



Finance for Growth

'What Investors and Lenders are thinking about when they see a project and why.'

Investment Experience – Deal flow, Exits and Scaling

- **€370m under Management**
 - **Investment Range €100k- €10m**
 - **International scale & syndication**
 - **Build Companies to Rev. \$50m with 250+ people**

- **95 Tech and Growth Equity companies**
 - **Multi-stage & Multi Sector Investor**
 - **Seed – Expansion – Growth Capital**

- **Over 35 exits**
 - **Many to US technology corporates**

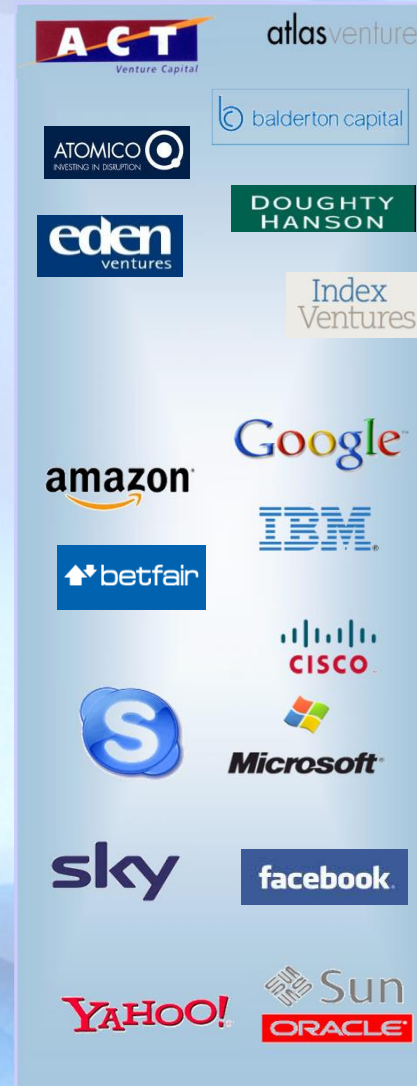
- **Currently Investing AIB Startup Accelerator Fund.**

Evolved a deep International Syndication network & raised €600m

ACT Syndication Experience Equity & Banking



Acquiror's



'What Investors & Lenders are thinking about when they see a project and why.'

Some perspectives... on VC

- **Great Companies are built with VC and many, many more without.**
- **Generalisations about Venture Capital (VC) are difficult and possibly misleading.**
- **VC's are curious, positive and entrepreneurial.**
 - » **VC's run their own business – we are SME's**
 - » **Don't have all the answers.**
 - » **Marketers not Financiers.**
 - » **Want to be part of exciting projects.**
 - » **Invest personal cash in the deals.**
- **Target Fund returns of 2-4x**
 - » **Not a guideline for individual deals .**

Some perspectives... on Banking

- **Large Business's run like any other of similar scale.**
 - » **Frameworks for systems, approach, policy as per any large Organisation.**
- **Provide essential access to the payment and clearing system.**
- **Seperation of Deal/Lending teams from Credit Committee decisions**
 - » **Lending teams want to lend.**
 - » **Bad deal may not damage Bank but could end a career or two.**
- **Target return – 3-5% on Capital deployed in Lending**
 - » **Implications of €1m single loan 'write off'**
 - » **Absorbs the annual 'profit' from 20-30 similar loans to achieve breakeven !**

Financing Environment – History

1997 -2007 Ireland (& Globally)

- » **Debt and Equity differentiation become blurred.**
- » **Risk mis priced by everyone**
- » **This period was an 'abomination'**
- » **Market correction**

Effects

- » **A decade of 'Coolaid' makes the adjustment tough**
- » **Massive Credit contraction.**
- » **What is normal ?**
- » **Lending process now embracing some of the questions from Equity process.**

Observation

- » **What did Irish compnaies do (internationally) in this period of easy credit ?**

Financing Environment is Changing

- **AIB & Bank of Ireland**
 - » **Mainstay of SME Debt financing for Economy**
 - » **Re-organised lending teams & Banks Balance Sheets**
 - » **EIB & EIF funding mechanisms.**

- **Write the largest cheques by value and volume.**

- **Probably underpriced the credit risk – good for companies.**

- **30-50% of all current Irish SME Loans in trouble or on 'watch'**
 - » **Sets the environment for Lending teams & new Facilities**
 - » **Establishes Institutional appetite for risk**

- **Macro – Domestic economy likely to continue to contract.**

Financing Environment – expanding options for Equity & Debt

Venture and Growth Capital

- » **ACT, ABV, Delta, Enterprise Equity, NCB, DBIC, TVC, Kernal**
- » **Life Science : Seroba- Kernal , FVP, Kernel early stage fund.**
- » **'Development Capital Funds' – x 2**
- » **EI**

NPRF

- » **Cardinal Carlyle, Blue Bay, Better Capital, Silicon Valley Bank**
- » **Repositioning of €5bn toward Irish Infrastructure & SME will generate more initiatives.**

Innovation Fund Ireland (IFI) (EI & NPRF)

- » **DFJ Esprit, Highland Capital, Polaris, Soffinova plus ANO x2.**

Expanded BES and Private investors re-emerging

- ### **Targeting High Growth, Scalable, International Business's**
- » **Ciirca 500-600 Companies**

Financing Environment – who will get the money ?

- ***Competitive Financing Environment – but 'binary'***
 - » ***Top tier Firms with multiple offers***
 - » ***Good companies with one***
 - » ***'Ok' with none !***

- ***Environment favours business's with international exposure and expansion.***

- ***Assuming credible Market, People, Products & Business model***

- ***US circa 60% of Company finance is non 'Bank'***
 - » ***EU comparable is 10-15%***
 - » ***Can Ireland lead the change in Europe ?***

What we all want..... Maximise the equity value in our Business's

Founders/Entrepreneurs & Managers

- » **Cheap Money (or the party who will pay the highest price)**
- » **No 'hasstle' in the process or the period of the relationship.**
- » **Walk away if it does not work out.**
- » ***Plenty of Capital at low cost***

Investors (Equity and Debt)

- » **Team that makes the plan work To 'plan'.**
- » **No surprises and 'nice' meetings.**
- » **Red Carpet to the 'promised' finishing line.**
- » ***Great Returns at low risk***

Problem – the future is unpredictable – result....

- » ***Few of us get what we want...***
- » ***Preparing for it makes us more likley to succeed.***

A 'view' of Risk..... Early stage, high growth business.

- **Technology development**
- **Product development**
- **Team Capability**
- **Competitor behavior**
- **Sufficient capital**
- **IP Position**
- **Etc.**

A 'view' of Risk..... Early stage, high growth business.

| | Probability |
|--------------------------|-------------|
| ■ Technology development | 80% |
| ■ Product development | 80% |
| ■ Team Capability | 80% |
| ■ Competitor behavior | 80% |
| ■ Sufficient capital | 80% |
| ■ IP Position | <u>80%</u> |
| ■ Probability of Success | 26% |

A 'view' of Risk..... for established, growth mode business.

- **Product Development Complete**
- **Market Knowledge**
- **Management Team Capability**
- **Activities happen on time**
- **Accurate costings**
- **Accurate pricing**
- **Etc.**

A 'view' of Risk..... for established, growth mode business.

| | Probability |
|--------------------------------|-------------------|
| ■ Product Development Complete | 95% |
| ■ Market Knowledge | 95% |
| ■ Management Team Capability | 95% |
| ■ Activities happen on time | 95% |
| ■ Accurate costings | 95% |
| ■ Accurate pricing | 95% |
| ■ Etc. | <u>95%</u> |
| ■ Probability of Success | <i>73%</i> |

Focus for VC & PE Investors and for lenders

- **Pick sectors/markets/companies where small errors do not prove fatal.**
- **Work with the team to identify, manage & reduce the risks.**
 - » **Market**
 - » **People**
 - » **Product**
 - » **Execution**
 - » **Financing**
 - » **Exit**
- **Focus on what matters, when it matters.**
- **Investors & Lenders broadly focus on the same areas**
 - » **Differ significantly in required level of evidence & priority**
 - » **Reflects their respective risk appetite and objectives.**

What VC's think about all the time..... the Market.

- **Large , Changing, *High Growth* and Accessible**
- **Basis for Differentiation – who needs this and why ?**
- **Timing**
- **High Gross Margins**
- **Scalable**
- **Team that understand how it really works and can execute in it.**

What VC's think about..... the 'People'

- **Do they know this market..... really know.**
- **Can they deliver customers/product/technology with reasonable probability ?**
- **Can they tell a compelling story ?**
- **Do they understand the need for a team and equity to incentivise them.**
- **Understand VC deal structures.**
- **Will I make money with these people ?**
- **Is there a shared expectation on the 'Journey' ?**

What VC's think about..... the 'Product'

- **Does it work?**
- **What does 'work' mean?**
- **Who can make it work?**
- **How much will it cost?**
- **Does the customer know what a product should look like?**

What VC's think about.....Capital Efficiency.

- **What has to happen to make this project a 'good company' & a good investment ?**
- **How much will it cost to get there ?**
- **Who will fund this.... and when ?**
 - » **Customers**
 - » **Govt**
 - » **VC's**
 - » **Banks**
 - » **Capital Markets**
- **How long will it take ?**
- **How much of this will we (a VC) be providing.... And when ?**
- **How much 'room' for failure/delay ?**

What do VC's think about... Funding the 'Journey' ?

- **VC Investment drives an integrated Operations & Financial Strategy**
 - **Set Short term strategic goals/milestones**
 - **Secure resources (capital & skills) to achieve them**
 - **Deliver them - Effectively de-risking next stage of the project**
 - **Demonstrate future potential**
 - **Secure new investors/customers at higher valuations**
 - **Repeat the process**
- **This is the process underlying Seed, A,B, C... rounds**
 - **Changing risk and Investor profile.**

What VC's think about.....the Exit

- **Who will really want to buy the company, for how much and why ?**
- **Can we create multiple exit points along the 'Journey' ?**
- **Interplay between customers, channel, partners, competition and the Exit.**
- **Do the numbers work for shareholders ?**
 - » **Based on teams valuation expectations**
 - » **The equity capital required to build the business**
 - » **The acquisition history and financial capability of the targets**
- **Do the same numbers work for the team ?**
- **Exit for the VC's/Investors is not the 'end of the company'**
- ***'We envisage a trade sale or IPO in year 5....'***

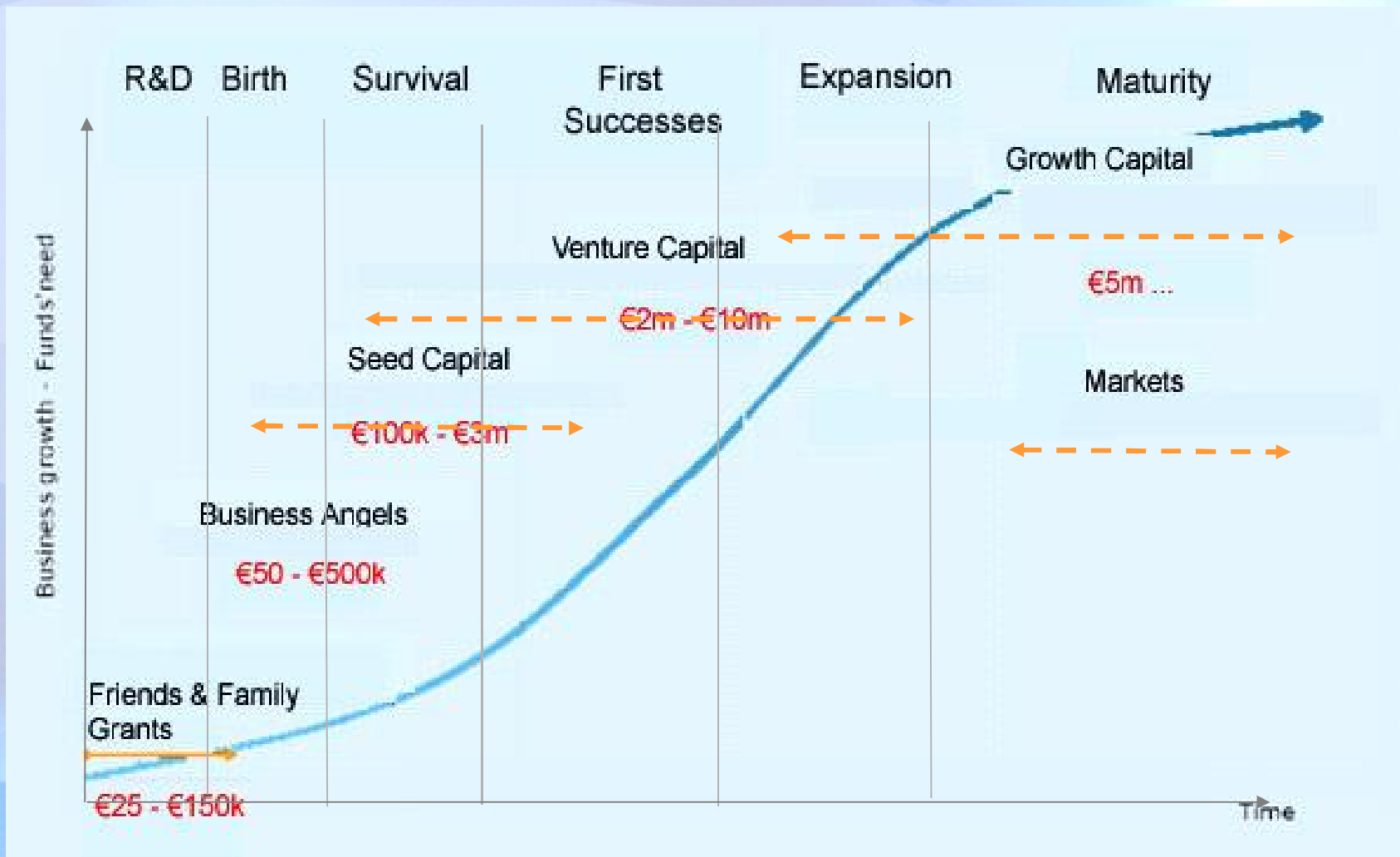
Deal Pricing & Exit are related

■ **Is the maximum price/valuation the optimum deal ?**

Percentage Equity required to yield a 60 % annual rate of return on a £2m investment

| Years | Future Valuation of the company | | | | |
|----------|---------------------------------|--------|--------|--------|-------|
| | £ 20 m | £ 40 m | £ 60 m | £ 80 m | £ 100 |
| 2 | 26 % | 13 % | 9 % | 6 % | 5 % |
| 3 | 41 % | 20 % | 14 % | 10 % | 8 % |
| 4 | 66 % | 33 % | 22 % | 16 % | 13 % |
| 5 | | 52 % | 35 % | 26 % | 21 % |
| 6 | | 84 % | 56 % | 42 % | 34 % |
| 7 | | | 89 % | 67 % | 54 % |
| 8 | | | | | 86 % |

Timing is Critical



Banking strategy can create high equity value and reduce Risk.

- ***How would you rate your relationship with your Bank ?***
- ***How would your Bank rate it ?***
- ***Does your view of the numbers 'fit' with what is on their 'screen' ?***
- ***Do you understand how the Bank makes decisions?***
 - » ***Your job to find out - carefully***
- ***SME's should treat securing Bank finance as Competitive.***


Prepare with similar intensity to securing leading customer or supplier.
- ***VC/PE approach maybe overkill***
 - » ***But useful benchmark***
 - » ***Leaves you in good shape for an Exit.***

Basic Data required for the 'conversation'

- ***Permanent 12-15 slide deck on Business for all Execs.***
- ***3 years Financials on 'warm standby' – Mgt, Fin & Cash with rec.***
- ***1 year Budget and 2 year forecast***
- ***Quarterly (monthly) cashflow forecast***
- ***Sales pipeline & management process.***
- ***Operations schedule***
- ***Demonstrate sustained ability to pay based on historic performance (cash)***
- ***Demonstrate ability to run meaningful sensitivity analysis.***
- ***What does your Balance Sheet look like***
 - » ***Buffer or Bomb ?***
- ***'Unknown unknowns....'***

Conversation with who Equity or Debt ?

- **Banks are laser focused on sustainable (loan) cash flow from the business**
 - » Reflects past performance
 - » Realistic base case for the future
- **Profitable & High Growth**
 - » Equity and Banking
- **High Growth & Credible near term path to sustained profitability**
 - » Equity, Venture debt and Banking
- **High Growth, Loss making and medium term path to profitability**
 - » Equity and Venture Debt
- **Modest Growth and profitability**
 - » Banking
- **Low Growth and breakeven**
 - » Restructure to profitability
- **Stable : Transition required to growth and profitability**
 - » Equity
 - » Consider a 'milestone approach'
- **Qualified by :**
 - » Scale, Sector, People
 - » Valuation Creation Points & Quantum



What do VC's think about... Funding the 'Journey' ?

- VC Investment drives an integrated Operations & Financial Strategy
 - Set Short term strategic goals/ milestones
 - Secure resources (capital & skills) to achieve them
 - Deliver them - Effectively de-risking next stage of the project
 - Demonstrate future potential
 - Secure new investors/ customers at higher valuations
 - Repeat the process
- This is the process underlying Seed, A,B, C... rounds
 - Changing risk and Investor profile.

Business Model and Financial Plan

- **Not an exercise in Accounting. Focus on cash and economics of the business.**
- **Establishing the economics for the business and key assumptions.**
 - » **Gross Margins, Working Capital and Investment cycles are key**
- **Make sure the Financials are integrated with the plan.**
 - » **If the sales cycle is 6-9 months ?**
 - » **If the new product will take 2 years to complete ?**
- **What are you going to spend the money on and why ?**
- **Understand how changes to the Business affect the Financial Plan**
- **If your plan shows you are going to be significantly more profitable than your peers/competition - be prepared for the questions.**
- **Know the numbers**

This may appear more 'formal' but is it any different from what the best Founders, Entrepreneurs, Senior Exec's and Teams think about ?

Case Studies

- **Tesco**
- **Formula One**
- **Yoghurt**
- **Porsche**
- **Formula for Success**



ACT Venture Capital Limited

6 Richview Office Park
Clonskeagh
Dublin 14
Ireland

Tel: +353 1 2600 966

Fax: +353 1 2600 538

Email: ncarroll@actvc.ie

www.actventure.com