

OUTLOOK

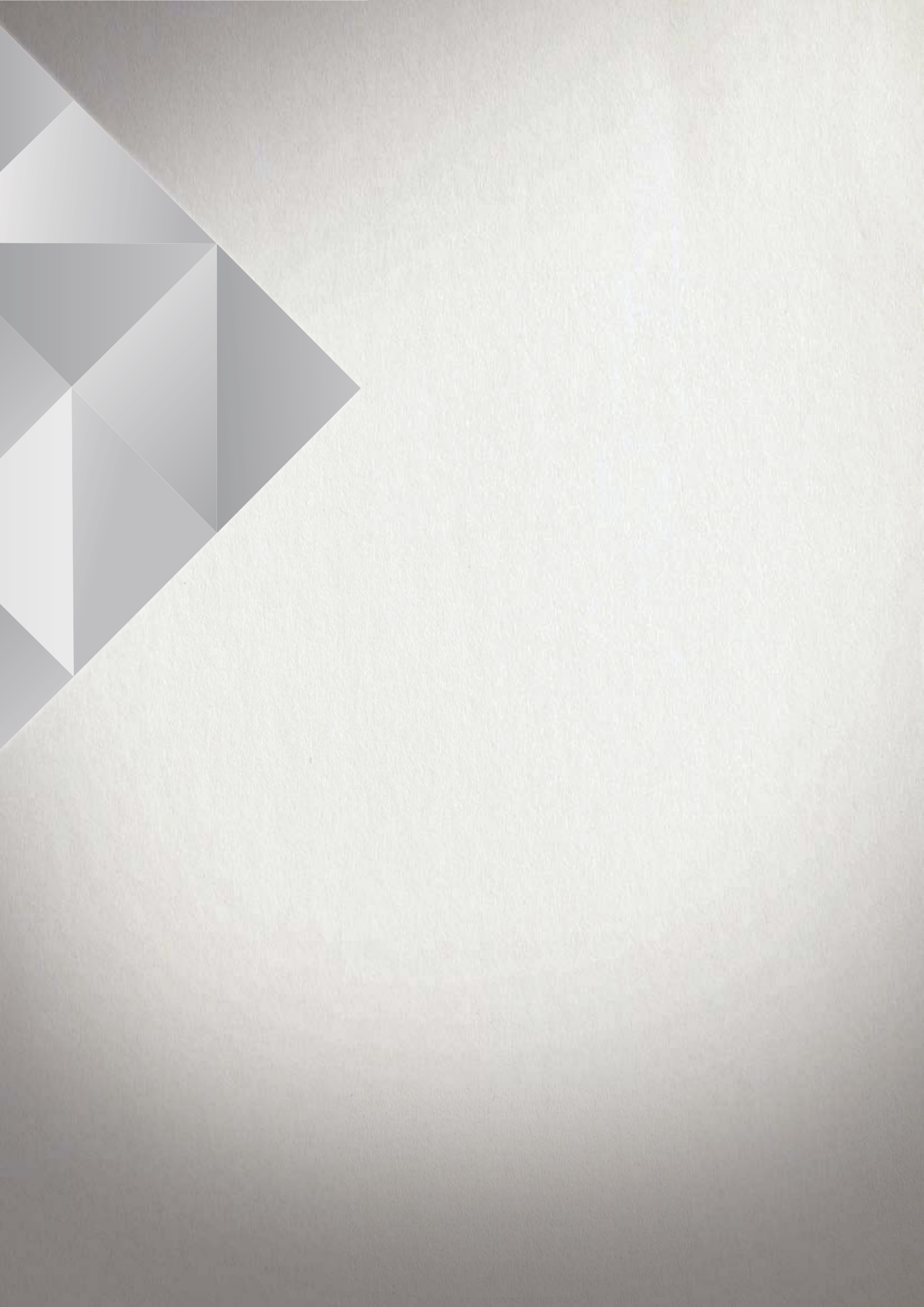
AIB's Series Of Sectoral Research Reports.
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TECHNOLOGY

In association with:







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SUPPORTING THE IRISH TECHNOLOGY SECTOR



KEN BURKE

Welcome to the sixth in our series of reports covering key sectors within the Irish economy. The aim of these reports is to analyse key components of the Irish economic landscape and provide opinion, guidance and advice from some of the stakeholders within each sector and the dynamics underpinning them. They also provide some important insights into how AIB is working to support the growth of these sectors. We are pleased to partner with the Irish Software Association (ISA) and the Irish Internet Association (IIA) on the publication of this report.

As with previous reports in this series, an important dimension is the specially commissioned in-depth research which has been carried out by Amárach Research. The research findings highlight the key issues that are impacting on the Technology sector at both start-up and SME level. The insights gained from research will also allow AIB to develop flexible and innovative financial solutions to its customers in the Technology sector.

The research corroborates what we already know to be a very vibrant sector of the Irish economy, from start-ups right through to fast growth SMEs. The outlook for the sector is refreshing with a marked sense of positivity that is more obvious than in other sectors and which is perhaps due to the global nature of a technology business and its customer base. It is no surprise therefore to see that almost six in 10 of those look outside of Ireland for their main market.

Of the SMEs surveyed, 86% believe the outlook for 2014 is better than 2013. In fact, 71% of the respondents stated that they had increased revenues over 2012 and 74% said that they would be growing their workforce this year.

Of course there are also challenges facing SMEs in the Technology sector, the biggest of which appears to be scaling their operations to deal with anticipated growth and expansion into new and existing markets. The availability of a talented and well-educated workforce will be crucial to the future development of the sector. Indeed this has been noted by a wide number of observers including the Government's recent Action Plan for Jobs.

The research on the Accelerator and Incubator ecosystem that has been created in Ireland over the last number of years highlights the vitally important role that this infrastructure plays in delivering the next globally ambitious Technology companies of the future. The Accelerator and Incubator programmes are going from strength to strength with an increasing number of start-ups choosing this platform to launch their business.

We firmly believe that supporting the Technology sector will lead to job creation, increase exports and contribute to the overall recovery of the Irish economy. As the largest bank provider of seed capital in Ireland, AIB will continue to support this vital sector and its future growth potential with a range of innovative banking products and services and with our team of dedicated sectoral specialists. We also have dedicated relationship managers across our branch, business centre and corporate operations with the knowledge and expertise to support Technology customers.

My thanks to everyone who participated and took the time to contribute to this survey. I hope you find this report useful.

Ken Burke
Head of AIB Business Banking

A BRIGHT FUTURE IN STORE

SMEs in the Technology sector are very optimistic about the future with 92% of them planning to expand their business in 2014 and 74% planning to grow their workforce this year.

Of the SMEs surveyed, 71% increased their turnover in 2013, with an average increase of 31%, demonstrating that the technology sector is not just surviving but thriving in difficult trading conditions.

When we look at this trading performance perhaps it is not surprising to see that 58% of those surveyed stated that they export their products or services, demonstrating the strong export focus with which the indigenous Irish Technology sector possesses.

The SMEs surveyed comprised of a well-diversified mix across the various different sub-sectors of the Technology sector from software to hardware to systems integration and consulting – the majority of which (63%) considered themselves software vendors. As one might expect, the Technology sector is deeply committed to innovation and the research highlights that a consistent proportion of six in 10 of the companies invested in R&D in 2012 and 2013 with half of these companies claiming R&D tax credits.

Additional research undertaken by Amárach Research into Ireland's thriving Accelerator and Incubator eco-system shows that competition for places is intense with acceptance rates in Dublin at 21% and outside of Dublin at 42%. The research also shows the growing diversity of the applicants with a 4% increase in the number of females and a 9% increase in foreign founders applying for the programmes in 2013 when compared with 2012.



Other key highlights of the Amárach Research included:

SMEs

- 3 in 4 have less than 50 employees.
- 6 in 10 have been in business for five or more years.
- The main sectors they target are B2B markets, Finance & Insurance (39%), Consumer (31%) and Digital Media (31%).
- 4 in 10 of the software vendors use SaaS as their revenue collection model and expect this to grow in 2014.
- Greatest opportunities are winning new clients/contracts (72%), launching new products/services (69%) and entering new markets (44%).

- 3 in 10 plan to look for credit from their bank in 2014.
- The biggest challenges identified by respondents in 2014 were scaling operations (42%), recruitment of employees (38%), access to equity (28%).

Accelerator & Incubator Programmes

- 27 Accelerator/Incubator Programmes in Ireland with up to 220 companies being accepted every year.
- 71% of companies successfully brought a product/service to market.
- 56% received follow on funding in 2012 and 2013.



CRADLES OF INNOVATION

The network of Accelerators and Incubation around the country play an important role in nurturing Ireland's thriving Technology start-up ecosystem.

Accelerators and Incubators are now an integral and vitally important part of the start-up infrastructure in Ireland. With approximately 27 of them now operating around the country, they have been instrumental in fostering a growing culture of entrepreneurship and innovation while, at the same time, providing valuable platforms from which start-ups can launch and develop their businesses.

Offering a range of important services like mentoring, workspace, pre-seed funding, workshops as well as access to angel and VC investors, they have helped create many leading Irish companies over the past few years such as Logentries, Boxever and many more.

The benefits of supporting new businesses through their early stages have been recognised for many years now and there is plenty of evidence to suggest that these programmes have a positive impact on founders and their staff by helping them learn rapidly, create powerful networks and become better entrepreneurs – faster and cheaper.

Indeed the number of Accelerator and Incubator programmes has grown rapidly in the US and Europe over the last 10 years. In the US, in particular, the programmes are notable for the high quality of mentors and start-up teams they work with and the value they add to companies.

For example, an early Accelerator programme in California, Y-Combinator, has been credited for the success of companies like the cloud-storage firm Dropbox and the online accommodation website Airbnb. Even though both were only founded in 2007/2008 they have thousands of employees, with revenues in the hundreds of millions, and indeed offices in Ireland.

METHODOLOGY

As part of this Technology Outlook Report, AIB has commissioned research into the role of the different Accelerator and Incubator programmes and the strategic issues they face. The research, which was carried out by Amárach was completed by 20 of the 27 Accelerator and Incubator programmes around Ireland, giving a strong sample size to work off. The results were used to inform a roundtable discussion with 10 managers from some of the country's leading Accelerators and Incubators on the nature of their operations and the external and internal influences that guide them. This research complements a more in-depth piece of research into the broader Irish Technology sector (see page 10).

INTERCHANGEABLE DEFINITIONS

During the roundtable discussion, most of the panellists agreed that there appears to be some public confusion about what constitutes an Accelerator and what constitutes an Incubator. Indeed they agreed that there is some overlap and some operating a hybrid of the two. While the distinction means less to the programme managers, most of whom see the difference solely in terms of the remuneration model for the services they provide, many use the terms interchangeably. But there are a number of elements that distinguish one from another. At the same time, there is some overlap across Accelerator and Incubator services, which explains some of the confusion.

Accelerator programmes generally take a single-digit share of equity in their applicants' ideas in return for a modest amount of capital and mentorship. Typically the amount ranges from €15,000 to €50,000. The mentorship programme is a short three to six-month programme at the end of which the start-ups 'graduate'. The emphasis is on sorting out the product and any operational and strategic

difficulties that might be facing the business. Often the operating philosophy is along the lines of "fail fast and fail cheap."

A 2011 report by the UK's innovation think tank NESTA noted the Accelerator programme model comprises five main features – the combination of which sets it apart from other approaches to investment or business incubation:

- An application process that is open to all, yet highly competitive.
- Provision of pre-seed investment, usually in exchange for equity.
- A focus on small teams not individual founders.
- Time-limited support comprising programmed events and intensive mentoring.
- Cohorts or 'classes' of start-ups rather than individual companies.

Incubator programmes, for their part, last for varying durations and include several forms of mentorship and support, and nurture the business for the time it takes for it to get on its feet, sometimes for many years. The reason is that Incubator ideas, particularly those in the life sciences sector, can gestate for much longer periods of time.

So what do the panellists think?

► "It's very hard to come up with common definitions. Within segments we want to establish certain metrics and that's fine. But we have no expectation that life science ventures are going to deliver on the same timelines as say software."

► "Incubators are something that have been funded in terms of capital infrastructure and they can't survive without service so for me, Accelerators are a service and funding package designed to service the pipeline for Incubators."

► "Start-ups aren't necessarily confused themselves by the muddled terminology if the spaces they attend are shared between both Incubators and Accelerators – as is frequently the case."

ACCELERATORS & INCUBATORS

CONTEXT



27

Accelerators & Incubators In Ireland

220+

Startups Participating In Programmes

And Another
400

Startups Housed

3-9
months

Programmes Last Between

136

Average Number of Applicants in 2013

26%

Acceptance Rates



WHAT THEY OFFER

- Mentoring
- Funding
- Workshops
- Space



WHAT THEY LOOK FOR

- Market Potential
- The Team and Experience
- Innovative Ideas



ACCEPTANCE RATES DUBLIN VS REST OF COUNTRY



21%

Dublin Acceptance Rate

42%

Outside of Dublin

Companies That Actually Bring Product To Market

71%

DIVERSITY



3/10

Participants are Female



7/10

Participants are Male



Overseas Applicants are on the rise from 10% in 2012 to 19% in 2013

Applicants are both graduates and professionals but the majority have some relevant work experience

FUNDING



56% of Participants Raise Follow on Funding



The panellists at the AIB-hosted round-table discussion were as follows:

Fergal Reid, Beachhut

Dr. Cody Mayoh, NovaUCD

Dr. John Whelan, TCD Launchbox

Gerard O'Neill, Amárach Research

Paul Hayes, Beachhut

Andrew McGreal, AIB

John O'Dwyer, AIB

Gary Leyden, NDRC LaunchPad

Fionn Daly, Enterprise Ireland

Karl Aherne, Wayra

Andrew Peet, Enterprise Ireland

Bertie Kelly, National College of Ireland

Drew O'Sullivan, DCU Propeller

Richard Watson, DBIC

Eoin Costello, DIT Hothouse

MEASURING SUCCESS

Given the start-up nature of most of the companies they deal with, establishing key metrics of success can be fraught with difficulty. The reality is that different sectors move at different speeds and job creation and forecasting is very tricky. Indeed all of the panellists stressed that job creation was not a metric that should be used to judge their success.

According to the Amárach Research, only 25% of the Accelerators/Incubators have booked a capital gain from the portfolio of firms they have supported through various programmes. The research also shows that survival rates are high with 79% of those that completed the 2012 programmes are still in existence.

The research also shows that most of the firms who have been through the 2012/13 programmes have received some follow on funding. However, this may be grant-related rather than equity/VC related. Indeed, just 10% of firms have been acquired since completing the programmes in recent years.

► "We are never going to be heroes on initial job numbers. This is not the key thing, this is a discovery platform. The real thing we do is attract investment – we are part of the ecosystem and an ecosystem that can ultimately also attract FDI."

► "Follow-on funding is our key metric however, to get funding we need jobs metrics but jobs are hard to predict."

► "The two key metrics we look at are the fair market value of the investment and the third party investment that the start-ups have received."

COMPETITION FOR PLACES

There was an increase in the average number of applications received for the various programmes on offer between 2012 and 2013, from 114 on average to 136. Competition, however, is tough and only 26% of applicants were accepted. Competition in Dublin is particularly intense with an acceptance rate of 21% while outside Dublin it rose to 42%.

According to the research, the main criteria for acceptance to a programme is high

► "We increasingly look at the team and the applicant rather than the product."

► "Many start-ups will combine an Enterprise Ireland New Frontiers programme with one or two Accelerators."

market potential (90%), closely followed by the anticipated scale of the project and team experience. Innovation is also important too, for 75% of the Accelerators/Incubators.

FAILING FAST AND CHURNING

When it came to a possible risk to the system from serial start-ups applying for too many Accelerator and Incubator programmes instead of pushing for sales, the panellists broadly agreed that because the network is so small, they were easily identifiable. Often referred to as "spinners," these companies may also be benefiting from other supports and grants from the likes of Enterprise Ireland and that this is eating away at finite grant resources that could be put to better use.

“There are plenty of walking dead out there. My concern is, a lot of them are getting grants, which I think is worrying because, potentially the grant pool is being used up by the wrong companies.”

“There’s so many companies, small start-ups, running around raising money in lots of quarters when they should be going out getting sales, not funding. I think that’s a real risk.”

“I think there is an issue of churn, and I think it’s really important that we have healthy churn in Accelerators and Incubators and I think that people need to understand that to build companies, failure is an option, and an eventuality for some. People have invested their time and passion and their personal lives into the business and they don’t want to let go.”

“It would be great if we had more entrepreneurs that could say here are two or three examples of things that haven’t worked for me, this is why I put it down when I did. It would be enormously helpful if entrepreneurs were able to talk about failure more publicly.”

“The penalties in Ireland for failing are staggering.”

When and where necessary, the panellists also felt that entrepreneurs should be persuaded of the merits of dropping their start-up and using their marketable skills elsewhere.

FOUNDER PROFILES

According to the research, the profile of successful applicants has changed according to the survey. In 2012, 77% of applicants were male but this declined to 73% in 2013 as more female entrepreneurs, including mothers returning to the workforce, joined the different programmes.

ATTRACTING EXPERIENCE

In any dialogue about start-ups, the panellists agreed that there is a tendency to think about younger founders and not older, more experienced, business people who may have failed and indeed gained considerable insights from other businesses they have been involved with.

According to the research, however, 40% of applicants tend to be people with relevant experience, although they do take on graduates with limited experience as well. In addition, the survey found that there was a decline in the share of applicants who were Irish – down from 90% in 2012 to 81% in 2013, a 19% increase in foreign founders.

“There’s a pool of really talented people in their 40s and 50s plus who haven’t found a way to reach into the early stage companies. More experience and grey hair will create much better quality start-ups.”

“An Accelerator/Incubator is a good environment for experienced people to meet start-ups. Because again it’s a peer-to-peer network. It’s a great way to hang out with other start-ups and understand them.”

“The people that are founding leading ventures with us are all at least in their late 30s onwards.”

“Having more international start-ups is a really positive and competitive development because it encourages Irish start-ups to lift their game. . . The applicants are coming to Europe anyway and are looking at Dublin, London, Berlin.”

SHORTAGE OF SPACE

According to the panellists, there are anecdotal reports of co-working space being in short supply. Once spun-off, companies want to continue to thrive off the network they started with. Committing to long-term leases and finding alternative suitable space can be a big issue for companies leaving the comfort and security of an Accelerator or Incubator. Consequently, the programme managers at the round-table believe that there is not enough space for start-ups to thrive.

“Start-ups can generally only forecast a number of months in advance of their present position – not the requisite two to five years.”

“The nature of leases is the problem. . . most SMEs can’t even sign a five year lease.”

“Most of the co-working spaces are full or can’t accommodate those companies that grow to above 10 people.”

FUNDING

While the panellists felt that there were funding gaps in certain parts of the market, there are other noticeable trends emerging. In particular, there was some reticence why venture capital firms were not providing more funding for younger start-ups. However, in terms of seed-funding, for amounts less than €100,000 the market is very healthy.

In terms of what the Irish banks are doing, the panellists agreed that a better understanding of the sector was a prerequisite while there was scope for new product innovation.

Overall, the panellists agreed that the thriving Irish Accelerator and Incubator ecosystem was playing an important role in nurturing start-ups and creating the innovative businesses of tomorrow.

While it may also appear that there is competition between them, there is a general agreement that the sequential nature of what they do, collectively and individually, is what is important.

“We are so far from competing. Collaboration is what it’s about. It’s a sequential thing. We need to come around the table more often and understand the value add that we bring at each level in the value chain”.

“How do banks interact with small nascent companies who do not have the credit history that other companies have? Seems to me that the same rules apply to start-ups as apply to SMEs, as apply to corporates.”

“Money is amazing in the Republic of Ireland in the sub-€100k mark. We should be shouting from the rooftops to get more people here to start up here.”

“Software companies are not going for Series A anymore, they are going for multiple seed rounds.” ●

A BRIGHT FUTURE

The outlook for the indigenous Irish Technology sector is bright according to the latest AIB/Amárach research. While there are challenges, the industry is in good health.

The Irish Technology sector is unquestionably one of the most significant success stories to have emerged out of Ireland in recent years. With total employment in the wider sector now standing at 105,000 people, 30,000 of whom work with indigenous firms, the sector is thriving with exports now in excess of €70 billion a year compared to €10 billion in overall food and drink exports (Bord Bia). Indeed four of the top five exporters are Technology companies.

While it is now the European home to an array of leading international companies like Google, Apple, Facebook and Microsoft and an emerging crop of others such as Hubspot, Marketo and Twitter, the indigenous sector is also thriving and a vibrant ecosystem of companies operating in a range of different areas has mushroomed in recent years. Combined, these indigenous companies account for approximately €2 billion in exports annually.

Despite the overall good health of the sector, it still faces many challenges. The recent Action Plan for Jobs 2014, which was published by the Government, estimated that 45,000 new Technology jobs could come on stream over the next four years, with expansion and replacement. However, the respondents to this survey have also highlighted the issues faced in recruiting talent.

As the Irish Internet Association, ICT Ireland and the Irish Software Association have pointed out, considerable efforts will need to be made in improving the standard of education in Science, Technology, Engineering and Maths (the so called STEM subjects) at all levels in the education system, while at the same time increasing the output of honours level graduates from third level STEM courses.

METHODOLOGY

To gauge the health of the indigenous sector, AIB commissioned Amárach Research to conduct an online survey of Irish SMEs operating in the Technology sector. A total of 106 firms were surveyed, representing a good cross section of companies operating in the wider Technology, Media and Telecoms sector. The companies targeted are members of the Irish Internet Association, the Irish Software Association and clients of Enterprise Ireland. Some 58% of the respondents were Managing Directors/CEOs the balance being either CFOs/Finance Directors or other senior executives.

SECTORAL ANALYSIS

Given the profile of firms in the indigenous Technology sector, it is not surprising to learn that three quarters of the firms surveyed were privately held, and just 13% of them were VC-backed. While Irish VCs invested €285m in Irish companies in 2013 – with investment levels likely to increase to €300m in 2014 – the Irish Venture Capital Association (IVCA) has also signalled that many VCs are entering the end of their investment term with their existing funds and new capital will need to be raised for future investments.

According to the Amárach Research, the majority of the firms surveyed (78%) employed less than 50 staff with 22% of them employing more than 50 staff.

In terms of the length of time in business six in 10 of the firms surveyed have been in business for five or more years with 23% of them operating for less than two years which suggests a slight start-up bias in the sample. Overall 64% of the firms have been around for less than 10 years and impressively, some 13% of the firms have been around for 20 years or more.

Of the companies surveyed, the vast majority operated across more than one area of Technology. More than two-thirds of the firms surveyed considered themselves in the software business in some shape or form coupled with a strong contingent having a heavy consulting / professional services arm to their business. The sectoral spread into which the companies surveyed are selling is also diverse with most companies targeting the B2B space such as finance, insurance, utilities and the public sector.

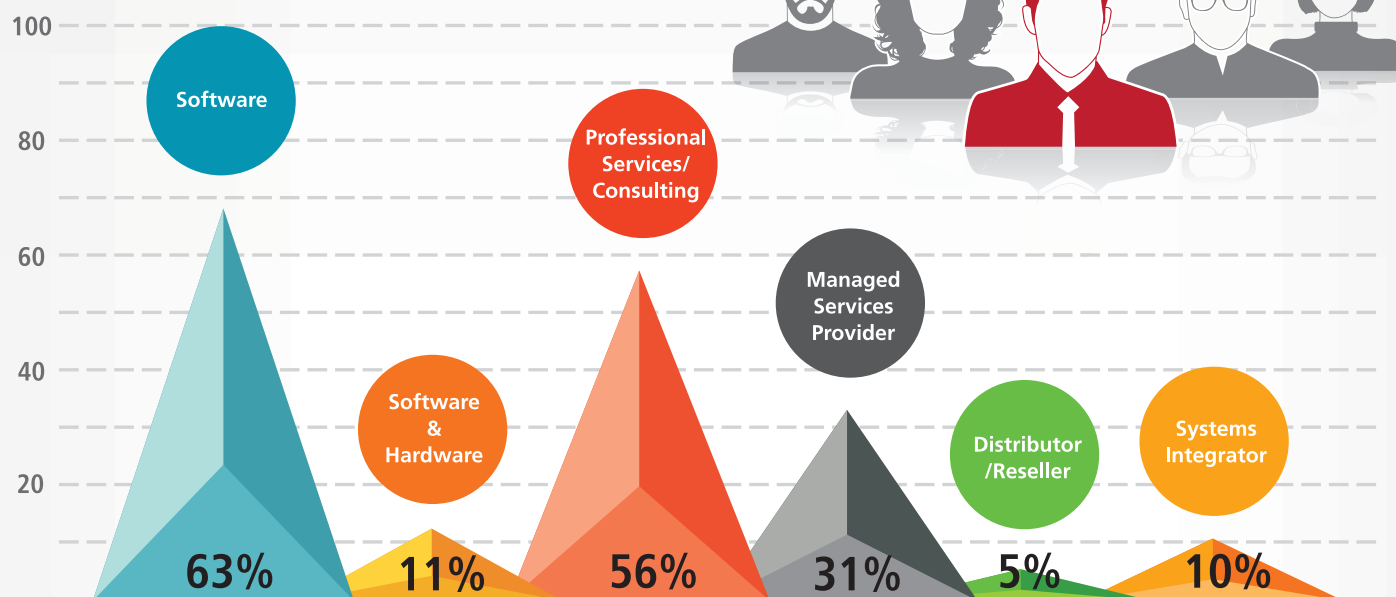
CLOUD REVENUE

Almost 40% of the software vendor respondents claimed to now collect their revenue using Software-as-a-Service (SaaS) and this is anticipated to grow in 2014. A transitional phase is apparent in that two in 10 are selling their products and services using a combination of traditional licensing and SaaS. Of those using SaaS, 34% said that it afforded them greater access to a global market while 10% said it would deepen their relationships with existing customers

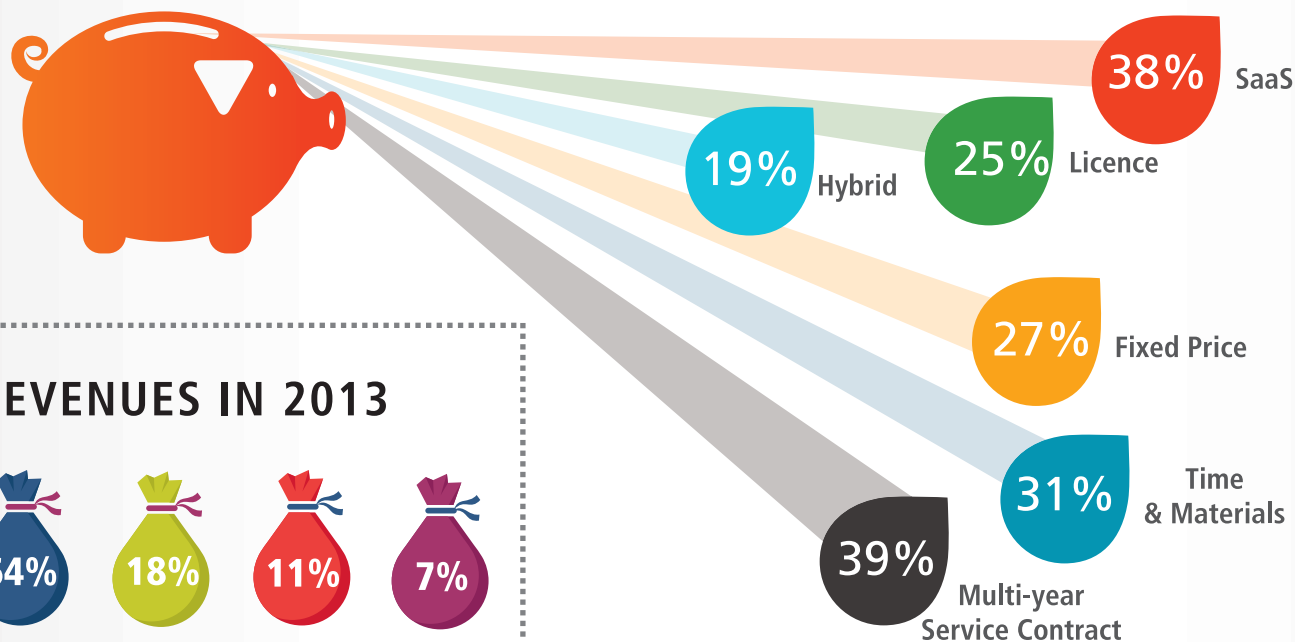
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THE INDIGENOUS TECHNOLOGY SECTOR

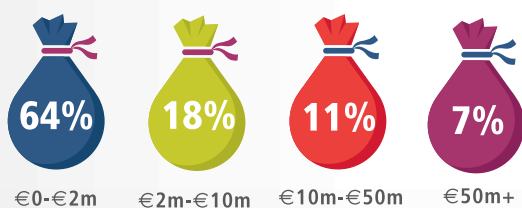
TYPE OF BUSINESS SURVEYED



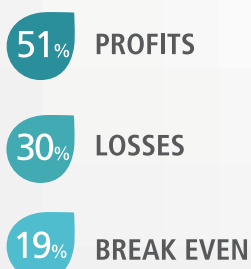
REVENUE COLLECTION MODELS



REVENUES IN 2013



PROFITS IN 2013



2013 REVENUES vs 2012



“The Irish Internet Association’s Cloud Computing Working Group’s decision support matrix was published by the NSAI as their official SWIFT10 in the summer of 2012. Throughout 2013 and with the support of Enterprise Ireland, this standard was rolled out nationally to SMEs looking to adopt the cloud. The benefits of this initiative have been two-fold. While it has contributed greatly to the demand for cloud services from ICT providers, the adoption of the cloud has also supported growth across the wider economy.”

(Irish Internet Association)



FINANCIAL STRENGTH

The survey results show that there is a cohort of sizeable firms with substantial revenues. This is reinforced by the fact that 11% said that revenue was between €10 million and €50 million and 7% of the companies surveyed said that they had a turnover in excess of €50 million. Of course there are two ways to interpret these figures. On the one hand, one could argue that Ireland has not created enough Technology companies of a sufficient scale, compared to other countries while on the other hand, for a country the size of Ireland, it is punching above its weight in the Technology sector.

At a time when the rest of corporate Ireland was shaking off the shackles of the downturn, the indigenous Technology sector was experiencing growth and this is evidenced by the 71% of companies that said that their 2013 turnover had increased on 2012. When compared to other sectors, and indeed other sectoral surveys carried out by Amárach for AIB, this is an above average performance by the sector. While 25% of companies said that turnover had remained the same, only 4% said that it had actually declined.

The research also shows that over half of the companies that made a profit in 2013 were more likely than the average to have a turnover in excess of €2 million (74%), be in business for more than five years (65%) and have more than 10 employees (64%). Just under 20% broke even while 30% made a loss which is not entirely unusual given the amount of capital which is invested in R&D and the profile of firms that responded.

EXPORT FOCUS

With indigenous Technology companies expected to export approximately €2 billion this year, it is not surprising to note the importance of exports to the survey's participants. The survey reveals that six in 10 of the firms surveyed (58%) are currently exporting their products and services. Some 42% of the companies surveyed cited Ireland as their main market, while 22% identified the USA and 19% the UK.

INNOVATION LED

The ability to invest in R&D is one of the key determinants of success in the Technology industry and Irish companies have not been found wanting on this front. Some 62% of those companies surveyed by Amárach, carried out some level of R&D activity during 2013, a slight 1% increase on 2012.

Despite the high levels of investment in R&D by indigenous Technology firms, it would appear that many are not taking up their entitlements when it comes to tax credits. Ireland has had an R&D Tax Credit scheme since 2004. Qualifying R&D expenditure generates a 25% tax credit. Its purpose is to encourage both foreign and indigenous companies to undertake new and/or additional R&D activity in Ireland. According to the survey, however, a little less than half (49%) received a tax credit from the Revenue Commissioners in 2012 while 23% are still in the process of applying for 2013's credits.

The process of applying for an R&D tax credit can be an onerous task, particularly for small firms given the level of substantiating detail that is required and, according to the survey, many companies (42%) are using the services

of external consultants to help them prepare the necessary paperwork needed to claim the tax credit. This, in itself, suggests that a lot more companies could do with additional help.

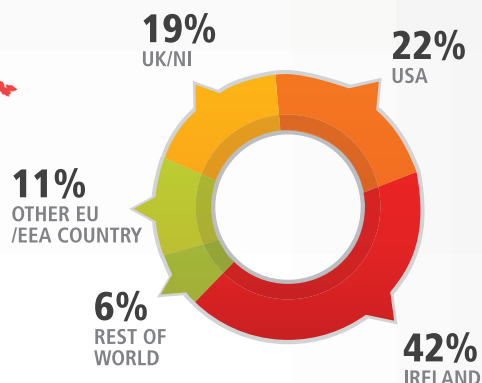
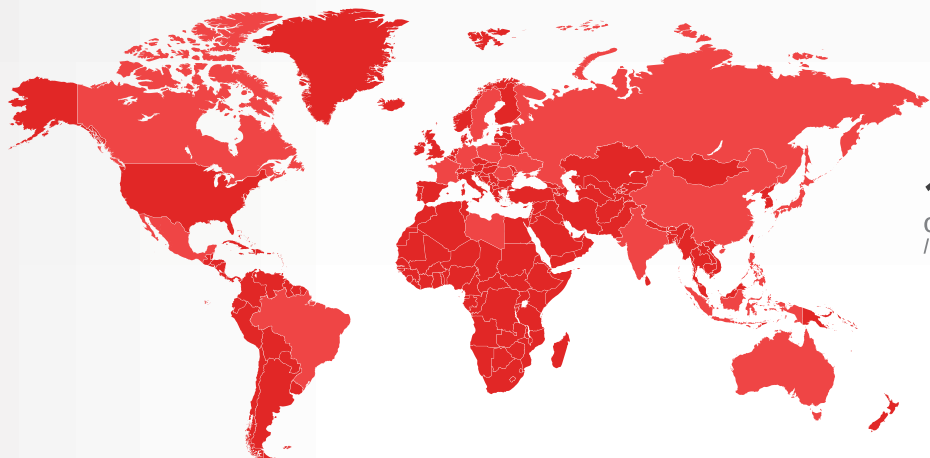
The research also reveals that the Employment Incentive and Investment Scheme (EIS), which was introduced by the Government to replace the Business Expansion Scheme, appears to be underutilised by indigenous Technology firms. The Finance Act 2011 introduced the EIS as a replacement to the BES in an attempt to stimulate investment and job creation in indigenous firms while at the same time bestowing tax relief on investors and providing access to additional funding for Irish SMEs.

An important part of the EIS is a recognition of the role R&D plays in developing new businesses and driving innovation, particularly among start-ups, and it provides for relief for certain qualifying R&D activities by companies spending in excess of 30% of the investment proceeds. According to the survey, however, only 15% of the companies surveyed had availed of the EIS in 2013, down from 16% in 2012.

In practice, however, there is a widely-held belief in the Technology sector that the EIS has not worked out as originally intended. Many companies consider the time frame for the investment to be too short as it doesn't allow companies enough time to generate a sufficient return to pay back the investment. This is particularly true for start-ups where a lot of the R&D activity is front-loaded. In addition, the recent reduction in the holding period for shares to three years, appears to have not worked.

THE INDIGENOUS TECHNOLOGY SECTOR

MAIN MARKETS



AN INNOVATION LED SECTOR



62%

COMPANIES
INVESTING IN
R&D IN 2013

... but only 49% received a R&D tax credit in 2013.

... and only 15% used the Employment Incentive & Investment Scheme to raise funds in 2013.

OPPORTUNITIES AND CHALLENGES



44% plan to enter new markets.

69% plan to launch new product/service.

74% plan to increase their workforce.



- Scaling operations **42%**
- Recruiting new talent **38%**
- Raising equity finance **28%**
- Competition **27%**
- Credit **25%**

EXIT OPPORTUNITIES



- **35%** have an exit strategy
- **17%** plan exit within 3 years
- **18%** plan exit within 3 years or more

While R&D does play a considerable role in the day-to-day activities of many Technology companies, the survey shows that when it comes to protecting their intellectual property (IP), 13% of companies filed a patent during 2013. While many companies are focused on getting their product to market, it would appear that copyright is the method used by most digital Technology companies to protect their IP.

PARTNER INSIGHTS

► “Loss-making companies that do R&D are entitled to a rebate. It normally works out at about 16-20% of their R&D spend. In the UK this rebate is paid within four weeks. In Ireland the payment is made over three years. This cash-flow delay does not really affect large multinationals but early stage Irish companies are at a huge disadvantage at a time in their business life cycle when cash for research is hard to come by. For most R&D companies it's ridiculous that their biggest debtor is the Government who are trying to create R&D jobs. If Government can make this small simple change it would put cash into these businesses and would create thousands of R&D jobs in Ireland overnight. Without it these critical positions will be put into other countries.”

(Irish Internet Association)

► “Given the importance of patents to certain elements of the digital Technology sector, it is essential we establish a local division of the Unified Patent Courts in Ireland. It will support Ireland's innovation policy agenda for the development, exploitation and protection of IP, maintain our overall competitiveness as a location for R&D and prevent a potential 'brain drain' in terms of legal expertise.”

(Irish Software Association)

► “Investment in indigenous Technology companies could be increased through the introduction of a roll-over tax relief for entrepreneurs to encourage reinvestment into Irish start-ups and growth companies and by extending and improving the Employment Investment and Incentive Scheme (EIIS) by introducing a risk-sharing model targeted at a wider group of new investors.”

(Irish Software Association)

► “The current capital gains tax regime and the tax treatment of employee share options are not favourable to Irish companies, their employees, angels and promoters. A far more favourable risk reward model pertains in the UK and other jurisdictions. Indeed, Ireland could learn much from its nearest neighbours.”

(Irish Software Association)

BANKING AND CREDIT NEEDS

Although nine in 10 companies intend to expand their business in 2014, two-thirds of these (66%) plan to use their own resources to fund their growth while three in 10 will seek bank funding.

As 51% of the companies surveyed have already indicated that they are profitable, they most likely have retained profits and cash in the business.

However the fact remains that just three in 10 plan to look for credit in 2014 with the majority of these likely to look for a new loan.

Of the companies that have actually applied for credit within the last 12 months only 15% of them were turned down while 80% saw their applications either approved in full or in part.

The survey also indicated a possible disconnect in terms of the banking sector's ability to understand the nature of businesses in the Technology sector whereby only 19% of the respondents felt their Technology business was understood. In the last two years, AIB has been investing in a dedicated team of sector specialists who understand the economics of their sector and the proposition and credit needs of the customers within the Technology sector and others.

These teams of sector specialists will be leading out AIB's sectoral strategies, increasing awareness that AIB is lending to these sectors and ultimately driving increased lending to these sectors.

The research also shows that of the companies seeking to borrow in 2014, term loans (88%) and overdrafts (53%) will account for the lion's share of expected borrowings.

PARTNER INSIGHTS

► “The lack of understanding of new business models and markets by the banking sector is an issue that has been consistently raised by the IIA over the past number of years. Risk management is an essential responsibility for an effective banking sector but so too is an appreciation of new business value and models. It is for this very reason that we are delighted to be supporting AIB in its research.”

(Irish Internet Association)

► “Many banking customers qualify for Research and Development (R&D) tax relief. An opportunity exists for domestic banks to provide much needed funding to their Technology clients, secured against the future receipt of R&D tax credits.”

(Irish Software Association)

THE FUTURE

Not surprisingly, the indigenous Technology sector is optimistic about the future and 86% of those surveyed believe the outlook for 2014 is better than 2013. In addition 74% said that they would be growing the workforce this year while overall 92% indicated that they would grow their business.

How will they achieve this? Winning new customers and contracts (72%) and launching new products and services (69%) are the two main factors underpinning this optimism while 44% said entering new markets would also provide growth opportunities.

Of course there are also challenges facing the Technology sector, the biggest of which appears to be the issue of scaling their operations to deal with the anticipated growth and expansion into new and existing markets. As organisations like the Irish Internet Association and the Irish Software Association and indeed the Government's Action Plan for Jobs have already noted, the availability of a talented and well-educated workforce will be crucial to the future development of the sector.

This is also an issue that preys on the minds of those surveyed and some 38% admitted that the recruitment of employees and the management of talent was going to be an issue that loomed large on their agenda during 2014.

Other key challenges identified by the respondents include access to equity finance (28%) and access to credit (25%).

Given the high levels of M&A activity within the sector and the prevalence of venture capital funding, some 36% of those surveyed said they have no exit strategy in place while

another 14% said they wanted to remain private. By comparison, just 17% said they would seek an exit by way of a trade sale or an IPO within the next three years, while a further 18% said they would choose the same route within three years or more.

So overall, the AIB/Amárach survey paints a

picture of an industry that is in good health and underpinned by a degree of optimism that may be lacking in other sectors. While the challenges identified by the sector are many, with the right supports in place – including appropriate levels of equity and debt funding – the opportunities that present themselves point to a bright future for the sector.

PARTNER INSIGHTS

“While it is heartening to see these growth projections directly translating to workforce expansion, the challenge for many will be finding and retaining talent. We need to ensure a steady supply of highly skilled professionals to meet these growth ambitions. Should the supply/demand gap continue to widen we face escalating salary costs which will prove punitive to start-ups whilst also damaging to our international competitiveness for FDI.”

(Irish Internet Association)

“The exit strategies of Irish tech founders are interesting. There is a real commitment by these founders to safeguard their intrinsic value in Ireland. The sale of Orchestra to US-based EngineYard has seen the growth of the development team in Dublin. The more recent sale of Storyful to News Corp also represents a continued investment in the Irish operation and maintaining Dublin as its HQ.”

(Irish Internet Association)

“87% of software companies indicated that their outlook for 2014 is better than 2013, and three quarters (74%) indicated that they plan to grow their workforce. This optimistic outlook is consistent with data independently compiled by the Irish Software Association. The availability of strategic financing specifically aimed at the Technology sector, from the domestic banking sector, will be an important component to ensuring this positive outlook is indeed realised.”

(Irish Software Association)

The Irish Software Association

is delighted to collaborate with AIB to produce this Technology Outlook Report.

The Irish Software Association is the association within Ibec which represents the indigenous software and digital Technology sector in Ireland. The indigenous Technology sector is thriving, with exports and employment in software firms continuing to grow. The number of Irish-owned Technology companies now stands at over 700, with total annual revenues in excess of €1.8 billion.

This vibrant indigenous community is composed of category-winning scaling companies that want to disrupt, or even transform, the markets in which they operate. They wish to create the industries of the future, a future underpinned by international scaling, a future that is being written in software today.

We look forward to continuing to work with AIB, and the broader Irish banking sector, to facilitate a deeper understanding of the funding requirements of growth sectors such as the Technology sector, in order to develop a portfolio of products that aligns with growth phases of the scaling indigenous software companies.

Edel Creely,

Chair, Irish Software Association (ISA)
Managing Director, Trilogy Technologies



The Irish Internet Association

is the independent representative body for internet businesses in Ireland. Established in 1997, it has been at the forefront of ensuring that Irish businesses and citizens have the skills, infrastructure and network of support needed to drive growth in the economy.

Working with agile start-ups, scaling SMEs and indigenous and FDI corporates, the IIA has a unique insight into the ICT sector in Ireland.

With 300 member companies and over 1,000 active users, the mission of the IIA is to make Ireland a leading web-enabled economy. Working with ISPs, software, e-commerce and cloud providers, as well as their consumers, we understand the challenges these businesses face in keeping apace in this dynamic sector.

We are delighted to be working with AIB in the production of the 2014 Technology Outlook Report. The ICT community must be supported by a banking sector with a true understanding of emerging business models and disruptive technologies in order for these growth ambitions to be realised.

Joan Mulvihill,

Chief Executive
Irish Internet Association (IIA)



SaaS SET FOR FURTHER GROWTH

Software-as-a-Service (SaaS) is rapidly emerging as an attractive offering for software developers and vendors but the revenue model comes with its own unique challenges, writes John O'Dwyer, Head of Technology, Media and Telecoms Banking at AIB.



JOHN O'DWYER

Despite the hype, the era of "Cloud Computing" is a considerable evolution in the provision of software. The "cloud" is not a specific technology but merely a model of delivery which allows companies to access software and services over the Internet. Software-as-a-Service, or SaaS is a scalable, cost-efficient method for delivering software applications to users over the internet/cloud. SaaS customers don't install the software on their own computers but instead, the software is hosted elsewhere and accessed using a standard web browser. The software is then typically rented under a flexible subscription model.

Most traditional software vendors are seizing the SaaS opportunity to deliver their technology in the form of renewable automated services with a recurring revenue wheel. Equally, customers are looking at SaaS to get a range of benefits that include a much lower total cost of ownership (avoiding expensive hardware and maintenance costs) and

flexible licensing arrangements with variable pricing tied directly to use. This move away from shipping boxes of software CDs to SaaS is disrupting the pricing, delivery and distribution models of traditional software.

Almost every analyst from Frost & Sullivan to IDC agrees that the SaaS market is growing and outpacing perpetual, on-premise software. Gartner estimates the global market for SaaS applications will grow to \$22.1 billion by 2015, up from \$14.5 billion in 2012. Following its remarkable success in the CRM market with Salesforce.com and others, SaaS applications have now penetrated just about all verticals from HR to Finance and Accounting.

Companies and their management teams need a modified vocabulary and an awareness of subscription metrics to gauge the performance of this new crop of SaaS vendors which range from start-ups to more traditional software companies moving their software to a cloud delivery model (e.g. Sage).

SaaS WORKING CAPITAL

The ability to reduce fixed IT costs associated with maintaining on-premise applications is enticing organisations of all sizes to adopt a multitude of SaaS alternatives to traditional on-premise software. And while there are conflicting opinions on whether the long-term cost is cheaper to the SaaS customer, many are willing to accept the potential higher costs over the long term in exchange for eliminating an initial capital expense and saving on IT personnel costs.

"Traditional software typically involves customers paying a substantial licence fee or engaging in an expensive, risky and time-consuming software development cycle. SaaS turns the risk from the customer to the SaaS vendor which is great for the customer who gets a stable and secure product for a fraction of the usual cost" says John Dennehy, Managing Director of Zartis.com.

The flip side of the SaaS delivery model brings its own unique

challenges for many SaaS vendors as they must now look after the infrastructure ensuring that it is scaleable, reliable, secure and continuously running at acceptable performance levels to the customer. This must all be managed while getting paid on a pay-as-you-go basis (typically monthly or quarterly) rather than getting paid a large cheque up front.

Therefore, one of the largest challenges of the SaaS vendor model can be payment terms. Consequently, it is generally accepted that a SaaS vendor can require more working capital than their traditional software company counterparts. More mature SaaS vendors with market acceptance can greatly improve their cash-flow by offering discounts for up-front payments. However this tends to be after a period of time when clear and meaningful user adoption has accrued.

Notwithstanding these challenges, the promise of SaaS is to build a stable recurring revenue stream. Get this right



and the economics for the SaaS vendor become very attractive.

SOME SaaS METRICS

There are no hard and fast rules on analysing SaaS businesses but successful SaaS investors with historical records, such as Bessemer Venture Partners, have published a number of popular papers on SaaS metrics which are a useful lens to better assess the health of a SaaS vendor. There are many blogs and articles on the internet devoted to SaaS metrics but many tend to revolve around the following core themes:

RECURRING REVENUE

The holy grail of every SaaS vendor is maintainable recurring revenue and is measured in a variety of different ways by different people. According to Bessemer Venture Partners, most top performing cloud companies no longer focus on “bookings” but on Annual Contract Value (ACV) or Monthly Recurring Revenue (MRR) growth.

MRR is a measure of the predictable and recurring

revenue components of your subscription business excluding one-off and variable fees. It excludes revenues that are not recurring even if such revenues are on a revenue recognition schedule. Variants of MRR include Committed Monthly Recurring Revenue (recurring portion of subscription revenue) and also Contracted Monthly Recurring Revenue (which includes only contractually guaranteed revenues).

New accounts, low customer attrition or churn, higher pricing (average revenue per user or ARPU), and upsells (adding a new paid feature or moving up a pricing tier) all contribute to recurring revenue and so they simply become components of the primary metric.

CHURN

The ultimate battle for the SaaS vendor is customer retention. Attrition or churn is the inverse of renewal rates (i.e. a 90% renewal rate is the same as a 10% churn rate). If the business has longer term contracts,

renewals are a key metric to focus on. It is difficult and expensive to grow a subscription business, even with a mild amount of churn, because as the subscription base grows so too does the absolute value of churn against that base and therefore new revenue needs to replace the lost churn.

Churn is frequently expressed in either customer counts or also on the lost subscription value of customers that have not renewed. This was popularised by Bessemer Venture Partners in their white paper on measuring growth in subscription businesses.

SaaSOptics, a US-based SaaS analytics company, recommend that you define clear terms for your various churn metrics and then measure them consistently from period to period. They recommend that you analyse your churn numbers in different dimensions such as by marketing campaign, customer type, sales channel (online sales versus direct sales) etc. For example, a good predictor

of when a customer is about to churn is their product usage pattern and it can be a good idea to look for particular usage patterns that are correlated with “stickiness” or a likelihood to churn. Another commercial tool available on the market is Totango which helps the SaaS vendor to measure customer engagement and anticipate customer churn.

Siofra Flood, COO at Swrve notes that “Having an effective post-sales process is vital. For enterprise sales, whether the customer ended up using the product effectively is not as important as it is for SaaS businesses – if people don’t get value out of it, they’ll stop using it.”

Overall, low churn is ultimately driven by the SaaS vendor’s ability to become deeply entrenched within the business processes of their customers and their ability to expand service offerings with their customer. It is widely expected that best-of-breed SaaS vendors will have renewal rates of 85%-90% plus.



Because of the large upfront cost of the SaaS vendor in sales and marketing expenses, particular attention should be devoted to sales and marketing efficiency and effectiveness.

They say that a CAC ratio of a third or less is bad and that if your churn rates are low with a CAC ratio above one, you

As one CEO of an Irish company put it “You need to be focussed on metrics from the get go. I track sales lead volumes, conversions, velocity and value on a daily basis so that marketing and business development can be directed effectively.” Hugh Johnson, SVP of Business Development at Suntico notes that “While there seems to be consensus emerging on what the key metrics are, there is not yet consensus around their precise definition. For clarity, I like to use the renewal rate and the probability that a customer will renew at the end of the contract period”.

SaaS vendors generally deploy multi-tenanted architecture, which means they manage one code base across an entire installed customer base. Obviously, as the installed base grows, so does the ability to share fixed infrastructure costs over more clients. Given the shared cost approach, well-established SaaS companies generally generate healthy gross margins which can be as high as 70%, with correspondingly healthy EBITDA margins.

The pay-as-you-go subscription fee structure, that is at the heart of the SaaS value proposition, can create dangerous cash-flow traps that can hinder company growth and threaten long-term survival. It is important that companies and their management teams are aware of the metrics and KPIs which are characteristic of SaaS subscription models and design adequate and meaningful KPIs to ensure they are understood and monitored accordingly. ●

CHAMPIONING THE IRISH TECHNOLOGY SECTOR

Enterprise Ireland is leading the way for the Irish Technology sector and has been a key player in helping Irish start-ups reach their potential with a wide range of supports. With job creation top of its agenda, 2014 is going to be a busy year for its new chief executive Julie Sinnamon.



JULIE SINNAMON

Last year was the best in over a decade for Enterprise Ireland in terms of job creation with a total of 18,033 new jobs coming on stream during the year, a net increase of 5,422.

At the end of 2013, total direct employment, both full and part-time, in Enterprise Ireland client companies stood at 175,750, of which 149,718 were full-time jobs. Overall, Enterprise Ireland-assisted companies now account for over 300,000 direct and indirect jobs or approximately 16% of the total workforce.

In addition, new job commitments pledged in 2013 for 2014 and beyond amounted to 7,100, exceeding its 2013 target of 6,250 for the year. With all the economic indicators pointing in the right direction, 2014 is looking very positive for the State agency which is leading the charge on the Government's job creation strategy.

"Job creation is still one of the biggest issues facing the

country and it will continue to be the major focus for Enterprise Ireland over the coming years. We are currently in the process of finalising our strategy for 2014-2016 and that will see us intensifying our job creation efforts in all the sectors we can," says Julie Sinnamon, the recently-appointed chief executive officer of Enterprise Ireland.

Arguably one of the biggest challenges facing Enterprise Ireland, she says, is not the creation of new start-ups but taking existing client companies and helping them create scale and equipping them with the management and entrepreneurial tools to grow and expand into new overseas markets.

"Ireland's track record at starting new companies and our entrepreneurship rates are high, but actually getting to companies of scale is a challenge, particularly in the technology space. Around 66% of our start-ups, on an annual basis, are in software, gaming and internet. The reality is a lot of

these companies start small and stay small. So our major focus will be on scaling that group of companies in addition to scaling the existing group of companies that we work with," she says.

"There is a group of companies where growth has been fairly static for whatever reasons. If we could actually help them to accelerate their growth, or alternatively to merge them with other companies, or do something structurally to help them, then it's worth exploring. It may be that an existing company might have complementary products to another company and if they were linked, they could benefit significantly. Whatever it is, we really need to help them and move them to the next level and that will be one of the big challenges for us over the next few years," she adds.

"On the start-up side, a major focus for us will be on the whole entrepreneurship agenda. From April onwards, the City and County Enterprise Boards will become local enterprise offices

based in the local authorities around the country. A lot of work has already taken place behind the scenes in recent months to make the transition as painless as possible. It's about driving entrepreneurship in every county and town in the country, and it's about really trying to have a much more integrated process. In the past, it has been a duplicative landscape so now it's about trying to streamline all of this and making sure that it's going to be a best-in-class entrepreneurship support system across the country."

In terms of its scale and reach, its funding capacity and its deal flow, Enterprise Ireland has often been likened to a large venture capital company, possibly the biggest one in Europe.

"In terms of deal flow and the number of equity deals that we are doing, we are investing in over 100 start-ups a year in addition to around 60 competitive start-up funds. We are also investing directly in the VCs. However, we would do

a lot more than the VCs, with our management development programmes, our overseas office network and our outreach with colleges. We have a very clear developmental role to play in helping Irish companies grow and to create new jobs."

The criteria Enterprise Ireland uses when making a decision to invest, and indeed to exit, is fairly simple. "When we make our investment, first and foremost it's to support the development and growth of the company. If, in time, other investors are exiting and there is some change, we would take a view as to whether or not we should exit with them or if there is a developmental reason for us for staying on," she says.

While Ireland has created a healthy funding ecosystem for the Technology sector over the past number of years, there are still gaps that need to be filled, says the Enterprise Ireland CEO. "Historically the sector has been equity-driven in nature. The mind-set among many Technology start-ups is very much family and friends first, angel investors next and then VCs. It's what they have come to expect. So, companies don't necessarily think in terms of approaching a bank," she says.

"In addition many companies probably don't have a strong enough proposition starting out. They don't have invoices to discount, a lot of their money goes into R&D and they are some way off from actually selling their product and making money from it. So I think there has to be a greater understanding of the Technology sector by the banks in general. Also I think the issue of personal guarantees is something that scares a lot of people off, particularly those in the

"In terms of deal flow and the number of equity deals that we are doing, we are investing in over 100 start-ups a year in addition to around 60 competitive start-up funds. We are also investing directly in the VCs."

very early stage. So banking relationships tend to develop as companies become more established and by then they've probably got investment funding elsewhere. But I do think there is an opportunity to understand the emerging type of business models that are coming through and to take a judgement as to where they can actually complement the capital investment that is going in through the seed funds, and indeed ourselves. So the gap is there and if we really want to grow this sector then it would help if there was a more active banking sector."

Having a strong multinational presence in the Technology sector in Ireland has helped the overall economy, not just in terms of the jobs they bring but also the linkages and knowledge they bring. But a lot more could be done, she says.

"In Israel, for example, a country known for its high-tech sector, there would be a much more integrated system between the multinationals and the indigenous players and it works very well. While there are different levels of integration here in Ireland, I believe that there is a lot more potential for building stronger relationships between the two. Multinationals, for example, could operate almost as mentors to Irish SMEs in terms of working with them

and helping them to grow and providing them with access to markets. Obviously there is a lot of expertise within the multinationals and a key focus for us is to try and strengthen these relationships and develop new ones," she says.

"A further advantage of a strong FDI technology presence is that it has helped develop and keep a pool of qualified people here in the country and people do move around a lot in the sector and that's been good for everyone, particularly our own clients. Another important angle is that we have always had big companies like IBM, Apple and Microsoft but the newer ones like Google, Facebook and Yahoo are also creating lots of opportunities and there is a lot of synergy between the kind of technologies that they are using and the technologies that our newer companies are using. In the case of Google, for example, quite a number of our small companies have actually spent time with the Google technical people gaining an understanding of its technology – this is really valuable, if you are trying to develop applications that are going to interact with Google.

"And of course the IDA is very aware of the value innovative Irish companies have when attracting multinationals. So in many ways, it's a two-way street," she points out.

The ongoing supply of a talented and skilled workforce will, of course, be vital to the future success of the indigenous Technology sector. In November 2013, the Expert Group on Future Skills Needs, which reports to the Government, estimated that the demand for high-level ICT skills could grow by between 5% and 7% every year up until 2018.

Leveraging the State's investment in research, growing the number of Technology based start-ups from the third-level sector continues to be a key priority for Enterprise Ireland. She points out that last year 35 spin-out companies were created from third-level research programmes and Enterprise Ireland's research commercialisation activities were responsible for the creation of over 100 pieces of commercially valuable technology to companies. In addition, over 100 companies were created under the on-campus entrepreneurial training initiative New Frontiers while Enterprise Ireland-supported campus facilities housed 305 companies and over 1,500 people. Collaboration between third-level colleges and the private sector also loomed large during 2013 with a total of 839 projects supported while an additional 300 companies were engaged in collaborative research in Technology Centres, including important areas like data analytics.

"While we are still finalising our strategy for 2014-2016, we will continue to invest in what is a very focussed range of third-level initiatives that are aimed at promoting both entrepreneurialism and commercialisation. If we can achieve this and continue to create the new and innovative businesses of the future, we will be very happy," she concludes. ●

A SEASONED VETERAN

With a background that spans over 30 years in the Irish and international engineering and Technology sectors, Larry Quinn has enjoyed a unique bird's eye view of the development of the Irish Technology sector.



Co-founder of several successful telecom Technology companies, including Acision and Aepona, Larry Quinn is undoubtedly one of the more prominent veterans of the Irish Technology sector. A chartered engineer by profession he is currently the Chairman of Atlantic Bridge portfolio company – Accuris Networks, a leading player in mobile roaming solutions. He is also a private shareholder and a director of a number of telecom and high tech companies.

Since he first entered the industry over 30 years ago, the Irish Technology landscape has changed beyond recognition. Ireland now has a vibrant and

thriving indigenous Technology sector that is complemented by the presence of many of the world's leading digital companies, most of which were not around when companies like Aldiscon was founded.

"The whole sector has fundamentally changed. Twenty five years ago, the software sector was very much a pioneering one and not too many people understood it. I remember a quote, probably an anecdotal one, which was attributed to an officer working for an old agency within Northern Ireland who said 'I really can't get the hang of this, you have nothing tangible to show in your business. If your

business was like De Lorean, then it would be a lot easier to understand.' Thankfully, we were not like De Lorean and the perception and the understanding of the industry has moved on considerably since then," says Larry.

Despite a greater understanding and appreciation for the sector, he says it hasn't got any easier for companies operating in the space. "In fact I'd say it's more difficult because there are lots of companies in the sector and everyone is fishing in the same pool for resources and customers. And there's also a global scarcity of technically qualified people. It's not just in Ireland, it's everywhere, with China, perhaps, being the exception. So it is indeed a lot more competitive now than 20 or 30 years ago," he adds.

In terms of the overall funding environment in which Irish companies now find themselves, there is a healthy eco-system made up of Incubators, Accelerator platforms, State agencies, venture and seed capital firms and indeed banks than there was 30 years ago. However, Larry believes that more could

be done to support indigenous start-ups.

"To quote the political phrase, 'a lot done, more to do,' he says. "I would always speak very highly of Enterprise Ireland and its predecessors, Forbairt and the Irish Trade Board. We are a small rock on the Western seaboard of Europe and as a development agency it's not afraid to get out there and support Irish companies wherever it can. I think it's probably a little bit frustrating for start-ups that have had no experience of engaging with State agencies or for that matter the banks.

I don't think I would like to be sitting at an empty desk with a blank sheet of paper wondering where I was going to get funding from. I occasionally get small start-up companies coming into me and they want a little bit of mentoring or else they want to talk about funding. Sometimes when you mention the State bodies, or indeed the banks, there is a reticence with them. Either they haven't dealt with them or they've tried and found it tricky or daunting. So I think you can never make it too easy for companies to interact with you, you really can't.

"Today people value Technology a lot more than they did then. They value IP and while they understand that there is no tangible feel to it, they know that it's value-enhancing and touches every part of our daily lives which, of course, makes it easier to understand and appreciate."

Maybe the whole process could be simplified a bit. But on the flipside, I think what Enterprise Ireland is doing by investing in third party funds like a VC fund, is a good idea, although perhaps it could be policing it a bit better. Maybe it is, but it's important that the funds are put to work in small and early stage start-ups because it's not easy for companies at that stage of development."

Despite the increased availability of funding from a wide range of sources, he suggests that there are still funding gaps in the market and that these could be plugged by the pillar banks.

"Yes I do think there are gaps at various levels that can be filled by the Irish pillar banks. There is senior debt, junior debt and then there is equity. There are grey areas and opportunities in between – more risky than straight debt but not as speculative as equity investing."

In addition, he believes there's also a need for wider selection of funding options at post-seed level. "There are one or two options out there but you're talking about totally different dynamics than venture capital, Series A or Series B rounds. While Enterprise Ireland and the Government are putting some money to work, be it through the National Pension Reserve Fund and others, I think there is a need to cut more slack to the early stage funds because they are typically going to get more things wrong than the later stage VCs."

"The whole sector has fundamentally changed. Twenty five years ago, the software sector was very much a pioneering one and not too many people understood it."



For most companies, access to adequate funding, particularly when they are in stealth mode as they are preparing to get their product to market, the actual choice of market is an important consideration. For many Irish Technology companies, the US market is where the action is.

"Depending on which sector or sub-sector you are in, I think it's important to think global. Having a North American establishment, whether that's your headquarters or whether it's a sub-base, is quite important because you've got a big marketplace there," says Larry.

"Secondly, you've got the US VC industry there and it is probably the most developed of all of VC markets in the world, so it's important to have access to it if you need it or thinking of any M&A activity.

"The flipside is I love competing against US-based companies because they can sometimes be parochial and many of them don't find it easy to do business outside of North America. So from a competition point of view, we shouldn't be afraid to compete with North American companies. I think there is probably a happy blend – an Irish company that has its engineering and innovation based in Ireland but has a strong sales, marketing and commercial division in North America, because when it comes to these functions, we've got a lot to learn from our American brothers and sisters," he says.

Looking at the Technology sector as a whole, Larry believes that some sectors may be over-heated a little and in some sub-sectors the prospect of a bubble looms large.

"There is a bubble in certain sectors and thankfully, it's not driven out of Ireland. But realistically, when you see banner headlines about companies being acquired for silly multiples of revenue or worse, pre-revenue, then you have to ask the question where is it all going to end? I think on the valuation side somebody is going to get caught out – but I don't think end customers are going to stop buying. Will it lead to a seismic shift in global financial terms? I don't think so, I really don't think so. You are not talking about the seismic shift that happened in 2008 but there is a bubble forming in some sectors and I think some non-savvy investors will get caught out," he says. ●

FROM ZERO TO HERO

Having been through a Nasdaq floatation, two trade sales, multiple acquisitions and many missed opportunities over the last 15 years, Raomal Perera's funding journey offers a unique and interesting insight into the trials and tribulations of raising equity from external investors.

The Sri Lankan-born entrepreneur has presided over the formation of two companies – ISOCOR and Network365 – both of which enjoyed considerable success in their respective industries up until they were sold.

After an early career in the IT sector that took him from the UK to Ireland, on to Holland, back to Ireland again and then to the USA, he eventually settled back in Ireland in 1991 when he became one of the co-founders of a US-headquartered email messaging software firm ISOCOR. Over the next few years, ISOCOR took off and the business was listed on NASDAQ in 1996.

"It was an extraordinary journey," recalls Perera. "It was one of the happiest times of my life. We built a great business and while there were plenty of ups and downs, it was great to see it grow." In 1999, however, the business was sold to another American company called Critical Path for a \$450 million.

But it was the success of mobile payments company Network365 on this side of the Atlantic that he is more synonymous with. After exiting ISOCOR when the business was sold, he immediately set about developing Network365 with his co-founders Denis Hennessy and Patrick O'Callaghan.



RAOMAL PERERA

Starting out with a great idea and I£22,500 equity from each of the three founding shareholders as well as a feasibility study grant of I£15,000 from Enterprise Ireland, the company also secured an overdraft facility from its bank, says Perera.

"I had a great bank manager in AIB in Dun Laoghaire. I went to him and told him what we were doing and that we would like to have a I£60,000 overdraft. This was more or less day zero and apart from what we put into the business ourselves, we had nothing other than a feasibility study grant. I don't know if it happens now, but my AIB manager was very helpful. He knew that we were serious people with a good business proposition that had a very good chance of succeeding. I don't think we ever used the facility, but it was a comfort to have it in place."

With funding in place, the company then set about raising its profile and appointing its legal, accounting and PR advisers.

"I went to PwC, because it's important to show that you had a connection with bigger firms and bigger brands and in doing so, you are sending out all the right messages. Because we hadn't got much money to spend, I agreed with them a special rate for early-stage entrepreneurs which they were glad to do and indeed they benefited hugely in the end. The second thing I did was go to the legal firm Matheson Ormsby Prentice, again for the same reasons. Then I went to a PR firm, Kinman, so that we could try and raise the profile of the company.

As the company developed, so too did its profile as the PR began to work. The company regularly featured in numerous Irish and international business and trade publications and in 2001 and 2002, it was listed as one of "Europe's 30 Hottest Tech Firms" in Time magazine. Raomal Perera was also big in demand on the international conference circuit. "This raised our profile considerably and that was important because it gave us visibility on the radar," he adds.

When it comes to additional funding, over and above the founders' initial equity, he says

that it can come from the most unexpected of places.

"The first thing we did in 1999 was a Series A angel funding round to try and raise I£1 million. One day I just happened to be talking to the manager of my son's football team, about the business and about the fact that we were about to raise money. He said that he knew a group of friends that might be interested and before we realised it we had I£2.6 million pledged from different people who liked the business idea and they liked me. So this is where networking comes into play and we got our Series A round quickly funded. So your network of friends and colleagues can be important," he says.

By the time the angel funding round was complete in 1999, the company was valued at IR£6m and the three founders had diluted their stake to 19.2% each.

The following year in 2000, it received another I£1 million by way of a convertible loan note from a local VC fund, which was discounted by 10%. With the first tranche of funding in place, the company was able to bring in a chairman called Andy De Mari, his former colleague from his time at ISOCOR.

"Once we had the first round of money, we were able to use it to develop a product and get our first customer." The company

was now well and truly in business.

"In 2000, we started to raise what we called the serious money," he says. "By then we had our first few customers and business was moving along and then we got our first major deal with Digifone, which Denis O'Brien had set up. Once we had that, then it was easier to get the next round of round of funding."

Led by Amadeus Capital, the next round (Series B) raised €15m which also included an investment by Enterprise Ireland. The pre-money valuation of the company had by now spiralled to €30 million. A Series C round in 2003 raised €10 million and then in 2004, it raised an additional €11 million in a Series C-1 round to fund the acquisition of the US company iPin, after which Network365 changed its name to Valista.

Over the next couple of years, the business continued to grow and several offers to buy the company were made during 2006 and 2007. Eventually, however, the company was acquired Belfast-based Aepona which was later acquired by Intel. While it might not have been the exit Raomal Perera had hoped for, it provided a valuable insight into the corporate M&A market and lessons were learned.

He admits that it was difficult for him when it came to dealing with the different VCs, teams of solicitors and accountants and complex financial deals as a young entrepreneur.

"When you have money on the table, you have to move quickly to close it. One of the things we did, which was actually quite exceptional, was close in ten days flat. From term sheet to €15 million in our bank account, it took just ten days. And the reason we

"One of the other most important things to remember in dealing with investors is that people really invest in people."

did that was because we had all the documentation ready to go. You name it, we had it all in two folders. So as soon as we signed the term sheet, we sent the two folders to the legal firms, they did the diligence, and there was little by way of questions from them as everything was in front of them. Now I work with lots of entrepreneurs and one of the first things I say, if you are going to raise funding, be prepared to close it as quickly as possible. I have seen cases where it just drags on and on and then one day the funding suddenly disappears."

He also advises companies to bring themselves up to speed with the different financial and legal terminology that inevitably crops up during the negotiation process.

"Looking back on it now, I suppose I was a bit naïve. And, if I was to have any criticism, I'd say, I wish my lawyers had actually explained a bit better what things actually meant. Now you can find all this information online but then it was different. I would have preferred if they explained to me, what drag-along rights or what cumulative redeemable preference shares were. So, when I talk to entrepreneurs now I tell them to be informed about everything that is going on. The more informed you are, the better it is for you," he says.

When it comes to tackling the day job of running a business and juggling meetings with

potential investors, he also stresses the importance of having a good team.

"My focus was to make sure we had fuel in the tank, so what I did was raise the money. My co-founder Denis, was left to handle the product side and ensure that everything was ticking over. Realistically you can't do both; you really do need people to take care of the back-end while you are at the front. We were back and forth to London and constantly meeting new people who ask you hundreds of questions, and you constantly responding to them or at least be seen to respond. So it's like a 24/7 job, when you are raising money and that's why I always stress the importance of having a good team, that has complementary skills, around you," he says.

"One of the other most important things to remember in dealing with investors is that people really invest in people and it's important that entrepreneurs possess two things. The first is integrity because then people can trust you. The second is passion; if you are not passionate about your business, then who else will be? Of course there are other attributes but I think these are the two most important ones, and when you can convey these to investors, you cross the bridge and they start taking you seriously by trusting you and they know that you will do your best to deliver. Then you can start talking about the great product or service you have," he says.

If he had to do it all again, would he have done things differently? "Absolutely yes. Network 365, in many ways, was both a great success and great failure for me. The success was that we built a great company and we were able to raise the money and build a good product. And my big claim to fame now is that I brought

Intel to Sri Lanka because we originally built an operation in Sri Lanka. So when Aepona was bought by Intel, it was re-named Intel Sri Lanka, I always wanted to do something in Sri Lanka and now there are 160 people working at Intel Sri Lanka.

"The downside was I that had personally invested and lost in Network 365. Not all my investors made money out of it. Some of the bigger investors did make money when Aepona was acquired. For a long time, I was quite down about it, and then when I got sick, it gave me time to reflect and I suddenly realised it wasn't all bad. It was a good journey and there was some good achievements. Sometimes you focus on the things that could have gone right for you and you blame yourself too much. In many respects, however, there is a really fine line between success and failure and it can kick either way. If one thing goes right for you it can lead to great success but if it goes wrong it can turn into a mess," he says.

Now an adjunct professor of entrepreneurship at INSEAD, one of the top business schools in the world, he remains passionate about entrepreneurship, innovation and the management of rapidly growing companies.

As an educator and he loves to work with entrepreneurs. However his primary role is helping established businesses make innovation work. He uses an interesting mix of his hands-on experience of building successful companies and the more recent experience of academia and research in helping companies GET, KEEP and GROW their customers, using a number of highly effective tools and processes.

Follow his work on www.LeanDisruptor.com and follow him on Twitter @raomal. ●

THE STORY CONTINUES

Being choosy when it comes to hand-picking potential investors is not a luxury most start-up companies can afford. For Mark Little, however, having the right investors is of the utmost importance.

In the space of just four years, the former RTÉ journalist went from anchoring the news, curating the news to being in the news when he sold Storyful, his social media start-up to News Corporation for €18m in December 2013.

Storyful's business model revolves around the discovery, verification, acquisition and distribution of timely and relevant video and user-generated content to a wide range of news and media brands throughout the world. With its combination of proprietary technology and journalistic expertise, Storyful also provides social media dashboards, real-time discovery tools, feeds and analytics to its customers, allowing them to integrate video into their news or advertising efforts via online and mobile platforms. In 2013, verified user-generated videos managed by Storyful generated 750 million views for its partners.

Operating in a media landscape that has experienced considerable fragmentation in recent years, Storyful was in the right place at the right time, according to Little.

"When I was with RTÉ, I had seen a massive surge in the

amount of content on the social web. People were sharing content on platforms like Twitter and Facebook but there was no real way of finding all the good stuff and organising it. More importantly, nobody was doing anything about it, so that's what I wanted to do," he says.

When he made the decision to leave RTÉ, he had already prepared himself mentally for some of the challenges that awaited him.

"I had a lot of preparation in terms of making the complete change in my lifestyle and psyching myself up. Way before I approached an investor, I had to make sure I had the stamina and financial support to commit resources and most of all to make sure I had the understanding of what it would take, and how long it would take, to make it all happen.

"From day one I had nothing but a whiteboard, a PC and a space in an incubator. It was a standing start from a business point of view which wasn't a bad thing in hindsight. At the time though, it felt like a terrible burden. I put together a really good idea of what I wanted to do and it pretty much followed on from that. I do see entrepreneurs starting off

with money, investors, and staff and branding, yet some of them don't even have a product or a market. So I suppose I did it the hard way," he says.

Before the company went about seeking investors for the business, it sought the advice of the Dublin Business Innovation Centre.

"We got great support there. We didn't go there initially but in hindsight we should have been in there from day one. John Phelan in DBIC was our



MARK LITTLE

"Getting the right investors on board was critical and early meetings with potential candidates left him somewhat frustrated but even more determined."

adviser and he was incredibly helpful. He put our business plan through the wringer several times and reduced the scale of the business down to one unique USP. He also prepped us when it came to pitching for funds and even though we were turned down a couple of times, the support and the knowledge was invaluable."

Again, with the benefit of hindsight, he says that if he was to go through a start-up all over again he might do things differently.

"If I was to do it again, from the get go I would find somebody who had good start-up experience, somebody who knew how to put together a P&L and a cash-flow statement. Those are the landmines that can have a significant impact on the business, particularly when you are burning up cash. It's important to have somebody behind you who understands how the day-to-day mechanics of start-ups work. I didn't have any accounting experience and it was like learning a new language for me. So it's important that you understand the fundamentals from the outset, otherwise you will have difficulty in growing the business," he says.

When it did come to approaching investors, his task was made all the more difficult by the fact that the business model was new and unproven and the potential market was almost impossible to define as there was no direct competition anywhere else in the world. In the social media space, the only constant was ongoing change.

"At the time it felt like a terrible burden. Potential investors would ask me about how the market was evolving, how many customers we would have, what



was the value of the market and so on. The reality was that nobody knew and that was the scary part. We were disruptors and we had a vision of how the emergence of the social web was not only changing people's consumption habits but challenging the business models of the traditional media industry."

Getting the right investors on board was critical and early meetings with potential candidates left him somewhat frustrated but even more determined.

"Early on we did talk to a group of angel investors but I don't think they really understood the business or where it was going. It also became clear to me during one of the meetings that I actually didn't want them on board as investors, because two months later they would probably have

wanted their money back or to change the strategy of the company. Investors should share some of your culture and they should have a passion and understanding of your business and the relationship has to be more than just transactional," he says.

Less than nine months after starting off, he met with serial entrepreneur and investor Ray Nolan, the founder of Web Reservations International which was sold in 2009 for €500m.

"Ray Nolan sat down with me in late 2010 and the investment was essentially agreed within 25 minutes. He liked me, he could see the potential for scale and he asked me what my price was. He then predicted that we would sell the company within three years and he even put a valuation on it. He also became the chairman of the company and when it

came to the sale, he sat down and negotiated on my behalf," says Little.

"Investors like Ray are, in many ways, dreamers and they also know what disruption is all about because they have done it before. But Ray was also prepared to take a risk and he was a great help to us when it came to growing the business. He is also a leader and a mentor but he was also tough and he has an incredible eye for analysing the detail."

Apart from Ray Nolan, additional shareholders came on board in 2011 including Enterprise Ireland, the AIB Start Up Accelerator Fund, which is managed by ACT Venture Capital and SOS Ventures, the venture capital fund set up by Seán O'Sullivan.

"Overall it was a good mix of shareholders and they were incredibly supportive along the way," he says.

When it came to selling the business in 2013, a number of prospective buyers emerged, the most serious of which was News Corp, the owner of news brands like Dow Jones, the Wall Street Journal, the Sunday Times and Harper Collins.

"The great thing about the acquisition for us it that it turbo charges our business model. We could only have done that with News Corp and we are already seeing the benefits of being part of a global company that has re-invented itself over the past year. So we are entering a really exciting period for the company," he says.

"I now have three years to prove to them, as well as myself that Storyful can be the world's biggest news agency. It's as simple as that," he adds. ●

ATTRACTING VENTURE CAPITAL

Irish companies received €285m in venture capital funding last year but what does a VC look for before it decides to invest? John Flynn, managing director of ACT Venture Capital offers some useful pointers.

There has never been a better time to be a Technology entrepreneur in Ireland. The fusion of expertise, Technology research, entrepreneurial talent and Government support, over the past decade, is establishing Ireland as one of the best locations to start and build innovation based businesses.

The number of start-up companies has dramatically increased and Ireland has emerged as one of Europe's technology "hot spots" with a large number of 'new economy' multinational companies selecting Ireland as their European headquarters.

Innovation is the key driver of economic growth and the main source of funding for early stage and expanding Technology companies is equity, and more specifically venture capital.

This year ACT is celebrating 20 years of venture investing, having been established as a spin-out from AIB in 1994. AIB has remained as a key investor in ACT Funds over the years, investing in innovation where companies are too young for traditional debt products. These funds have supported the creation of over 3,000 high end jobs and annualised revenues of over €500m in Irish-based Technology companies. AIB's most recent commitment to ACT, is the Bank's investment in the

AIB Start Up Accelerator Fund which was established in 2011. This Fund has completed 24 investments to-date and we plan to invest in 12 new start-ups in 2014. The Fund is focussed on investing in the next generation of highly scalable Irish-based Technology companies.

In 2013, Irish firms raised €285m in venture capital, according to the Irish Venture Capital Association, and it is expected that around €300m will be invested every year over the next five years. There has been a marked increase in the availability of seed capital for start-up companies which will provide strong deal flow opportunities for expansion funding.

Notwithstanding the positive environment, entrepreneurs still face challenges in gaining access to venture funding and need to be aware of the key features that drive interest from a venture capital fund. So, what are the key features that ACT looks for when

evaluating a business plan or a presentation pitch from an early stage investment opportunity?

ENTREPRENEUR WITH MARKET INSIGHT

An entrepreneur with a unique market insight which underpins the opportunity and is based on deep domain knowledge is deemed to be important. This needs to be married with personality traits that encompass an extraordinary drive, passion and commitment with high levels of integrity, analysis, and an ability to absorb advice.

A WORLD-CLASS TEAM

A key acid test is that they have the ability to attract a world-class team, including leading sector experts, into management positions. This reduces the risk and increases the odds of success for the entrepreneur and the investor. Like the Founder, this core team needs to possess an expert level of domain experience, complementary skills and a strong network to



JOHN FLYNN

consistently test and prove the market and investment thesis and attract top talent to every layer of the organisation. Our experience has shown that the quality of the first 10 employees can be one of the most significant determinants of ultimate success.

HIGH GROWTH AND MARKET OPPORTUNITY

The size of the available market is the key building block for a VC investment decision. We often see very backable entrepreneurs trying to build businesses in niches which can offer a solid opportunity for the entrepreneur but perhaps less so for the VC investor. The return profile of these opportunities tends to be limited by the lack of potential scale.

It is, therefore, vital to ensure that the market opportunity is large enough. Promoters need to be sure to size the market correctly with a top-down and bottom-up analysis and convince the investors not only of how large the opportunity is, but also why it is ripe for disruption – by them and their team.

COMPETITIVE OFFERING

VCs are generally looking for products that cannot be easily replicated and that promise to



fill a void, or unmet need, in the marketplace that can be monetised.

The value proposition needs to resonate directly with the target customers as this makes market entry viable for a young company. It reflects the fact that customers want the product and are prepared to buy it from the early stage business as there are few alternative sources.

Being able to speak with authority on the competitive offerings and identify how you will win in the market is an essential ingredient for a successful company. This

capability attracts VC investors. The promoters need to be able to define the business in a single statement and clearly identify the problem they are solving and how it is currently being addressed. The value proposition should show how the offering addresses a need without creating new problems in the process of adoption.

A SCALABLE BUSINESS MODEL

A significant number of start-ups fail because it costs more to sell their product than they are able to make from current sales or any level of future sales.

Companies should be able to demonstrate that an initial investment can prove the market opportunity and that the business has the capability to acquire customers. To secure further expansion investment thereafter the business needs to convince investors that the capital will fuel rapid growth and profitability.

While the level of innovation within business models has been very exciting over the past few years, particularly as a result of some internet and SaaS (Software-as-a-Service) revenue models, their

real attraction is financial. These business models offer the potential opportunity for repeatable and improved visibility of revenue, coupled with high gross margins, but promoters need to focus on providing visibility to positive cash flow.

We know that for some high-growth companies and sectors, such forecasts can be unrealistic. What is essential is that the VC is convinced that the Founder and his team have a deep understanding of the market and value creating milestones facing the company. ●

INVESTMENT THEMES FOR 2014

Andrew McGreal, Technology Analyst at AIB takes a look at the key investment themes in the Technology sector in 2014 with the partners and colleagues in the AIB Seed Capital Fund and the AIB Start Up Accelerator Fund.

Current Technology venture investment appears to be largely focussed around the following four key themes; **Cloud, Big Data, Mobile and The Internet of Things**. The AIB venture capital funds invest broadly across the Technology sectors but address these themes in three key areas of investment focus.

Internet and Digital Media – There has been a proliferation of new internet based products and services over recent years and multiple new companies have emerged as category leaders from Evernote to Facebook. Most of these have focused on consumers but the next wave of companies will be more focussed on enterprise customers e.g. Dropbox, Xero. The move to cloud platforms and wireless infrastructure, combined with the latest devices, has effectively delivered an open platform for direct access to users on a global basis. This presents an opportunity to create businesses that can test their products and business models with modest investment, and access large markets rapidly.

Software – Service virtualisation and the seamless real-time delivery of technology across open networks is creating a significant opportunity within the software market. The primary opportunity areas include the support of open-source software for the enterprise, cloud platform technologies, 'Big Data' analytics, security and publishing tools. The next five to seven years will see acceleration in these key technology areas and significant opportunities will exist for new companies to become market leaders as businesses absorb such technologies and seek to re-position to the benefits of a Software-as-a-Service or 'SaaS' model.

Communications and Mobile – This sector represents the group of core Technology companies that power, manage and scale the network to enable delivery of cloud computing infrastructure and platforms. Over the next five years, it is believed the opportunities in this area will focus on capacity expansion and optimisation within the current wired and wireless infrastructure. At the consumer level, 100Mb services will become the norm with fixed or enhanced mobile services. Significant advances in Radio Frequency technologies, base station density and backhaul will be required. This will present opportunities for novel and low cost materials that can support these processing speeds and low price points.

"The production of relevant market intelligence from Big Data analytics and also trend analysis are areas where Technology companies are finding paying customers, also Vision processor technology for mobile and portable devices such as Google Glass is likely to be a big growth area as mobile devices contextualise their location and surroundings. Irish examples where the AIB Seed Capital Fund has invested in this area are Movidius. Wireless patient monitoring and also diagnostic procedures with predictive capability are also areas of interest."

Conor O'Connor, Enterprise Equity

Opportunities will arise from The Internet of Things, where sensors deliver real time streams of information. Also, Smart wearables and health/fitness monitoring devices. Consumers will have more wearable devices, coupled to their smart-phones, with more intelligence about what they're doing, how much they are doing and how well they are doing. Some of these devices will span into the healthcare care sector, and will start to be taken seriously as medical monitoring devices. There is also an emerging crop of Oscar-winning Irish animation sector talent in Ireland that will tap into the next generation of entertainment and storytelling. Finally, the maintenance of privacy in a world of real-time information dissemination about any person's whereabouts and activities will continue to attract investment."

Richard Watson, DBIC

THE IRISH APPORTUNITY

With revenues in the European app industry forecasted to grow to €63 billion by 2018, Irish app developers have a sizeable opportunity to tap into this growing market.

Five years after Apple kick-started the creation of the mobile app industry in July 2008 with the launch of its first iPhone, the global app economy is booming. Driven largely by sweeping advances in mobile technology and the proliferation of smartphone and tablet usage amongst consumers, there are

now over 1.1m apps listed in Apple's App store and a similar amount in the Android store.

This rapid growth has given rise to a whole new sub-sector within the Technology sector and spawned an industry that now employs several million people around the world.

Although the industry may owe its origins to US companies like Apple and Google, European app developers have been quick to embrace and capitalise on this rapid growth. European companies like Rovio, King.com, Golden Gekko, Supercell and Grapple Mobile are amongst the top app developers in the world.

According to a recent report carried out by the Insight Centre for Data Analytics in NUI Galway and GigaOM Research, Europe's growing app economy now sustains approximately 1.8m jobs while revenues of €17.5 billion were achieved in 2013.

The report, 'Sizing the EU App Economy,' was part of the Eurapp initiative commissioned by Startup Europe, one of the European Commission's Digital Agenda programmes aimed at promoting Technology and web entrepreneurship throughout the EU.

A breakdown of the 1.8m jobs supported in 2013 shows that this was made up of around one million developers and another 800,000 people in marketing and support functions. Based on



JOHN BRESLIN

the forecasts in the report, this will rise to 2.7 million developers and 2.1 million support staff by 2018.

Of the €17.5 billion revenues that the app economy generated in 2013, some €6 billion were attributable to app sales and in-app purchases and advertising, according to the report. The remaining €11.5 billion, meanwhile, was derived from contract and development work undertaken by app developers. By 2018, the report's authors have forecasted that total revenues could spiral to €63 billion.

The sheer size of the market and the potential it has to create jobs and wealth for the European economy, including Ireland, presents considerable opportunities and indeed challenges according to the report's authors.

Dr John Breslin, who heads up the Insight Centre for Data Analytics in NUI Galway, says that the research, which took over a year to complete, paints a robust picture of an industry that has plenty of potential for Irish app developers.

"One of the key findings of the research was that less than half of the independent developers



said they were offering their services for hire. With contract revenues expected to grow to €45.9 billion by 2018, this represents a huge opportunity for Ireland and Irish developers, particularly start-ups," he says.

He points out that contract development revenues in Europe last year amounted to around €11.5 billion. This year they are expected to rise to around €16.3 billion while in 2015 they will increase again to €22.5 billion and to €37.2 billion in 2017. While forecasted revenues for app purchases, advertising and in-app purchases will continue to rise from €6 billion in 2013 to €17.3 billion in 2018, it is clear that the growth in contract development work offers the biggest potential.

"However, the report identifies the need for better discovery mechanisms for app developers; perhaps some sort of matchmaking service or exchange where companies needing app development could identify, negotiate with, and hire contract developers. There is a need for it, not just in Ireland but across Europe. I think there is scope for Ireland to take the lead on this and be that location," he says.

According to Breslin, sectors like retail, financial services, education and health will drive the forecasted growth in contract revenues as mobile devices become ubiquitous in the daily lives of consumers and companies realise that they need to deploy a mobile-first strategy for their businesses. "These industries are changing rapidly yet many companies don't have a mobile strategy," he adds.

"As the companies eventually realise that mobile devices are now an integral part of everyday

life for consumers, opportunities will abound for savvy app developers," he says.

One of the other key issues which was raised in the report was a possible skills shortage in Europe and this has the potential to stifle some of its growth prospects. Some 38% of independent and in-house developers that were surveyed for the report said EU companies had difficulties competing with US salaries while 31% said that developer education was lagging. A further 30% said start-up developers lacked business expertise while 25% said there are not enough developers in Europe.

"Education and skills is another big issue. If we already know that there is a growing app economy, why can't we put in place the required educational infrastructure to meet its growing needs? Again, I think there are considerable opportunities for Ireland," says Breslin.

"What about setting up an academy for developers? Whatever it is, I firmly believe Ireland can play a big role in this growing app economy providing we approach it in the right way," he says. Once that's done, the app market becomes an attractive and potentially lucrative market place for developers. ●

"Of the €17.5 billion revenues that the app economy generated in 2013, some €6 billion was attributable to app sales and in-app purchases and advertising."

Just like any software or website development project, the cost to develop an app can vary widely depending on complexity. Forrester Research estimates the cost of a single enterprise iPhone app could range anywhere from €20,000 – €150,000. Of course, that range accounts for many factors, such as the complexity. For instance, a more basic brochure-ware app will cost much less than a dynamic app connected to a back-end database. Other costs developers need to consider include the developer fees App store owners charge. For Android apps, developer fees can range from free up to matching the Apple App Store fee of \$99 per annum. Google Play, for example, has a one-time fee of \$25. As well as the app store's standing fees, the store owners will also typically take a percentage of the app developers' revenues.

Both Apple and Google take 30% of earnings and while it is a significant cut it appears fair when taken into context as the app stores offer immediate access to a global distribution channel, payment management and a development platform that enables high quality performance on end user devices.

When it comes to making money, app store owners look after the payment side of things and their terms vary, for example Apple pay out once per month 30 days after the month end and require the app to earn a minimum of €150 before a payment is made.

In terms of revenue models there are numerous options available with no one size fits all solution. Advertising is currently the most popular source of revenue but tends to do better on Android platforms as according to analytics firm Flurry its users are less likely to pay for apps. Freemium models and in app purchases are on the increase as they offer a means to scale up quickly while counteracting any monetisation challenges.

The cost of app development appears not so much of an issue, the real challenge comes with breaking into the app store and gaining visibility e.g. 'Editors Choice' picks. Apple, who have over 26,000 apps submitted to its store each week, stated that approximately 30% of these get rejected and, according to Gartner, out of those apps that do reach the app stores less than 10% earn more than €1,250 per day. This challenge is going to intensify as more and more free apps make it into the stores.

The key to overcoming this challenge is to not only create a product that people will want but one that the app store owners will appreciate too. By working with the app store owners, Irish developers will have a far greater chance of breaking into the market place.

LEADING THE CHARGE

Irish app developers are now amongst the best in the world and several AIB customers are leading the charge for this rapidly growing sector.

A Great Story

StoryToys, is an Irish company that has become one of the world's leading publishers of children's apps for iPads, iPhones and android devices and is the latest success story for one of Ireland's most enduring Technology entrepreneurs.

Over the last 20 years Barry O'Neill has worked in and held business interests in the technology, media and telecommunications and gaming sectors across Europe, Japan, the US and China. He is also a co-founder of Games Ireland.

StoryToys was founded in 2008 by brothers Aidan and Kevin Doolan, who had worked previously at Upstart Games. Originally known as Ideal Binary, the company invented the concept of the 'digital pop-up book' with the release of their first Grimm's Tale, Rumpelstiltskin in 2010.

"I saw the opportunity for the business in the children's entertainment space and joined the company as CEO in 2012, having been involved as chairman prior to that," O'Neill explains, adding that the concept was particularly appealing because the founders of the company had deep product and technical ability.

"Their ability to think differently about how a book is presented on a screen was very exciting. Ebooks often reduce the concept of a book to just a text file, which means



the tactility and substance of the reading experience is lost. Aidan and Kevin have managed to re-create this experience on a screen."

Having started out as a Technology company debating whether to licence its technology to other businesses, the emergence of the app stores changed the way the team looked at how the business should be developed.

"Many of the barriers to addressing the consumer market were removed. The various app stores have created a potential audience of more than half a billion users that can be tapped into from anywhere in the world, so we decided to follow the consumer route and build a global audience."

The strategy of directly targeting the kids market, that has been adopted by the likes of Apple, Google and Amazon, has also benefited StoryToys. "We reckon the market opportunity for kids' applications is at least \$1.2bn

and we are well on our way to grabbing a significant slice of that market. We are consistently in the top 15 in terms of global apps for kids and we are now one of the bigger independent publishers and developers of children's content."

Competition in this market is fierce – O'Neill estimates that there are probably 200,000 kids' applications available from approximately 10,000 developers, most of which have been developed over the last three years.

He describes his experiences of working with the app stores as positive. "We were lucky in that we were spotted by the app stores at an early stage as a developer of content that demonstrated the power of tablet devices, which meant we were able to work closely with their developer relations teams and we have maintained these relationships as we have developed the business."

"I think the key consideration in the app space is to remember that it is a two-way relationship. It is not necessarily just about you being able to make money for your app store partner, it is often about you being able to produce content that demonstrates the potential of the devices your partner is developing. So if you have visually impressive content that is pushing the hardware to

its boundaries, your app store partner will appreciate it."

O'Neill has been an AIB business banking customer for more than a decade. "During my time at Upstart they were a general banking partner. We didn't raise any venture capital for that business, but when I joined Ideal Binary one of the first things I did was to move the company's banking business to AIB because there was a carry forward of trust from the previous business."

In late 2011 the company raised €750,000 in funding from the AIB Seed Capital Fund, Enterprise Ireland and Leaf Investment, the venture capital arm of Folens Publishers.

"AIB has demonstrated an understanding of our needs and has been very flexible when it comes to general business banking. The fact that the AIB Seed Capital Fund managed by Enterprise Equity understands our business has been enormously helpful and Enterprise Equity is just closing a third round of investment in the company."

O'Neill is particularly grateful to the fund for having the conviction to back a consumer content business, which can be a challenging investment proposition. "Having an investor and a bank that understands the games industry has been very helpful," he concludes. ●

"It is not necessarily just about you being able to make money for your app store partner, it is often about you being able to produce content that demonstrates the potential of the devices your partner is developing."

A Sound Proposition

A mobile music discovery start-up based out of a small office in a suburb of Dublin is rapidly gaining exposure as the developer of an app that enables users to discover new music as quickly as it is played.

Backed by the AIB Start Up Accelerator Fund managed by ACT Venture Capital and Mark Cuban, the owner of the NBA's Dallas Mavericks team, Soundwave tracks what songs people are listening to on their smartphones and where in real time. With the app, which was launched worldwide on iPhone and Android last June, users can plug into different groups of people and locations in real time to see what songs are trending, e.g. What are people in Manhattan listening to today?

Users of the app can follow as many people (friends, family, famous people or just those with interesting music taste) as they like. If they find a song they particularly enjoy they can share it with people they are following on Soundwave, on Facebook and even with Google+ friends.

The app seamlessly tracks a user's songs whether they are listening on YouTube, iTunes, Android native player, Spotify, Deezer,

8Tracks or Rdio without needing to change regular listening routines.

In January, an update for Android and iOS devices was released which added a commenting feature to the platform for the first time. This feature was designed to provide an easier way for users to engage with each other and these users can also tag people in comments by using a hashtag (comment hashtags can also be used to group together similar songs). An earlier update, released in December, enabled users to add songs that they have played on YouTube to their Soundwave profile.

The company was born from a realisation that there was no way to easily share information on what people were listening to on their smartphones, explains Brendan O'Driscoll, CEO and founder. "At the same time we noticed that the music player market was becoming increasingly fragmented. Some of my friends were using services such as Spotify, while others were playing MP3 or listening to niche music on Soundcloud or watching music videos on YouTube."



The idea of Soundwave was to tie in all these different methods of consuming music and collect the information about what people were listening to across various media in a simple to use app. "We thought that people would start to follow what people they were interested in were listening to," says O'Driscoll, who was satisfied that there was a gap in the market for a solution that allowed people to keep playing music through their current player without having to change their listening habits or patterns.

Soundwave was recognised as the 'Best Innovation in Music' app for 2013 by Apple in more than 15 countries. This was the second award received from Apple last year following the 'Designed for iOS7' award.

O'Driscoll describes his experience of dealing with both Apple and Google as extremely positive. "We reached out to them before we launched the product and they have been very supportive in terms of helping us build a great quality product for users all around the world."

If you can solve a user's 'pain-point' there is money to be made, he adds. "We have some interesting revenue models in place already. For example, as people discover new music within the app they have the

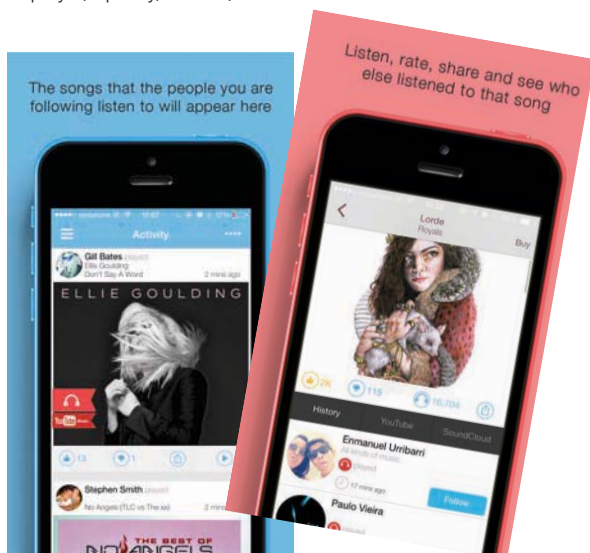
option of purchasing it through Soundwave and, as a result, we receive a percentage of the sale."

Soundwave has acquired more than one million users in its first seven months of operation and the focus for the immediate future is on continuing to grow the user base. In the longer term, the company is building a network of data around who is listening to what tracks, where and when on a global scale in real time.

"The ability to understand consumption patterns is potentially very valuable for the music industry from a marketing perspective," says O'Driscoll, who explains that AIB was his bank of choice when he decided to set up the company.

"The managers in AIB Bankcentre have been very approachable and supportive in terms of putting on workshops but also just being at the other end of the phone when we have had a banking-related query. Some of our funding has also come from the AIB Start Up Accelerator Fund."

"Access to capital is vital to getting a business up and running," he concludes. "Having a banking partner that can see the vision for the company and understand what is required to get it up and running from experience with other successful businesses is a great relationship to have." ●



Whole World in its Hands

Having observed how the music business has been fundamentally altered by internet downloads, leading figures from the music and Technology industry have come together to effect a similar change in how music is created.

WholeWorldBand is the brainchild of musician Kevin Godley, formerly of 10cc. It has developed an audio visual music platform and mobile application where anyone can earn money by recording their own music or adding to someone else's content.

Godley originally had the idea for online musical collaboration while working on a documentary, but had to wait for a number of years for the technology to catch up.

The platform is based around an advanced recording tool that captures a session online, explains chief executive John Holland. "It is a globally accessible, 24/7 music studio in the cloud. Think multi-track YouTube. Fans can collaborate with big name artists while anyone can drop in and re-jig the different performances of the session and add their own performance."

WholeWorldBand has already signed a diverse group of international musicians to create tracks for fans to interact with, including music legends Ronnie Wood, Stewart Copeland and Dave Stewart.

"We are bridging the gap between the artist and the fan," adds Holland. "An artist can now crowdsource from their fan base. If that fan puts something really good on the song they can earn money and may even be included in a band album, single

or video release. It opens up an opportunity and experience that was previously closed."

The model is that you buy a one month recording session with an artist, who sets the price and must share at least 5% of the revenue back with users, although most are sharing 50%. In some cases the user may even end up owning a percentage of the song and resultant royalties.

"The soft launch last November was preceded by a lengthy period of in-house testing," says chief financial officer Gerry Jones.

In the relatively short period that it has been live, WholeWorldBand has signed up customers across 80 countries. "There are other apps that do something similar, although not with video and not with the same level of simplicity. The way the copyright of the music is managed is unique to us and is very clear from the outset."

WholeWorldBand engaged one of the pre-eminent law firms in the area of music copyright management to review its terms and conditions, which have now been accepted by more than 200 artists, labels and artist management companies.



"Every one of these has closely scrutinised our terms and conditions and they have deemed them to be clear and satisfactory," says Jones.

The original business plan for the company was written in late 2012 and included the strategy for monetising the app. A great deal of thought went into the product development process and again the company sought the best legal advice around copyright issues.

All sales currently go through the Apple App store. Jones splits the process into two elements – firstly, the uploading of the product to the apps store where it goes through a process of technical evaluation.

"We have been through a number of product iterations

at this stage. Getting the first approval through took several weeks, although that was in part because we made some mistakes at our end because we were new to the process. Once you become familiar with it, and what Apple is looking for, it becomes more straightforward, so now when we submit a new release it goes through within a few days."

The other element is the business aspect. "We have not had many dealings with Apple in this area so far, although that may change in the future because music is such an important part of what iTunes offers. We don't compete with iTunes or Spotify – we are very complementary to these services so in the future I can see the potential for collaboration."

The connection with AIB came about through Kevin Godley, who was a customer of the bank before WholeWorldBand was established. "When the company was incorporated it was logical to become a business customer."

As for future plans, Jones says more high profile acts will be coming on board soon. "These will be global names, which is vital for our development. To grow and scale this business you need really good content. This is a truly global business." ●



The Waterford Star

Jordan Casey, a 14-year-old secondary school student from Waterford, is already being touted as a future gaming industry leader. A self-taught programmer, entrepreneur and founder of independent game studio, Casey Games, he is the creator of games such as My Little World and Food World, an online virtual world for kids while he has also developed a number of projects to promote coding among kids in Ireland.

Casey began programming at the age of nine when he started building websites about online games like Club Penguin. In 2011 he started producing music and in the following year he founded Casey Games and became one of the most subscribed video bloggers in Ireland on YouTube. In June 2013, TeachWare – a web application that allows teachers to easily manage their students' information – was launched.

"I have always been interested in playing games, but my interest in development started when I was playing a game on the internet and saw that some of the users were making websites and blogs about it," he explains. "I thought this could be a fun hobby so I bought a book on programming."

He decided to set up TeachWare when, on the last day of school before summer holidays, his teacher lost the 'big black book' that was used to track attendance, exams, etc. "I thought it would be more modern and secure if this information was stored on the internet. TeachWare is a game changer in the student management software industry, being the first application to use both the cloud and the web."



JORDAN CASEY WITH LAR POWER, WATERFORD CITY COUNCIL AND CIARAN CULLEN, WATERFORD ENTERPRISE BOARD.

"The source of my ideas depends on what sort of app I am creating – for example, the TeachWare idea came from wanting people to benefit from technology. But a lot of my games just come from ideas of games I would like to play and my friends also give me ideas and feedback."

So how important is it to keep up with trends in gaming? "It is very important, considering how rapidly it is changing. A majority of the games making money on the app store now are free and developers have yet to adapt to new methods like this. However, I can see myself developing more non-gaming apps in the future."

He accepts that it can be difficult to make money from apps. "It depends on what app you have and what monetisation method to use – if you use the wrong method it can backfire," he says.

Getting listed on the iTunes App store can also be tricky, he

says, "Apple has a lot of rules regarding acceptance that can take some time to navigate. Google Play, like the operating system it runs on, is more open."

It will come as little surprise to learn that the combination of studying and managing a business is far from easy. "However, I think it is important to have a balance. After school I would stay back and study for maybe two hours and then when I go home I would work. Then, on the weekends, I would take a day off and just go out and play soccer."

"It is very important for a start-up to have the right financial/banking partner, especially for young entrepreneurs," he continues. "The good news is that, in my opinion, the supports are definitely in place to help start-up Technology businesses in Ireland."

Casey (who has been invited to speak at international

conferences including Junior Worldmakers – Cannes Lions International Festival of Creativity, the Smartphone and Tablet Games Summit and Apps for Good) now employs two staff. He is also the youngest member of international private gaming industry group, Gaming Insiders.

When asked for his view on the 'next big thing' in the app space, Casey observes that apps on wearable devices have a lot of potential. "The possibilities are endless and I can't wait to see what the developers come up with."

In the longer term, his ambitions are to develop a successful business, possibly outside Ireland. "For the time being it is just me really and a couple of my friends working on my apps. But in three to four years I would really like to move to somewhere like London and buy an office and just keep working on new products." ●

DEALING WITH THE BANK

AIB has been supporting the indigenous Irish Technology sector by providing a range of services and products that meet the needs of its customers. John O'Dwyer Head of Technology, Media and Telecoms Banking at AIB provides an overview of how the bank assesses credit applications and what customers can expect.

Raising finance can sometimes be a time consuming and laborious process. While there are several key areas that a lender will focus on in its credit assessment, to ensure the fastest and most efficient credit decision, it is helpful to understand how the bank makes its lending decision and by working with your relationship manager to compile a robust credit application that can be processed efficiently. Here are five points worth considering to ensure your credit application is successful with AIB:

CAPACITY TO REPAY

AIB is a cash flow lender and that means that repayment capacity is paramount in all the bank's dealings with customers and is the single most critical factor in any loan application. Our relationship managers are now trained more than ever to rigorously assess whether or not the business can repay the loan without hampering its growth potential or its future viability. Thus, borrowers need to work closely with their relationship managers to illustrate the free cash generated by the underlying business as the primary source of repayment capacity. This is the kernel of all credit decision making.

Working with your relationship manager you should set out the assumptions of your financial projections (e.g. sales, margins, fixed and variable costs) and be able to demonstrate an ability to sensitise the variables in the underlying cash flow from the business under a number of scenarios. You can assume that the relationship manager will be laser focussed on the timing of all repayments, and the probability of successful repayment of the loan.

COLLATERAL TO PLEDGE

At AIB, we make both secured and unsecured loans. With a secured loan, you pledge something that you own as collateral. Depending on the size and considered risk of the business, it might be personal assets like

deposits or business assets like those listed on your balance sheet such as equipment or intellectual property. AIB is acutely aware of the nature and value of the intangible asset base in a knowledge-based Technology company and that its intangible assets are just as important in generating value as its tangible asset base. The issue of whether or not personal guarantees will be required will ultimately depend on the size of the business, the dependence on the promoter to run the business, overall risk assessment as well as other qualitative and quantitative factors. Overall, there are no hard and fast rules as regards collateral and it depends on the risks and strength of the overall credit application.

CAPITAL SOURCES

An application for credit must be supported with a very clear and unambiguous summary of the intended purpose of the loan and the sources and uses of capital to date and in the future. Will the money be used for working capital, additional equipment, or inventory? Is there an appropriate mix of debt and equity in the business and most importantly have the promoters and shareholders invested adequately in the equity of the business? Lenders are no different to equity investors and will expect promoters to have contributed from their own assets, in so far as possible, so that there is an alignment of interests or 'skin in the game' before taking on debt funding. The bank wants the owner to be sufficiently invested in the company such that if things were to go wrong, the owner would be motivated to stick by the company and work with the bank during a turnaround.

It is important to appreciate the often forgotten truth that bank debt is not equity risk capital and thus the bank's lending decision is more about finishing the race and having its loan repaid versus winning the race in the way an equity provider will desire a capital gain for the risk taken.

CHARACTER AND CREDITWORTHINESS

Since the dawn of time, lending was based on a lender's assessment of the willingness and the discipline of the borrower to repay past and future obligations as well as their experience and ability to succeed in their chosen sector. Therefore, payment history on existing credit relationships – personal or business – is considered an indicator of future debt serviceability as well as a knowledge of your existing and contingent sources of repayment.

SECTOR CONDITIONS

Another key factor in assessing credit in AIB is the overall environment and sector that the borrower is operating in. The relationship manager will work closely with the bank's Technology sector specialist to determine the key opportunities and risks facing the business, and also, whether or not these risks are sufficiently mitigated.

It is important to be able to explain, inter alia, the nature of customer contracts in the sector (have on warm standby for example, historical sales by customer and product, and the forecasted pipeline by probability), supplier relationships (and contractual position on each) and an ability to articulate in simple terms, the competitor situation (in terms of substitutes and new entrants). Ultimately, the combined duo of lender and sector specialist will work closely with the customer to ensure the conditions surrounding the borrower and its industry are properly understood and appraised within the bank.

AIB recognises that the Technology sector is a one of the largest contributors to Irish exports and of strategic importance to Ireland, both in terms of jobs and the future of our economy. The bank recognises the different nature of a knowledge-based Technology business versus a traditional business and that it requires a fundamental change in approach to understanding the sector's banking needs. ●

A FULL SERVICE

TECHNOLOGY OFFERING

AIB has developed an holistic approach to the Irish Technology sector by developing a full range of services and products that embrace every stage of a company's life-cycle.

AIB's sectoral approach to the key industries and sectors that drive the Irish economy, is an important part of the bank's overall strategy to help Irish businesses grow and develop. This sectoral approach has allowed the bank gain an holistic view and understanding of the dynamics at play within these sectors while, at the same time, it has allowed the bank develop and deliver more innovative, effective and relevant financial products and solutions to its customers.

In the case of the Irish Technology sector, the bank has enjoyed a long-standing relationship with many indigenous and multinational companies. The list of companies read like a Who's Who of the Irish technology landscape and the banking relationship spans the whole spectrum, from up-and-coming start-ups right through to leading global companies that have chosen Ireland as their European headquarters.

"In the new banking world, deep sectoral knowledge is absolutely key and this means raising the bar across all AIB business areas, concentrating on delivering a truly integrated banking and

service offering for every sector of the Irish economy," says Mags Brennan, Head of Sectoral Strategy and Sector Specialists at AIB.

"Looking at AIB from the outside in, one might be surprised to know the depth and breadth of a new and reinvigorated focus with which the bank is placing on individual sectors of the Irish economy," says John O'Dwyer.

He points out, in the new banking world, which has emerged since the economic downturn, that having deep sectoral knowledge and understanding of the challenges and opportunities is of utmost importance for the bank.

"Our Tech sector clients need increasingly sophisticated banking and sector specialist support in a tough and globally competitive sector. I get a great kick seeing the surprise on our customers' faces when they realise that they don't need to educate us about what's going on in their sector – we get it," he says.

At every stage of a company's development, AIB has a number of tailored solutions to offer

its Tech sector customers from equity funding to credit and treasury solutions to corporate finance advisory services.

"A less well-known fact, for example, is that AIB is actually one of the largest providers of venture capital funding in the Irish market with €50m in commitments to the AIB Seed Capital Fund and the AIB Start Up Accelerator Fund alone. AIB also recently announced a €20 million investment with MML Growth Capital Ireland which will focus on investing in Irish SMEs looking to scale," says John O'Dwyer.

By the end of 2013, the AIB Seed Capital Fund had made a total of 130 investments in 70 different companies including the likes of Swrve, Cloudium, Heystaks, MicksGarage.ie, VisibleThread, and StoryToys, to name but a few.

"Our role is to make sure that customers in the Technology sector are understood in a banking context and that they have as much of a chance of getting credit as any other customer in more mature sectors like farming or hotels. We peel back the complexities in assessing and understanding

the credit risk. We then work with the customer to ensure that the right financial and funding structures are in place that work for all sides," says Mags Brennan.

Depending on the nature of the client proposition, AIB Corporate Finance, the bank's corporate finance arm, provides companies in the Technology sector with access to a more specialist set of skills and knowledge when it comes to fundraising, exits, mergers, joint ventures and acquisitions, transactions which are now a key feature in the life-cycle of many companies operating in the sector.

"Our focus is across the full spectrum of business," says Fergal McAleavey, Managing Director of AIB Corporate Finance. "AIB Corporate Finance as a business unit operates across the full spectrum, irrespective of size. We work with early-stage Technology companies and, as they grow, we develop a good relationship with them because it's a sector we know and understand. It might be that they want to raise a Series A or B round of funding or it might be that they want to sell the business to a bigger player; whatever it is we can help them as we have a strong

"We work primarily with AIB Business Banking and the 19 geographical business centres around the country. A big focus for us, is going out and meeting the Technology companies and talking to them about their needs, their hopes and their aspirations. It's hugely important that we are also able to talk their language and many are surprised that we know so much about the space they are in and the challenges and opportunities that lie ahead," he says.

The other key piece in the “one bank” jigsaw is AIB’s Foreign Direct Investment team which provides a wide range of financial services and solutions to many of the leading global technology companies that have their EMEA headquarters in Ireland.

With over 30 years' experience in working with multinationals in all sectors, AIB now provides financial services to more multinational technology companies in Ireland than any other financial institution, says Mick Murray, Head of Foreign Direct Investment, AIB Corporate Banking.

"Ireland has been extremely fortunate in attracting many

“With over 30 years’ experience in working with multinationals in all sectors, AIB now provides financial services to more multinational Technology companies in Ireland than any other financial institution.”



of the leading global technology companies to the country and, to its credit, IDA Ireland has enjoyed considerable success in bringing these companies here. As success breeds success, the large multinational presence in Ireland, particularly in the technology sector, has been a great boost to the indigenous sector and that's an important factor multinationals take into account when making their decisions about where they locate within Europe. They want to locate somewhere there is a vibrant tech sector with a talented and educated workforce and Ireland has a great reputation globally," he says.

"As these businesses operate at an international level, it's important that they have a bank, with a strong track record of dealing with international companies, that understands their needs and is able to provide them with a wide range of banking solutions and this generally means services like working capital/RCF lines, terms loans, asset finance, cash management, letters of guarantee, global treasury, private banking and corporate credit cards," he adds.

With many Irish Technology companies exporting their products and services, the importance of having good advice cannot be understated. To help its export customers, AIB has recently appointed John Whelan, former chief executive of the Irish Exporters Association to join AIB's Sector Specialist team.

According to John, “the Technology sector is of strategic importance to Ireland, both in terms of the numbers of high-skilled professionals employed,

estimated at 105,000 and its significant contribution to Ireland's export performance, accounting for an estimated €74 billion in exports last year, back to pre-economic crisis levels of 2008.

"However, in today's competitive global market place, Technology companies often are required to offer performance guarantees and the necessary bonds to win contracts. Technology exporters expect their banks to offer easy access to low cost bonds and guarantees, to help them win these contracts. I am happy to say that AIB has stepped up to the plate in meeting these requirements with a full competitive range of services."

He adds that “having guaranteed the performance, many exporters face losing their profit margin because of exchange rate movements. Following a recent review, I can say that AIB has a top notch specialist team in place, offering clear daily Foreign exchange guidance and alerts, backed up by very competitive execution rates to exporters with foreign currency exposure.”

"So, choosing the right bank from the outset is a critical decision when starting up a business and AIB's aim is to be the bank that understands your business and your sector the most." John O'Dwyer concludes.

To find out more about AIB's Technology sector finance options ask at any branch or Business Centre or call 1890 47 88 33. Alternatively go to www.aib.ie.

Allied Irish Banks, p.l.c. is regulated by the Central Bank of Ireland. ●

STRONG RELATIONSHIPS

The depth and breadth of AIB's product offering to the Irish Technology sector is highlighted by a number of case-studies from around the country.

Alpha Wireless, Laois

With most global mobile telecommunications companies now focused on developing their 4G networks, the Portlaoise-based company Alpha Wireless has carved out a growing business by designing and supplying a range of next generation base-station antennas for 4G applications.

The company, which is headed up by Fergal Lawlor, has offices in Ireland, Spain, and the USA in addition to a sales presence in Israel, Canada and Taiwan and employs over 35 staff. Since its formation, AIB has been the company's banking partner and the bank has provided it with a range of banking and advisory services that have allowed it grow.

According to Pádraig Leen, AIB Business Banking, Midlands "the relationship is about more than day-to-day banking. We worked closely with Alpha from an early stage to understand the business and the markets Alpha competes in. This helped us to understand the opportunities as they arose and, more importantly, to anticipate and provide solutions to various financial problems when needed."

As a start-up enterprise, credit from suppliers was limited so the bank provided important working capital facilities to help it deliver new customer orders. AIB's business banking division was also instrumental in



KEN BURKE, HEAD OF BUSINESS BANKING AIB; DEBBIE RENNICK, DIRECTOR, ACT VENTURE CAPITAL; BRYAN O' CONNOR, HEAD OF PROPOSITIONS AND INVESTMENT STRATEGY, AIB; TOM SHINNICK, ENTERPRISE EQUITY VENTURE CAPITAL AND FERGAL LAWLOR, ALPHA WIRELESS.

helping the company raise new investment by introducing it to AIB Corporate Finance.

According to John McCarthy of AIB Corporate Finance, "it was immediately clear that Alpha had a high-quality team, excellent customers and was well positioned in a fast growing market but fresh capital would be required to scale the business to address the market opportunity."

AIB Corporate Finance then worked with Alpha, over a number of months, advising on the fundraising process. This involved positioning Alpha's pitch to potential investors, negotiating the valuation, structure, terms and execution of the transaction.

"AIB Corporate Finance generated strong interest from a range of investors and managed the process to maximise competitive tension among bidders, driving a valuation which significantly exceeded Alpha's initial expectation," according to Fergal Lawlor.

In the end, Alpha selected a combination of investment from both of AIB's venture capital funds, the Start Up Accelerator Fund (managed by ACT Venture Capital) and the AIB Seed Capital Fund (managed by Enterprise Equity) from a number of competing bids. Since completing the fundraising Alpha's business has grown strongly and has been awarded

a multi-million euro order to supply antennas to the Sprint 4G network in the US.

"The support provided by the AIB Business Banking team helped Alpha through the early stages and AIB Corporate Finance successfully delivered an investment round which supports Alpha addressing its growth opportunities," says Fergal.

Ken Burke, Head of Business Banking, AIB concludes "the Alpha story is a good example of how strong communication between the bank and the customer has enabled AIB to provide a holistic solution to an Irish Technology company's financing needs." ●

Treemetrics, Cork

Eliminating both wastage and risk has always been a major challenge for the global forest management industry. Now the Cork-based Treemetrics has come up with an end-to-end solution that will deal with many of the practical issues that foresters face when felling trees.

The product of nine years' research, by forestry graduates Enda Keane and Garret Mullooly, Treemetrics is the first system that integrates satellite imagery with aerial and terrestrial laser scanning that allows forest managers to accurately map forests according to their categories of productivity. Treemetrics has developed the system to provide an independent method that also assists the valuation of a forest. Now the company has a vision of indexing every tree in the world.

Historically forest measurement has been done manually by a foresters who use callipers to measure the radius of a sample of trees. But with Treemetrics' technology, a 3D laser scanner emits laser pulses that bounce back from objects in the area, gathering millions of data points over a 30-metre radius of forest. Those data points are then used to construct a 3D model of the trees. Better measurement means that fewer trees can be cut while maximising value and minimising wastage by as much as 75%.

Based in the National Software Centre in Cork, the company has also developed a partnership with the European Space Agency and has tested the product in Scandinavia, Russia, Canada, Europe, Australia, New Zealand and South America.



GAVAN DALY RELATIONSHIP MANAGER AIB, **GARRET MULLOOLY** COO TREEMETRICS, **ENDA KEANE** CEO, TREEMETRICS, **EOIN GUNN** RELATIONSHIP MANAGER, AIB

The bank has worked with the company, an AIB customer, by providing both working capital and asset finance to enable it grow its business.

"Our experience is very good. It started off with some learning from both sides and the involvement of the relationship manager was central to that development. The actual time spent by the senior managers in visiting us and understanding our business was very important," says Garret Mullooly, COO of Treemetrics.

"Our first relationship began from a personal introduction and basic banking facilities. But over time that has developed with the bank providing financing for equipment and also financing for the growth of the company. It was extremely important for cash flow, actually vital," he says.

"The financing came at a critical stage in the company life cycle, moving from proof and R&D towards commercial rollout. It enabled us to hire some key people and execute commercial contracts.

"It also meant we could avoid raising equity finance which now positions the company in a very strong position for growth.

"It's so important to build relationships and provide foresight to the position of the company. This also means we need to understand AIB's business. The provision of quarterly accounts etc. It's almost like treating the bank as a shareholder in the company. Their involvement is critical to success and it's simply about everybody being successful and looking at things over a long time," concludes Garret. ●

"The financing came at a critical stage in the company life cycle, moving from proof and R&D towards commercial rollout. It enabled us to hire some key people and execute commercial contracts."

Accuris Networks, Dublin

With offices in Ireland, the USA, Brazil, Malaysia and Japan, Accuris Networks is one of the world's leading providers of Wi-Fi offload and roaming solutions for data, voice and text services.

With an experienced management team, that includes a number of Irish serial entrepreneurs, their list of customers read like a Who's Who of the international telecommunications industry including AT&T, China Mobile, Bell Mobility, Mobily, Globalstar, Cricket, Digicel, Telecom New Zealand, AllTel Wireless, ATX, Bakrie Telecom, Telenor and KPN. Backed by Enterprise Ireland, the company has also received substantial investment from its founding shareholders as well as Atlantic Bridge Ventures. Accuris Networks has been banking with AIB since 2002 and apart from the normal day-to-day banking requirements, it has



DAVID GUILMARTIN

availed of numerous AIB banking products that have helped it grow the business during this time. In addition, the company's founders have had a long-standing and mutually beneficial relationship with AIB, through both their personal and other business ventures.

Such is the nature of the company's business that when large contracts are signed with international telecommunications

"Accuris Networks has been partnering with AIB as our bank since we established the company over 10 years ago."

companies, its short-term cash-flow requirements can change considerably. AIB has worked closely with the company by providing working capital facilities to alleviate short-term pressures arising from fast growth. In addition, it has also provided asset finance facilities to the company that have allowed it invest in the hardware required to implement a new project.

"Accuris Networks has been partnering with AIB as our bank since we established the company over 10 years ago," says David Guilmartin, Chief Financial Officer of the company. "In that time we have expanded the company to include a number of international subsidiaries, and secured some

of the top tier one global telecom operators as part of our expanding customer base. Our experience with AIB has been excellent and it has a very experienced team from branch to business units. Our relationship with the bank is open and their understanding of the business and the trading environment is exceptional," he says.

"AIB has assisted us in avenues of financing on a number of facets, ranging from insurance financing to short-term loan financing. The bank has demonstrated an understanding of the dynamic requirements of rapidly growing international software company that has successfully transitioned to a SaaS model," he adds. ●

Exaxe, Dublin

Established in 1997, Exaxe which is Dublin based, provides a range of specialist front, middle and back-office solutions to the life, pensions and wealth-management industry around the world.

These solutions allow life and pensions companies launch new products faster, administer post retirement products more efficiently and respond with greater flexibility to the marketplace.

With its headquarters in Ireland, the company also has offices in the UK and customers include Aviva, MGM, Zurich, RSA, Ageas, Interamerican, Scottish Provident and Eureko. Exaxe's component-based solutions essentially allow companies to effectively manage product development,



NORMAN CARROLL

quotations, illustrations, channel distribution, commission management and full policy administration.

The rapid growth of the company in recent years led it to approaching the bank for working capital facilities and its CEO, Norman

Carroll approached the company's relationship manager in AIB.

"I found that our relationship manager and the unit adopted a very supportive and constructive approach, taking the time to really understand our business before suggesting the most appropriate facilities to be put in place. I always felt that the business banking unit was working with us to find the most appropriate solution and once we agreed on the appropriate facility, they worked with us to navigate the application through the credit committee," says Norman.

"Exaxe has been a pleasure to work with. In this changing banking environment and with requests for significant levels of financial data to complete a credit application,

Norman has been very forthcoming with this information, which makes the process much more straight forward," says David McCarthy, Relationship Manager at AIB's Dublin Central Business Centre.

"I have to say that, given everything I had heard in the media about the banks over the past few years, I really didn't expect the level of support I received when I first approached AIB business banking," says Norman.

"We actually explored a number of options to fund our growth at the same time that we approached AIB but in the end they came up with a very suitable solution that enabled us to increase our headcount and support significant levels of new business." ●

Trustev, Cork

Eliminating fraud from online e-commerce transactions is a major challenge for many businesses that sell online. Not only does it increase their policing costs but it also causes missed revenue opportunities and can erode customer confidence.

The Cork-based company Trustev has developed a real-time online verification platform that aims to shake-up the global online e-commerce market by focussing on validating the individual making the transaction and not just the payment method they're using.

"Our platform delivers individual, real-time decisions for every one of your customers using multiple dynamic data sources including behavioural, transactional and social, instead of restrictive rules-based decisioning and profiling," says founder Pat Phelan.

Trustev's easy-to-integrate platform works by verifying consumer's identities in real-time, using thousands



CHRIS KENNEDY AND PAT PHELAN, TRUSTEV

of dynamic data points from sources such as deep location, email verification, device ID, social fingerprinting, proxy/VPN piercing, site velocity and behaviour, browser ID and mobile location. It uses proprietary algorithms to combine all this data and compile it into a single, simple

score of 1-100. This score is then used to provide a recommendation either to allow, deny or flag the transaction.

In 2013 Trustev was chosen as Europe's Top Technology Start-up by the EU Commission and in December 2013 it was named as one of the Top 10

global Technology start-up companies by Forbes magazine. More recently, it picked up the prestigious SXSW Accelerator award in Austin, Texas for the best global start-up. Previous winners include Twitter, Foursquare, Uber and Facebook.

"Having AIB's backing has been a huge asset for us," says Pat Phelan. "As a business solving the problem of online fraud, you have to have the right relationships with payment providers, banks, merchants and the payments industry. Beyond our banking requirements, AIB has made some great introductions for us that have led to some fantastic business connections and partnerships for us."

"I've been a lifelong personal customer of AIB and I've never banked anywhere else. As a serial entrepreneur, across the years I've always found it to be a great support and open to all the business ideas that I've brought their way" he says. ●



DIARMUID THOMA, HEAD OF FRAUD AND DATA STRATEGY; JASON RYAN, SENIOR DEVELOPER AND JONATHAN BOWERS, FRAUD AND DATA SPECIALIST.

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Our next report (Issue 7) will focus on the Residential Property Sector.

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