

Allow seeds to grow

Much more money needs to be invested at a much faster rate in local seed and development capital funds, writes Colin Walsh



LOCAL dealmakers — more than ever before — have a vital role to play in strengthening Northern Ireland's economy and reducing our horrible over-dependency on the public sector.

For those of us in the venture capital community, that is self-evident. Venture-backed companies tend to be big exporters; they grow faster and create more jobs and more wealth than almost any other type of enterprise.

Here in the North, half a dozen local companies that received venture backing in their early days prove that point comprehensively. Ten years ago, Andor, APT, Kainos, Lagan, Consilium and Texthelp together employed 250 people and had sales of £20m. By 2010, they employed 1,000 and had sales of £125m, virtually all exports.

That's powerful growth and economic impact, but you have to invest capital continuously in these types of companies in order to reap the rewards in later years.

Regrettably, however, we have fallen well behind the Republic of Ireland and Great Britain in developing this vital seed and venture capital sector. This hampers our economic development, as institutional investors willing to commit capital here lack appropriate vehicles to invest in.

Last year, for example, across Europe, €500m was raised for seed and early-stage funds and €1.2bn for later-stage funding. In the past 18 months alone, four seed funds worth €120m have been established in the Republic of Ireland.

These monies are in addition to more than €500m of existing venture funds currently under management there (of which more than €350m is currently available for investment).

Given our relative size, it is understandable the amount of funding available here is more modest than in the Republic of Ireland. But even when the new



Government-backed funds announced here recently begin to take effect, we will have only one-sixth of the seed capital and one-twelfth of the development capital available to our counterparts in the south of Ireland.

In the North, the amount of new funds raised during 2010 was precisely zero and we have almost nothing to invest in venture or development capital deals at the moment. Once the new £7m co-investment and £30m venture funds get up and running, Northern Ireland will have just £15m in seed and £35m in development funding available.

This is clearly an area that needs to be addressed in the months and years ahead. If the Republic of Ireland can do it, even in straitened economic circumstances, surely we can do better. Invest Northern Ireland, which promotes the development of this sector, needs to do more; we will never

be able to grow enough of our local stars into major employers if they don't invest more money — and faster — in local seed and development capital funds. Its current initiatives are too small, and too slow in coming to fruition.

However, it would be truly ironic to suggest that the burden of reducing dependency on the public sector lies solely at the door of Invest NI. The truth is that we dealmakers have to do more for ourselves.

One other source of money for growth, for example, is the London stock market and, in particular, the AIM market. AIM is lightly regulated, it gives great valuations, there is no interest to pay on the capital invested, and the visibility and credibility that goes along with a listing is tremendously valuable.

Despite these attractions, we in Northern Ireland have just

two AIM-listed companies. By comparison, Scotland has dozens; so has Wales. Even the Republic of Ireland has more than 30 companies — despite the fact they also have their own stock market.

In the last quarter of 2010 alone, the 20 new firms admitted to AIM raised more than £500m of new money, while the rest of the companies already there raised a further £2.5bn in follow-on funding.

That is serious money, indeed, and I believe we are not doing enough to tap that huge market on our doorstep.

At Crescent Capital, we are doing all we can to invest in more local stars and bring them to AIM during the next few years. So, too, I believe, should the rest of Northern Ireland's deal-making community. That way we could show we are really serious about cutting the apron strings of public-sector dependence.