# Getting investment is a bit like dating

## Looking for investment? What should you do? Here's what the experts think.

Finding investment capital for your business can be a daunting task for an entrepreneur. Irish SMEs owners tend to prefer the traditional credit options offered by banks when it comes to funding their projects, but increasingly people are seeing venture capital and private equity as attractive alternatives. But what are venture capital and private equity, and how do they work? ThinkBusiness went to InterTrade Ireland’s *Meet the Funder* event in Croke Park to get the low down from industry experts.

**What's the difference between venture capital (VC) and private equity?**

Venture capital comes in at an early stage of a business’s life cycle; when a company is still in the startup phase and needs a cash injection to get things going. Private equity is more development capital for established businesses looking to expand and grow.

**Why give away equity?**

Pete Smith of Broadway Capital believes there can be a cultural reluctance among Irish business owners when it comes to giving up equity. “In an Irish context, equity has always been blood; equity is the family silverware. People almost feel an element of failure, like ‘You’re taking in an investor, can you not do it alone?’”.

Indeed, traditional credit options like term loans and overdrafts are still the go-to choice for many Irish entrepreneurs, sometimes preferring to own 100% of a struggling business than 50% of a growing one.

“But the reality is that we live in a world where businesses have fantastic opportunities for growth, particularly Irish SMEs. It’s no longer just a case of focusing on the domestic market. Sometimes to capitalise on opportunities, companies need the cash, the help, and the experience", says Smith, commenting on the need to change Irish perceptions of venture capital and private equity. "We're not all vultures!" he continues. "Nothing is being given away; the right equity partner can provide not just cash but can provide help along that [business'] journey".

**What do investors look for in a company?**

For investors like Smith, the most important thing is the people behind the business. "What I look for is a good business with good people," he says. A business proposition can be solid, but without a committed and competent team behind it, investors will be reluctant to hand over their cash. For Smith, liking the person behind the business is usually the first step.

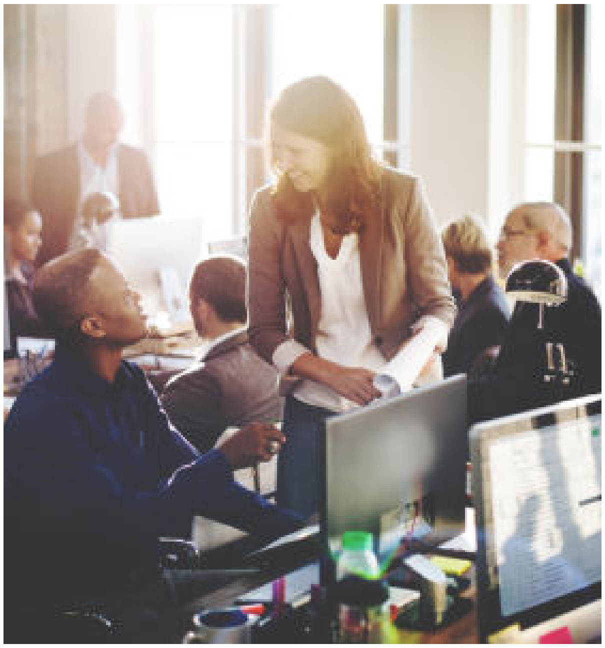
"They don't even have to have a five-year plan. I just have to like them, get on with them.".

Making a good impression on investors is crucial, and having a good pitch ready can mean the difference between a decline and a life changing investment.

"We see a lot of opportunities, and we're choosy about what we pick," says Grant Thornton's Michael Neary. "You've got to be prepared to get our attention. For all the pitches we get across our desks, we might pick two out of fifty or three out of a hundred. The onus is on business owners to be well prepared".

Beyond having the right people and a solid pitch, another thing investors will typically look for is what's known as 'skin in the game'. "This means alignment; that the people you're looking to invest behind already have an ownership stake or money in the business," explains Neil McGowan from MML. "They may not have put money into the business, they may have started from scratch, but they should have some ownership that they're looking to roll along with you rather than just extract money".

Ultimately, it all comes back to the people behind the business when funders are deciding whether or not to invest. "We're investors in management teams, not buyers of businesses," says McGowan. "We're looking to back existing management teams to run a business, to develop and execute a business plan".



**Investment is like dating**

Funders look for more than just writing a cheque and waiting for a return; they expect a committed relationship with the company they're investing in. But meeting new people can be tough; where does one start?

HBAN is an all-island umbrella group that brings angel investors (high net worth individuals who come together and each invest smaller sums) to high-potential startups at an earlier stage than venture capitalists are usually willing to invest.

As John Phelan from HBAN explains, "We're a dating agency, that's the reality. It is a bit like peer to peer; we bring very high net-worth individuals together, and then we bring good quality companies to the table. Mostly, we bring good looking guys over there, and good looking girls over here, put them all together and let them get on with it".

What kind of numbers are we talking? "We'll do 40-50 deals a year. Of that, the average amount of angel investment going is about €200k and the deal size about €500k. And we do all sorts of different types of deals with some different syndicates, from med tech, global technology, food syndicates, etc."

And what does it take to get from that first date to something more? "It comes back to the people; do you have the belief that this person will execute what they say they're going to execute? Do they have the credibility? Do they have domain knowledge? The people who have domain knowledge and sector experience understand how they're going to break that industry".

Pete Smith goes one step further and says the investment is like a marriage. “The key thing to remember when picking out a partner, like when picking out a husband or wife, is that you’ve got to be prepared for both the highs and lows of that partnership”.

The likeability factor, Smith adds, is everything. “I won’t invest in anybody that I don’t like. There’s going to be tough times, and you’ve got to be able to get on with a person if you’re going to get through them. It all comes back to trust and a belief that our interests are aligned. On a bad day it’s a bad day for both of us, and on a good day, it’s a good day for both of us too.”

**The advantages and disadvantages of VC funding**

*Advantages:*

1: Your company will get the money it needs to expand, money that could not be borrowed from a bank.

2: You won’t have to repay the VC money; the fund shoulders the investment risk because they believe in you.

3: As well as the money, you will get expert advice and industry connections from ‘city facing’ members of the VC fund. At least one venture capitalists will sit on your board.

*Disadvantages:*

1: It’s tough, time-consuming and costly to land VC funding. Be prepared for a long slog.

2: You will have to give up a significant stake in your company. Your autonomy will be affected.

3: The VC fund will likely determine what salary you get and other staff terms and conditions.

4: All your business operations will be under constant scrutiny, and the loss of control varies depending on the terms of the VC deal you sign.

**READ:** Before you look for any investment, you need a great business plan. Get started now.

***Article by Peter Flanagan. Images from Shutterstock.*** **?**