

Equity Matters

2. Funding & Investor Types

22-03-2022



Agenda

- + Opening
- + Investor Types
- + Panel Discussion
- + Questions and Answers
- + Links and Resources



Today's Speakers



Tom Early

*Head of Funding & Scaling
Solutions
Enterprise Ireland*



Killian McMahon

*Senior Investment Advisor
Enterprise Ireland*



Alan Merriman

*Executive Chairman
Elkstone*

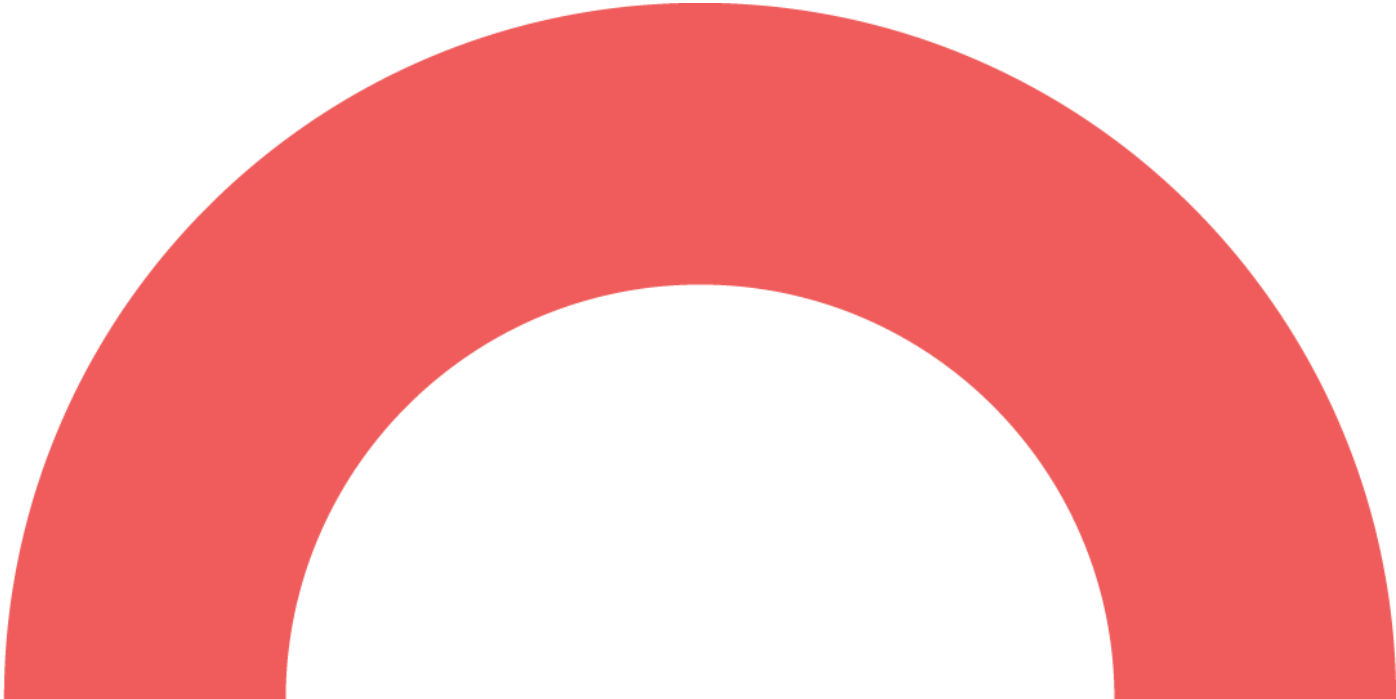


John Phelan

*All-Island Director
HBAN*



Investor Types

- + Friends & Family
 - + Angels
 - + Family Offices
 - + Venture Capital
 - + EIS
 - + Private Equity
 - + Lenders
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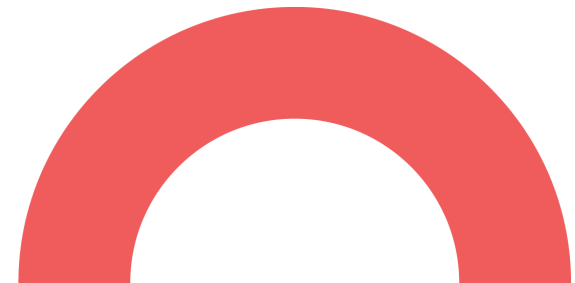
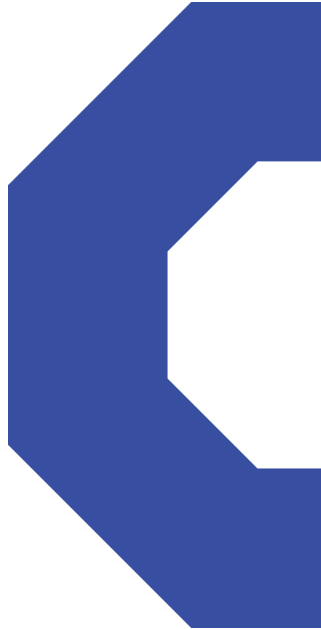
Investor Types





Friends & Family

- + Often used to finance start-ups or relatively new businesses
- + Loan or equity?
- + Who drafts legal agreements?
 - *Usually the company's solicitor*
- + What new and/or updated legal documents are required?
 - *Loan agreement*
 - *Shareholders' Agreement*
 - *Subscription Agreement*
 - *Updated Constitution*
- + What filings are required (e.g. B5 to the CRO)?





Friends & Family

+ Advantages

- *Suitable for short to medium-term funding needs*
- *This investor class will advance loans*
- *Terms may be favourable to company and existing shareholders (including founders)*
 - *Security may not be expected for loans*
- *Flexible*
- *Limited due diligence*

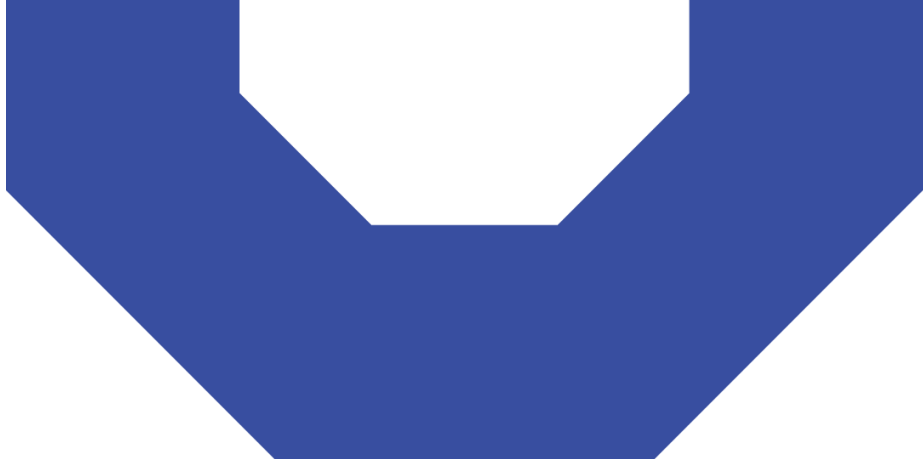
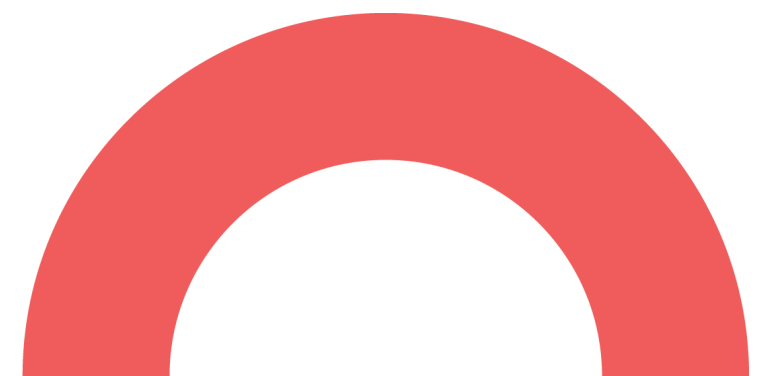
+ Disadvantages

- *May not be an arms-length transaction*
- *If valuation is low, could give away material equity percentage(s)*
- *Professional advice may be required for tax implications*





Angels

- + Often used to finance start-ups or established SMEs
 - + Typically look for equity
 - *Angels are often experienced business people*
 - + Who drafts legal agreements?
 - + Investment size should be higher than friends and family
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Angels

+ Advantages

- *Larger investment size*
- *Equity finance can strengthen your balance sheet*
- *Business angels may bring strategic and sector knowledge*

+ Disadvantages

- *Compliance covenant costs (e.g. audited accounts, regular management accounts)*
- *High risk taken by business angels can mean a high expected annual return*
- *Exit strategy is required*
- *If valuation is low, could give away material equity percentage(s)*

Family Offices

- + Family offices are wealth management advisory businesses that serve high net worth individuals (HNWI)
- + Advantages
 - *Investment size can be large*
 - *Evergreen capital*
 - *Decision-making process can be efficient*
 - *Sector focus can add value for investee companies*
- + Disadvantages
 - *Portfolio / investment strategy can be fluid*
 - *Understanding tax motivations*
 - *Non-investment considerations (e.g. principal's age)*
 - *Who is the decision-maker?*

Venture Capital

- + Venture capital is financial capital provided to early-stage, high potential, high risk, growth companies
- + Typically look for equity investments
- + Advantages
 - *Investment size is larger*
 - *Active rather than passive investment*
 - *Provide assistance on exits (e.g. identifying acquirers, during due diligence, post-acquisition integration)*
- + Disadvantages
 - *Due diligence can be extensive*
 - *May only invest in 1% of deals considered*
 - *Exit strategy is required*
 - *Founders can lose certain control and decision making rights*

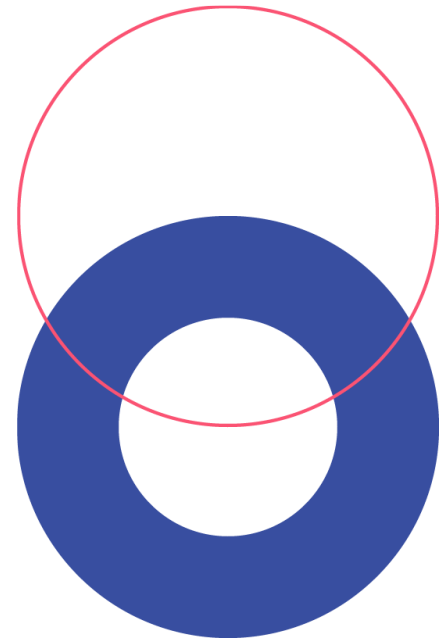


EIIS

- + The Employment & Investment Incentive Scheme (EIIS) allows individual investors to obtain income tax relief on investments made, in each tax year, into EIIS certified qualifying companies
- + Advantages
 - *Investment size is larger*
 - *Investment can be repaid*
 - *Investor return expectations are lower*
- + Disadvantages
 - *Company is responsible (and liable) for Revenue approval*
 - *Investment terms can be onerous*
 - *Short-term funding expectation*

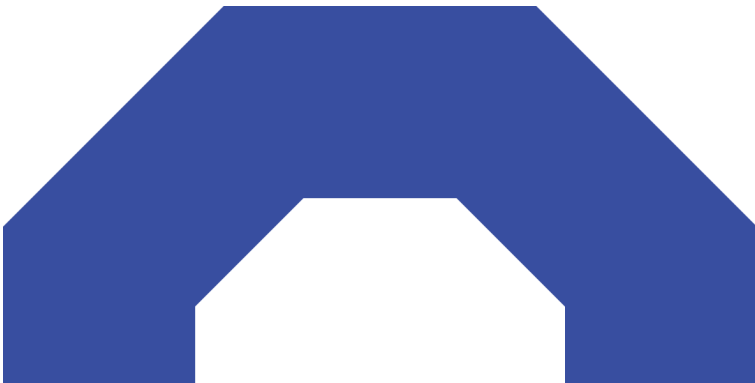
Private Equity

- + Private equity is composed of funds and investors that directly invest in private companies
- + Typically look for equity investments
- + Advantages
 - *Investment size can be very large*
 - *Active investment and exit strategy*
 - *Incentive existing management*
- + Disadvantages
 - *Due diligence is extensive*
 - *Exit strategy is required*
 - *Founders often lose control and decision making rights*





Lenders

- + **Pillar banks**
 - *Unlikely to lend to early stage companies*
 - + **Venture debt**
 - *Specialist lenders to earlier stage and growth companies*
 - *Lending terms are typically more onerous than pillar bank terms*
 - + **Instruments**
 - *convertible loan notes*
 - *loan notes*
 - *venture debt*
 - *short-term loans*
 - *long-term loans*
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Equity Matters Series

Long Term Funding Strategy

16th February 2022

- Mapping and updating your funding journey
- Common Instruments
- Cap table structure
- Understanding investor motivations and goals

Investor Types

22nd March 2022

- Who invests in earlier stage
- Pro's & Con's of each investor type?
- Investor type and fit with long term funding strategy

The Deal – Part 1: Investment Economics

26th April 2022

- Who invests in earlier stage
- Pro's & Con's of each investor type?
- Investor type and fit with long term funding strategy

The Deal – Part 2: Investment Management

31st May 2022

- Control Rights
- Decision making rights
- Share transfers
- Insurances

The Deal – Part 3: Exit & Downside Management

28th June 2022

- Preferred share rights
- Liquidation Preferences
- Anti-dilution rights

Exits

26th July 2022

- Exit Types
- Secondary sales
- Exit Strategies

Thank You

- + The next webinar is
THE DEAL — PART 1: INVESTMENT ECONOMICS
on Tuesday 26 April @11am
- + Here's the link to the series:
globalambition.ie/equity-matters-webinar-series/
- + For more information on the supports mentioned:
visit enterprise-ireland.com.

