

# Covid-19 Emergency Liquidity Supports - V2.0



A working document to inform emergency financing for **viable medium to large-sized innovation-driven enterprises (IDEs) with strong potential to scale.**

*Date Last Updated: 13 May 2020*

## Prepared by:

- **Brian Caulfield** Venture Partner, Draper Esprit; Chair Scale Ireland
- **John Tracey** Non Executive Director at DPS Group and CR2; Scale Ireland Liquidity Supports Working Group Chair
- **Liz McCarthy** CEO, Scale Ireland
- **Dave Cunningham** Co-founder Galway City Innovation District, Scale Ireland Liquidity Supports Working Group Member
- **Sophie Reynolds** Policy Advisor, Scale Ireland

# Time-sensitive measures needed to protect **medium-large size** companies

Since COVID-19 began Enterprise Ireland has introduced a number of business supports which have been strongly welcomed and should prove a lifeline for much of Ireland's business community (our overview of supports collated [here](#)).

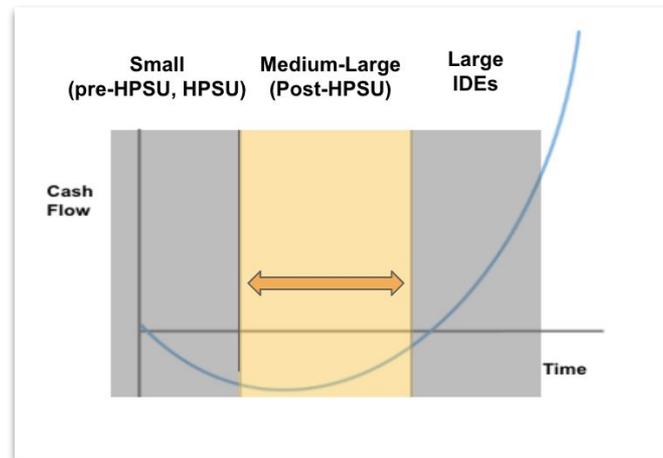
There continues to exist, however, a number of critical support gaps for medium-large-sized (post-HPSU) innovation-driven enterprises which need to be addressed as a matter of priority.

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This document outlines two ways we think Enterprise Ireland can rapidly enhance the support environment to better meet the needs of this cohort of companies.

The following proposals are outlined in further detail:

1. Introduce a new Centennial Bridging Fund
2. Enhance the existing "Sustaining Enterprise Fund"



**Note: Our proposals here are specifically focused on the access to liquidity needs of Medium-Large (Post-HPSU).**

# 1. Introduce new Centennial Bridging Fund

**Context:** A range of companies in Ireland require bridging financing of €800k+, for whom EI SEF is not sufficient and bank debt is not an option. This fund will provide these companies with access to bridge funding.

**Overview:** A new €100m fund. State to provide between €800k and €3m per individual company. Requirement for private match funding per investment, so that the State contribution does not exceed 70% of the total. Private funding can come from new or existing shareholders. Fund is 100% State money, with the matching private investment occurring at individual company level. EIIS funding is considered private funding.

*Note: Our key recommendation in relation to the SEF is a change in the definition of “company in distress”. If this is not possible, then we recommend an expansion of the proposed Centennial fund by €100m to cater for investments below €800k.*

**State Aid Considerations:** Efforts should be taken to ensure the fund is falls under the “market economy operator principle” (as with UK Future Fund).

## Eligibility, Criteria for Investment

- Without access to this fund, a company will run out of money in less than 9 months.
- Existing or new shareholders must commit to provide the matching funding.
- Due diligence will consist of the submission of a Business Plan (information required will be defined) together with a management presentation to the Investment Committee (“IC”). The committed private funding will help confirm the company is investable.

## Investment Structure:

- Unsecured CLN or SAFE. 6% annual coupon. Convertible, at a 20% discount, into the shares subscribed for at the next investment round. Repayment rights - ranks ahead of all other equity or loans raised from shareholders. Matching private funding invests on same terms, pari passu. If private money negotiates better terms, Fund gets the same terms, pari passu. Normal warranties apply.
- If company is sold before further equity raised, CLN/SAFE is repaid with a 25% premium plus the accrued annual coupon.

## Fund Management, Investment Committee (IC) and Board

- **Objective:** is to fund companies quickly with a streamlined and time-efficient process. Investability test will materially rely on the committed matching private funding.
- **Management:** EI will manage the Fund, but do not make the investment decision which is made by the IC. EI ensure the Business Plan contains the required, specified information. EI provide Business Plan to the IC and arrange the presentation by the company’s management team to the IC.
- **Investment Committee:** 5 people on the IC, 3 private sector with appropriate experience plus 2 from EI. Investment decisions by majority. Likely to require a diverse pool of 7 people, i.e. 2 additional private sector to handle conflicts. Conflicts Policy.
- **Timeline:** Funds to be disbursed over an initial 18 month period, subsequent management of the Investments are by EI. Once the IC has approved an investment, EI will manage the legals and subsequent shareholder issues.
- **Board:** Board to be put in place to review Fund performance.
- **Remuneration:** We believe that high-calibre private sector people are available who will join both the IC and Board for no remuneration. However the selection and remuneration of IC / Board is to be designed to ensure diversity is achieved.

# 1. Centennial Bridging Fund (continued):

## Quantifying and identifying target beneficiaries

- **Identifying beneficiaries:** companies that have a relatively high burn rate will have a particular need for access to this fund. One criteria can be utilised to quantify how many companies would need access to this fund:
  - **Venture-backed companies:** *TechIreland* data shows that 284 companies raised €500K-€5m in the past 36 months. Excerpt of *TechIreland 2020* funding review below which provides further breakdown of details.
  - **Availability:** the Fund is available to all companies whether they have raised VC or not; Fund is available to non-EI companies.
- **Target Number of companies:** designed to support between 50-100 companies whose bridge funding requirements exceeds SEF's €800k. This target number may be higher pending whether changes to SEF's definition of "undertaking in distress".

## Key principles for the fund:

- **Establish Quickly** - Matching with private capital on a deal-by-deal basis (not in establishment of fund). Involving non-government institutions in the fund itself is likely to take too long to negotiate.
- **Dedicated Short-term Fund, Fast Administration**
- **Avoid Adverse Selection** - require some level of matching capital from founders/angels/existing and/or new investors.
- **Efficient Selection** - automatic matching of existing investor contributions to leverage due diligence of private investors.
- **Standard Terms to Minimise Administration**
- **Diversity** - ensure fund designed to enable and support diversity in recipients and in decision making committee

### FUNDING SIZE

RANGE (€)	2017		2018		2019	
	COMPANIES	AMOUNT	COMPANIES	AMOUNT	COMPANIES	AMOUNT
UP TO €1M	149	€37.3M	134	€43.3M	96	€28.8M
1M TO 3M	49	€97.2M	46	€89M	46	€81.6M
3M TO 5M	12	€51.2M	11	€43.8M	15	€58.8M
5M TO 10M	10	€71.3M	8	€65M	18	€136.3M
10M TO 30M	9	€173.2M	8	€142.3M	14	€259.7M
30M+	4	€189.7M	9	€546M	3	€141.3M
UNDISCLOSED	9		7		51	

## 2. Enhance existing “Sustaining Enterprise Fund”

The Enterprise Ireland Sustaining Enterprise Fund was quickly set up to provide working capital loans for companies, including high-growth startups. However many scaling companies have been unable to access this funding to date for a variety of reasons. These companies do not have access to additional working capital supports. Without urgent remedial action, many of these enterprises are at risk of closure.

### Highest Priority actions:

- **Company definition:** Ensure definition of “Undertaking in Distress” is updated (so loss-making startups are not excluded), working in collaboration with Scale Ireland to influence European Commission re Temporary Aid Framework State Aid Rules, as required. This action is the most important of all the recommended actions on this page.
- **Simplify & streamline process for application:** (a) Eliminate the need for all avenues to be exhausted before seeking SEF i.e. need to secure rejection letter from pillar bank for SBCI Working Capital loan and (b) Make forms/template for submission available online to fasttrack application process. Review and adjust such that external help is not needed to compile an aid application, following best-practice demonstrated by Luxembourg (see [link](#)).
- **Communicate enhancements around SEF approval process:** We welcome recent moves to enhance the SEF application and approval process, reducing reliance on individuals with extremely large caseloads which may introduce instances of a “single point of failure”. We suggest that EI proactively communicate a clear and appropriate “escalation path” for companies that are concerned about the handling of their application
- **Adjust funding mechanism:** Clarify whether SEF can be disbursed as a CLN as opposed to a repayable loan. Should this not be possible, we recommend a €100m expansion of the proposed Centennial Bridging Fund to cater for investments below €800k.

### Additional areas for consideration:

- **Work-around for State Aid rules:** Carry out legal assessment to establish if it is possible to have SEF fall within the ‘market economy operator principle’ (e.g. loans provided at prevailing market interest rates) rather than State Aid rules.