Growing pains

It may be one of Europe's fastest-growing economies, but Ireland's medium-sized companies still need help to grow – BDO hopes its novel new fund will assist them

Dublin-based accountancy firm BDO is planning to start a new €100m investment fund to assist fast-expanding mid-sized Irish companies in unlocking further growth opportunities. This will be the successor fund to an already existing BDO Development Capital Fund (DCF) worth €75m.

According to Andrew Bourg, partner, Corporate Investment & Business Advisory at BDO, the first fund was invested by the end of 2017. The second fund will start late in Q1 of 2018 or early in Q2, 'driven by market demand'.

In 2014, BDO launched the first BDO DCF with the objective 'to invest in established companies with significant opportunities primarily in export markets, seeking to accelerate growth with €2m to €10m growth capital'. To date, the fund has made eight investments, including in companies such as communication technology company Version 1, security systems firm Netwatch and family food company Brodericks.

'There are successful development funds in Germany, the UK and the US, but prior to 2014 there were none in Ireland,' says Bourg. The purpose of Ireland's first DCF was 'to bridge the equity gap in the market where the banks' willingness to lend was subject to there being additional equity investment in the company', Bourg adds. Therefore, BDO launched its first DCF with €45m funded by Enterprise Ireland and Bank of Ireland, and the remainder by Ireland's largest corporates, including Glen Dimplex, a large manufacturer of electrical heating, as well as global nutrition group Glanbia and producer of building materials CRH.

Interest within the SME community is considerable, thanks to a novel approach: the fund not only provides capital, but the managers of the fund also take a directorship in the investees, with the funding partners offering support and advice to help the companies. Additionally, the fund has a panel of industry experts who can provide advice on the SME's growth plan. These include some of Ireland's most successful entrepreneurs, such as: Helen Ryan, former CEO of Creganna-Tactx Medical, a global supplier to the medical device industry and now on the board of Enterprise Ireland; Jim Mountjoy, founder of Euristix, which became a market leader in advanced network management software; and Noel Kelly, head of Ireland's leading talent agency, NK Management.

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'This combination assists our companies in unlocking their growth opportunities,' says Bourg.

In the interests of investees and the reputations of all stakeholders involved in the fund, the manager of the fund, Development Capital, a 100% subsidiary of BDO, has rigorous policies and procedures in place to identify potential conflicts of interest, and to ensure appropriate safeguards and disclosures are effected in the event of potential conflicts arising.

Recently, BDO has seen successful exits. In January, the DCF-backed Lifes2Good sold its Viviscal hair restoration brand to US giant Church & Dwight for €150m. DCF invested €5m in the business in 2015. The fund also backed Version 1, which it exited in Q1 2017 for a reported €200m valuation. The fund achieved in excess of a 250% return in both cases in less than three years.

The second fund will also target SMEs with revenues in excess of €5m. In choosing suitable investees, 'key for us are growth opportunities in exports and the possibility of doubling in size over five years, aided by a motivated management team', says Bourg.

Ireland is one of Europe's fastest-growing countries. Is the equity gap therefore closing too? 'Now that its funding market is no longer unduly reliant on the mainstream commercial banks, we must continue to generate awareness, and business owners must be encouraged to see the benefits of diversifying the funders on their balance sheets. Utilising alternative sources of finance like development capital is a viable means for expansion in a 21st-century funding landscape,' says Bourg.

Baker Tilly Hughes Blake, the Irish arm of Baker Tilly International, is the other accountancy organisation in Ireland that not only does audits and tax, but also provides corporate finance

advice. Within the framework of Ireland's Employment and Investment Incentive (EII), the accountancy firm is engaged in a joint venture with Goodbody Stockbrokers for a fund to invest in Irish startups and SMEs. Started in 2015, the Goodbody EIIS Fund invests capital for a minimum of four years, according to Baker Tilly's investment director Conor Sweeney. 'The investment can be called "patient" in the sense that we do not expect repayment during the four-year investment period; companies are required to repay the investment at the end.' About 200 companies have applied and, so far, five have received capital and another six investments were expected to complete by the end of 2017. Since the fund is only two years old, there are no exits yet.

The sums invested in the SMEs range from €250,000 to €5m; altogether about €10m in capital per annum. The funders are more than 200 private individuals with an average investment of approximately €40,000 each. If investees need advice, they will receive support from Baker Tilly's investment arm and its network, but not from the funders. 'One of our investees, a logistics company, was searching for two independent directors for its board and we made a few suggestions of people we know and trust,' says Sweeney to show how the fund works.

Conflicts of interest are avoided by the rule that Baker Tilly's investment arm cannot provide funds for companies it audits. 'We do not invest in our audit clients, and our investees cannot be audited by Baker Tilly', adds Sweeney. 'Personal clients are allowed to invest in the EIIS fund, but if an entrepreneur does so, the fund will not invest in their ventures.' AB

Barbara Bierach, journalist

Financing growth

The UK government has identified that a lack of an effective supply of capital 'continues to hold some UK firms back' from commercialising their innovations. In a consultation that closed in September 2017, it sought views on how to increase the supply of capital to growing firms, as part of the Treasury's Patient Capital Review, having identified a £4bn funding gap between US and British firms. The National Investment Fund will help address this gap and boost British business.

In Ireland, the Employment and Investment Incentive (EII) allows individual investors to obtain income tax relief on investments made, in each tax year, into EII-certified qualifying companies. The EII replaces the Business Expansion Scheme and will run until 2020. By investing in the fund, investors should be able to avail themselves of tax relief of up to 40% of their investment amount and the potential for an additional return.