



12<sup>th</sup> November 2009

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Dear Jacqui,

On behalf of the Northern Ireland Science Park Foundation, I welcome the opportunity to comment on elements of the Independent Review of Economic Policy.

Generally, NISP and its constituency support the forward looking changes proposed by the report. In particular, we support strongly the recommendation that "stronger emphasis needs to be placed on developing Innovation and R&D in NI to attract, develop and retain high value investments, both indigenous and foreign owned" and the need for "greater integration between indigenous SMEs and the supply chain of larger companies". We also agree profoundly with the statements in E.17 and E.18. We suggest therefore that all the recommendations made in support of these principles (and any others that might be proposed creatively) to give our region legal "unfair" advantages be investigated quickly and implemented swiftly.

One recommendation which has caused our community concern is that on venture capital. Because of the specialist nature of this subject we sought the opinion of experienced fund managers from outside of the region and the views of NI's most experienced entrepreneurs and professionals. This letter covers the recommendation of a workshop we convened for the purpose on 23 October 2009 and developed by e-mail since. The list of contributors and affiliations is also attached.

Yours sincerely

Norman Apsley  
CEO, Northern Ireland Science Park

11<sup>th</sup> November, 2009

Jacqui Rose  
Department of Enterprise, Trade and Investment  
Strategic Planning, Economics and Statistics Division  
Netherleigh  
Massey Avenue  
BELFAST  
BT4 2JP

Dear Jacqui

**Response to Independent Review of Economic Policy (DETI / Invest NI)**

We, the undersigned, are grateful for the opportunity to contribute to the Independent Review of Economic Policy and future government policy for economic development in Northern Ireland.

The comments in this letter relate to just one of the review's recommendations concerning venture capital in the 'Full List of Recommendations' section of the Executive Summary:

*"Aside from those funds designed to support seed stage projects, Invest NI should disengage its direct involvement with venture capital (VC) funds."*

Or in more detail #7.15 as follows:

*"In terms of the remaining business expansion projects that have typically been assisted by Invest NI, we believe arrangements should be made whereby financial support is sought, in the first instance, from alternative private sources (banks, Venture Capital (VC) companies and other sources of private funding). This type of arrangement may involve a degree of co-funding between the private and public providers of financial assistance to industry. The purpose of requiring pre-approval from private sources would also help limit the problem of deadweight loss associated with public sector support, as the market would provide the initial signal on the value of financial assistance. In this context, the Review Panel recommend that business expansion not involving Innovation and R&D should, where necessary, be supported in the form of co-investment in companies that have already been successful in securing funding from the private sector. Invest NI assistance should be in the form of sub-ordinate debt or equity."*

The 22 signatories below have extensive experience with venture capital in Northern Ireland and will be directly impacted by the recommendation. We are all available to be contacted for verification or further comment.

**Interpretation of recommendation**

It is important to clarify some definitions contained within the recommendation. The recommendation distinguishes between two stages in the development of a new company and its funding requirements:

1. R&D / innovation (product development)
2. Business expansion projects (sales and market development)

We have taken (1) 'R&D / Innovation' to refer to product development and (2) 'business expansion projects' to refer to sales and growth into new markets. In Northern Ireland it is very difficult to attract private money to fund the development of new products. This stage is normally funded by grants, government funded research projects, government funded seed capital equity or a bootstrapping entrepreneur's spare time. Venture capital in Northern Ireland is typically applied in the sales and market development phase, referred to as "business expansion projects". The first round of institutional venture capital investment is called an 'A-round' and can be any where in the range of £0.5M to £5M. A total investment of £20M venture capital can be required to build a company with annual sales of £50M. Given the lack of available venture capital in Northern Ireland an 'A-round' has historically been the most difficult for local companies to achieve. This is the stage of greatest weakness in Northern Ireland's venture capital continuum.

Our interpretation of the recommendation is therefore that DETI / Invest NI should no longer invest as a limited partner in venture capital funds who fund in the traditional A, B or C rounds of a company's development and that DETI / Invest NI should instead establish a new external co-investment fund that will only invest when a private venture capital fund invests first.

If this interpretation is inaccurate, we request urgent clarification on the true meaning of the recommendation. If accurate, please continue.

#### **Summary of response**

- 1. This is the wrong time in our economic cycle to change this model.** There is no doubt that the policy recommendation is something that Northern Ireland should aspire to: a time when government intervention is no longer required to catalyze the local risk capital eco-system. Unfortunately, Northern Ireland's risk capital eco-system is so underdeveloped that adopting this policy now will have a serious negative impact on the region's ability to create new fast growth firms, the type of which our future economic prosperity depends.
- 2. Private venture capital funds will not fill the gap.** The recommendation assumes that if DETI / Invest NI no longer invest as a limited partner, other private sector venture capital firms will quickly fill in the gap left by the withdrawal of government supported venture funds. If this assumption was true venture funds from outside of the region would have already established a presence in Northern Ireland. This has not happened.
- 3. There is an abundance of dealflow in Northern Ireland.** We challenge the perception of a lack of dealflow in the region. Northern Ireland has a high quantity of quality early stage ventures with very high potential. In the eighteen months since the launch of a pilot version of NISP CONNECT over 385 early stage ventures and nascent entrepreneurs have engaged in programmes. Without a sufficient risk-capital eco-system to "pull-through" new companies our best entrepreneurs have to relocate to other regions or consider selling-out their technology at an early stage. The lack of historical dedicated venture capital is one of the main contributing factors to the low numbers of new fast growth firms in the region.
- 4. Northern Ireland needs £100M of dedicated venture capital.** Given the amount of venture capital typically invested in the creation of a £50M company, Northern Ireland badly needs its own competitive market of venture capital funds with at least £100M dedicated to investing in many early stage Northern Irish companies. To build the world's best companies we also need to attract the world's best investment talent with no constraints on how fund partners and investment managers are rewarded.

5. **DETI / Invest NI must continue to invest as a limited partner in venture funds.**  
We recommend that DETI / Invest NI not only maintain the policy of investing in venture capital funds as a limited partner, but expand this effort by building a fund of funds to invest in a number of new venture capital funds similar to Israel's successful Yozma model, widely regarded as the most successful model for catalyzing a region's sustainable venture capital market. We fully support Helen Kirkpatrick of Invest NI's efforts to establish a fund of funds that could then be matched by private sector limited partners and the creation of a number of new venture funds. This will be essential to establish the £100M dedicated to investing in NI, but will not happen without DETI / Invest NI acting as the lead limited partner. We also recommend that DETI / Invest NI should be more aggressive in getting its money back from funds and re-cycling it through the system.

If you have any questions, please follow up directly with any of the signatories or through Steve Orr, Director, NISP CONNECT to communicate with all signatories.

Thank you

Signed

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Copy to David Sterling, Permanent Secretary, DETI

## **BACKGROUND ON CO-SIGNERS**

This accompanying note is intended to provide more information on the background of the co-signatories and the significance of their support in the Response to Independent Review of Economic Policy (DETI / Invest NI).

The list contains the most experienced pioneers of Northern Ireland's science and technology industries and the people we need to succeed if we want to create the more innovative economy with large quantities of higher value jobs.

### **Entrepreneurs and Executives who have raised venture capital for Northern Ireland's most significant new technology companies**

- John Anderson – Heartsine Technologies & Intelesens Ltd
- Jamie Andrews – Lagan Technologies
- Brian Baird - Meridio
- Michael Black – Aepona & Consillium
- Darryl Collins – Blackstar.co.uk
- JG Doherty – Amphion Semiconductors
- John Lillywhite – Kainos, Lagan & APT
- Denis Murphy – Anaeko, Apion

### **Investment community**

- Stuart Chapman, DFJ Espirit
- Claire Hodson, ESynergy
- Ian Kerr, Beltrae Investors
- David Kirk, Private Investor
- Panos Lioulias, QUBIS
- Alan Watts, halo angel investors

It is important to recognise the significance of some of the co-signers from the investment community. Recently DFJ was recognised as the #1 venture capital fund in the world. The support expressed by their London based affiliate fund partner, Stuart Chapman, gives the perspective of the world class venture fund who will not fill the gap in NI if government pull out. There is also international support from David Kirk, born in Belfast but now resident in San Francisco, CA. David has led been a leader in some of the world's most successful technology companies, AOL and Cisco.

### **Professional Services**

- Ian Coulter, Tughans
- Paul Holloway, KPMG
- Scott Kennedy, Cleaver Fulton Rankin Solicitors

Professional services firms are a critical part of the innovation eco-system and have an objective opinion on the best outcome for the region.

### **Trade Associations**

- Peter Donnelly - BiobusinessNI
- Ian Graham – Momentum
- Aidan McGrath – Digital Circle

It is also significant that the leaders of NI's Trade Association also support the letter.