entrepreneurs make when looking for American VC is asking for too little and aiming too low. "Irish entrepreneurs tend to be on the conservative side, asking for very little capital and exiting at a very early stage," says Burke.

He points to a dearth of IPOs by Irish companies. "The number that has gone public over the past 10 years is very small. Irish entrepreneurs are looking for an acquisition of the company for US\$20-30m. VCs like to see bigger plans and bigger growth opportunities."

Quinn also warns against asking for too little based on what is considered normal in Ireland. "In Ireland, a company might think half a million is quite a sizeable VC investment; in the Valley, that's pocket money."

Smaller companies tend to forget about the cash flow issues they're going to hit on the way to growth, comments Grillo. "The probability of getting VC funds will not fluctuate if it's a question of a few million dollars or 20 per cent plus or minus. They are not impeding themselves if they ask for what they really need instead of low-balling themselves."

The message seems to be to err on the side of optimism. What could be more American?

*Enterprise Ireland is currently developing pilot programmes to help increasing numbers of Irish companies to raise venture capital in the United States. For further information, contact John McIntyre, West Coast Manager, Palo Alto. Email [john.mcintyre@enterprise-ireland.com](mailto:john.mcintyre@enterprise-ireland.com)*