

# VENTURE CAPITAL LOAN FUND FINANCED FROM ERDF

## The case of Northwest England: Challenges, Achievements and Perspectives

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# OVERVIEW

- **Background**
- **Challenges for North West**
- **Perspectives – Strategic Sustainable Solution**
- **Achievements – Interim and Main Fund**
- **Going Forward**

# BACKGROUND – NORTH WEST (NW) REGION

- Largest region outside of the South East
- Home to 247,000 businesses and a strong regional economy
- Moving from traditional industries to new priority sectors:
  - Biomedical
  - Energy and Environmental Technologies
  - Advanced Engineering and Material
  - Food and Drink
  - Digital and Creative Industries
  - Business and Professional Services
- Large SME base, suffering from lack of funding options caused, in part, by the credit crunch
- Large academic and commercial research presence with an active “spin-out” culture

# BACKGROUND - NORTH WEST OPERATIONAL PROGRAMME (NWOP)

- NWDA has been allocated €755 million from ERDF to spend in the Northwest between 2007 and 2013
- The NWOP has four priority areas for funding of which the VCLF delivers under Priorities 1 and 2
- The NWOP aims by December 2015 to:
  - create 26,700 additional net jobs
  - create 2500 businesses
  - improve the region's annual Gross Value Added by £1.17bn
  - 25% reduction in additional carbon dioxide emissions
- The North West Fund is £184.8 to be invested by 2015 and plays a significant part in achieving these outputs

# BACKGROUND

## Why do we need these Funds?

- **A finance gap exists where viable businesses experience difficulties in accessing finance in the commercial market. This provides the rationale for publicly funded support to business.**
- **The equity gap occurs most acutely for businesses seeking between £250,000 and £2 million.**
- **The ongoing shortage of capital for businesses seeking modest amounts of external funding occurs as a result of rational investor behaviour – information and transaction costs are disproportionately higher for smaller investments.**

# BACKGROUND - OBJECTIVES OF NORTH WEST JEREMIE

- To create a lasting Evergreen legacy fund for the region after the end of the ERDF programme in 2015
- To establish a major, single branded region-wide VCLF in the North West, operating alongside other forms of SME support
- Improve the survival of new businesses and assist the development of key sectors in the region
- To provide a range of debt and equity finance that SMEs require to grow and generate additional wealth

# BACKGROUND- OBJECTIVES OF NW JEREMIE

- To support the funding requirements of growing SMEs across the region
- To provide a range of debt and equity finance solutions for SMEs to support their growth plans
- To create a lasting legacy fund for the region
- To establish a major, single branded region-wide venture capital and loan fund in the region, operating alongside other forms of SME support
- To improve the survival of new businesses and assist the development of key sectors in the region
- To create/safeguard 14,000 jobs; and generate £700m GVA from investment into over 700 businesses.

# BACKGROUND - HISTORY

## History of Success in Venture Funds

- **Previous publicly backed VC Funds coming to an end of their investment period by 31/12/08:**
  - Northwest Business Investment Scheme (£23.3m)
  - Merseyside Special Investment Fund (£106m)
  - Northwest Equity Fund (£35.5m)
  - Rising Stars Growth Fund I (£19m)
  - Northwest Seed Fund (£4.5m)
- **Continued need for Continuation for SME's especially Key Sectors**



# BACKGROUND - NW JEREMIE

- **NW JEREMIE amounts to around €204m over the life of the programme 50% ERDF, 50% match funds (EIB)**
- **ERDF requirements 40% in the Merseyside phasing-in area and 60% in the rest of North West.**
- **NW OPERATIONAL PROGRAMME**
  - Priority 1 Stimulating Enterprise and Supporting Growth in Target and Markets:
  - Priority 2 Stimulating Enterprise & Supporting Successful Businesses

# BACKGROUND – DEVELOPING STRATEGY

- **Evaluation of Current VCLFs**
  - Considered VCLF models and approaches and whether still appropriate and fit for purpose
  - Assessed the financial performance of the VCLFs against targets
  - Assessed the effectiveness of the management and governance of the VCLFs
  - Assessed the emerging outcomes and impacts achieved by the VCLF's and value for money
- **Reviewed recommendations from:**
  - Regeneris Study of ERDF VCLFs (June 2007)
  - European Commission 'Comparative Study of Venture Capital and Loan Funds
  - Key learning points have been included in the development of the Northwest successor fund.

# IMMEDIATE CHALLENGES

## Finance - ERDF and Match Funds

- ERDF Regulations –Decommitment
- Economic Climate- Banking Crisis
- Co-financing ? Or Co investment ?
- Finding Match Funding
- A phased approach to VCLF !

# INTERIM FUNDS

## Venture Capital Transition Loan Fund

- Managed by YFM
- Launch November 2009
- Total invested £1.75m in 7 businesses
- 93 jobs created 42 jobs safeguarded

## Interim Loan Fund

- Managed by YFM
- Invested £1.9m in 17 companies
- 78 jobs created
- 67 jobs created

# CHALLENGES – TARGET INVESTMENT

- Investment into SMEs – less than 250 employees, t/o less than €50m and net worth less than €43m – at the point of investment
  - To support growth plans – not transactional funding e.g. MBOs
  - Investment for loan only restricted to £250,000
  - Equity or quasi-equity investments can be from £50,000 to £2,000,000, although no more than €1,500,000 in any one year.
  - Exit horizon for the fund's investment within 7 years of first investment
  - Some excluded sectors e.g. retail; and types e.g. failing investments
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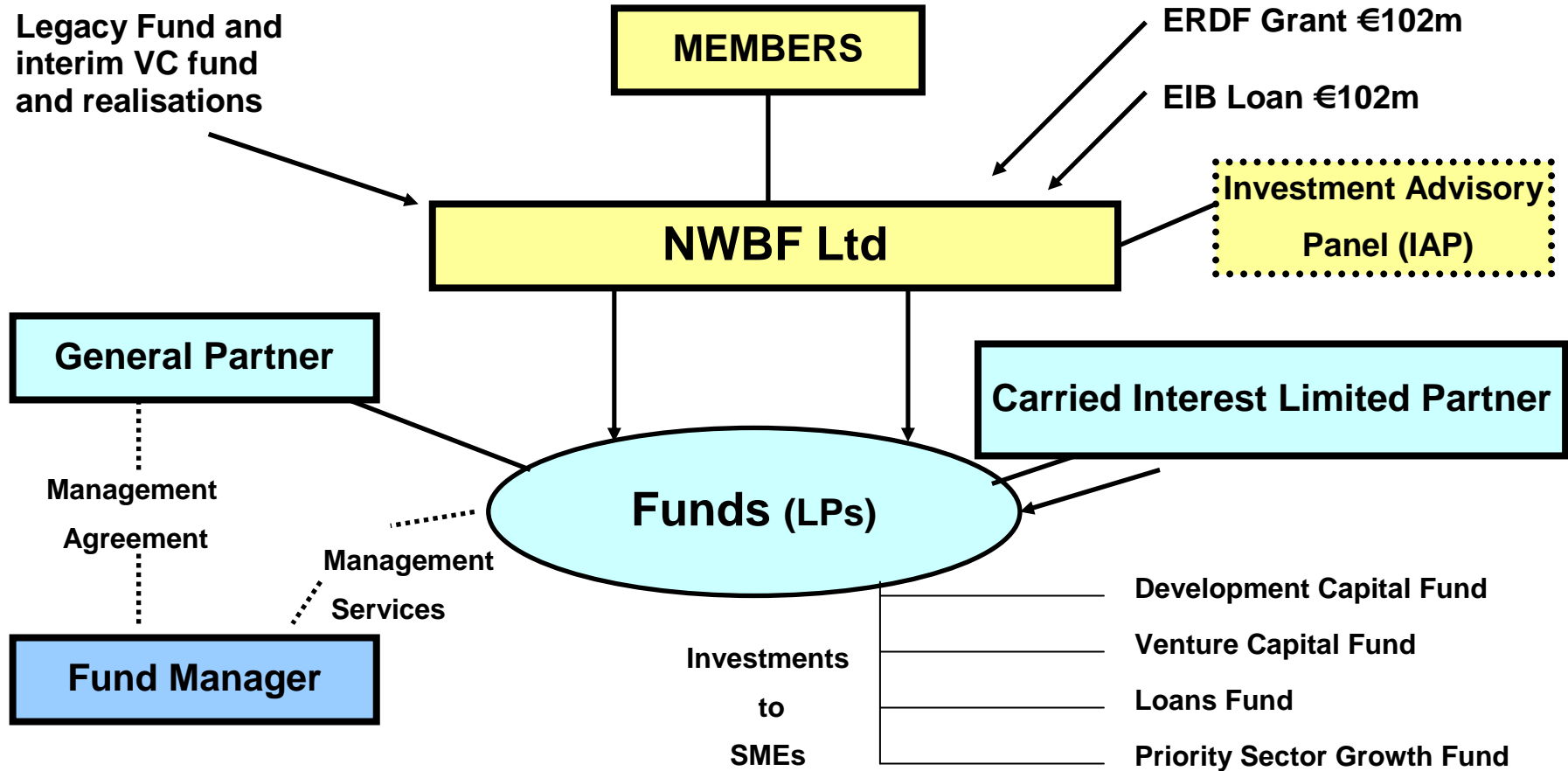
# CHALLENGES - EXPERIENCE

- The North West Fund will operate six “sub-funds”
- Includes sector related funds for focused investment in key regional growth sectors
- Collaborative, non competitive manner designed to maximise deal flow, improve efficiency and minimise conflicts of interest
- Initially £170m of the available £184.8m allocated with the balance retained for future allocation
- Robust OJEU procurement process adopted in fund manager selection
- By adopting this structure, The North West Fund will be able to leverage its scale whilst having some of the deep focus of smaller specialist funds

# CHALLENGES -TECHNICAL

- **State Aid**
  - GBER
- **Approvals**
  - Central Government
  - ERDF PMC
  - EIB
- **Structure and Efficiency**
  - Holding Fund established
- **Procurement**
  - OJEU Open procedure adopted in fund manager selection
  - Allow 6-9 months

# STRUCTURE – HOLDING FUND MODEL





# CHALLENGES - VCLF STRUCTURE

- North West Business Finance Ltd (“NWBF”) is a newly established company acting as a Holding Fund
- NWBF is limited by guarantee and is required to invest all its profits back into SME investment in the North West.
- Fund of funds business with NWBF managing a number of individual fund managers
- Funding “matched” at The North West Fund level, so no requirement for deal-by-deal match – a major shift from past public sector sourced funds
- Investment phase to end 2015 with a realisation period to end 2022
- Additional follow-on funding available post Dec 2015 from recycling of legacy ERDF and NWDA backed funds

# FUNDING OUTPUTS

- **Jobs created and Safeguarded** 14,000
- **Businesses supported financially** 800
- **Private sector Leverage** £92.4m
- **Private match funding (EIB)** £92.4m
- **Increase in GVA** £300m
- **Businesses Created** 200
- **Business Start up support** 300

# PERSPECTIVES – STRATEGIC

- **Market need in current climate**
- **NWOP priorities + phase in - links**
- **EIF & EIB**
- **Long Term / Evergreen – 2025 +**
- **Investment Periods 2015 – longer realisation 2022**
- **Outputs – magnitude – results post 2015**
- **Engaging Business Community**
- **Broadening horizons of SMEs to alternative forms of finance – not grant, consider equity**
- **Links to other forms of support**

# PERSPECTIVES – THE NORTH WEST FUND

- **Combination of fund managers – mix of those currently based within and outside the region**
- **Bring in new expertise to the region**
- **4 out of the 6 fund managers will be setting up new offices across the region**
- **Fund managers will operate from a total of 13 offices across the region**
- **At the peak they will employ circa 50 people in the region**

# PERSPECTIVES – THE CLIENT (SME)



## About YFM

As the most active investment group in the UK's small privately-owned businesses (Private Equity Insight), we have built a combined portfolio of more than 250 companies for investors who have committed in excess of £360 million to funds we manage.

With 75 profitable realisations, we have been successfully backing businesses at a transformational stage in their development across all sectors for nearly 25 years. We have an experienced investment team of more than 30 investment professionals through 4 principal offices in London, Leeds, Manchester and Bristol, giving us access to a wide range of investment opportunities across the UK.



## Fund of the Year 2010 Winners!

The NWD's Northwest Interim Venture Capital Loan Fund, managed by YFM Private Equity which includes backing from the European Regional Development Fund (ERDF), has been awarded Fund of the Year at the Insider North West Dealmakers Awards 2010.

## New Technology Deal of the Year 2010 Winner - Launch of Redx Pharma Limited!

### Redx Pharma

The launch of Redx Pharma Limited was supported by the NWD's Northwest Interim Venture Capital Fund, managed by YFM Private Equity and backed by a number of private investors, including Jon Moulton. This syndicate of private investors was brought together by the lead adviser Acceleris, the Manchester-based corporate finance house, who introduced the deal to YFM.

Redx Pharma will develop therapeutic remedies based on existing classes of drugs, structurally modifying them to create new proprietary medicines. Benefits for patients will include fewer side effects, greater efficacy and ease of use for people.

"Redx Pharma has very interesting technology and strong prospects." **Jon Moulton**

"Redx Pharma will be at the forefront of biotech in the North West and this investment leaves us well placed to exploit the state-of-the-art facilities we have at Merseybio, our close links with the University of Liverpool and the enormous potential of the global pharmaceuticals market." **Dr Neil Murray, Chief Executive of Redx Pharma**

"Congratulations are in order - this is a positive development for the North West biotech sector and we are all excited about where Redx Pharma goes from here." **Acceleris Director Norman Molyneux**



[www.yfm.co.uk](http://www.yfm.co.uk)



YFM Private Equity Limited (122120) and YFM Venture Finance Limited, collectively known as 'YFM', are both authorised and regulated by the Financial Services Authority and part of YFM Group. YFM Group is part of the GLE Group of Companies.

## RED X Pharma £450,000 Investment

- Develop Therapeutic Remedies
- RED X at the forefront of biotech in the North West
- Huge development for biotech in the Northwest

# ACHIEVEMENTS – INTERIM FUNDS

## • Interim Venture Capital Fund

- Procured Service
- Appointed YFM fund managers
- Launch November 2009
- Total invested £1.75m in 7 businesses
- 93 jobs created and 42 jobs safeguarded

## Interim Loan fund

- Procured Service
- Appointed AFM fund managers
- Launch November 2009
- Invested £1.9m in 17 companies
- 82 jobs created and 69 jobs safeguarded

# ACHIEVEMENTS - CASE STUDY

fresh<sup>tl</sup>

YFM Private Equity through the NWDA's Northwest Interim Venture Capital Fund helped to close the first round investment of £600,000 for the North West based business FreshTL. This round was a co-investment with Greener House Investments plc and was the first investment from the fund.

FreshTL operates in the rapidly growing "cloud computing" sector and created a unique new capability by combining software platforms from the global software giant IBM along with an offering from Bricsys, a Belgian software company. This created significant market interest from its technology partners as well as potential customers.

The funding from YFM will assist FreshTL to move its operations to the North West Development Agency backed Daresbury Science & Innovation Campus.

"We are thrilled and delighted with the closing of the first round of investment. It will allow us to develop the business and establish a foothold in the growing Cloud Computing market." John McGuire, Chief Executive of FreshTL

John McGuire, Chief Executive and Stephen Blank, Finance Director of FreshTL will be joined on the Board by Derek Lewis as Non-Executive Chairman.

Ian Waterfield, Investment Manager of YFM said, "We are delighted to be supporting John McGuire and his team at FreshTL to exploit this exciting growth sector."

## Fresh TL £600k Investment

- Funding allowed Fresh TL to move operations to Daresbury Park
- Establish foothold in growing cloud computer market

# ACHIEVEMENTS - CASE STUDY



YFM Private Equity, who manage the NWDA's Interim Venture Capital Fund, is delighted to have supported the Development Capital investment in the North West based B2 Group, with the overall deal worth £1.1m.

[B2 Group](#) is a major business-to-business marketing specialist working in the UK SME sector supplying lead generation and marketing services to an expanding client base. Clients include some of the leading blue chip companies operating in the telecoms, utilities, insurance, mobile, security and banking sectors.

Following the £1.1m cash injection, B2 Group anticipates further rapid growth in 2010 and beyond.

B2 Group was founded in 2008 and now employs 30 people, plans are to double this resource in 2010.

The investment included funding from YFM, through the Northwest Regional Development Agency's (NWDA) Northwest Interim Venture Capital Fund and a number of high net worth individuals and Directors of B2 Group.

B2 Group CEO, Jeremy Whitaker commented, "We are delighted to have significant investment support from YFM who have a reputation for backing successful businesses. This is without doubt one of the most exciting marketing initiatives this century. B2 will revolutionise the way large and small businesses will do business with each other."

Deborah Heyes led the investment on behalf of YFM. She said: "We have watched B2 develop over the last 12 months from a concept data provider to a niche player in the business services market, managed by a high calibre team. The team has significant plans for growth and we are delighted to provide support at this crucial stage of development."

Managing Director of YFM Private Equity, David Hall commented on the investment, "This is a good example of YFM identifying strong growth potential and we hope that this continues to see B2 become the leading business-to-business marketing specialists in the UK."

## *B2 Group £30,000 Investment*

- *Major Business to Business marketing Specialist*
- *Revolutionise the way large & small business will work with each other*

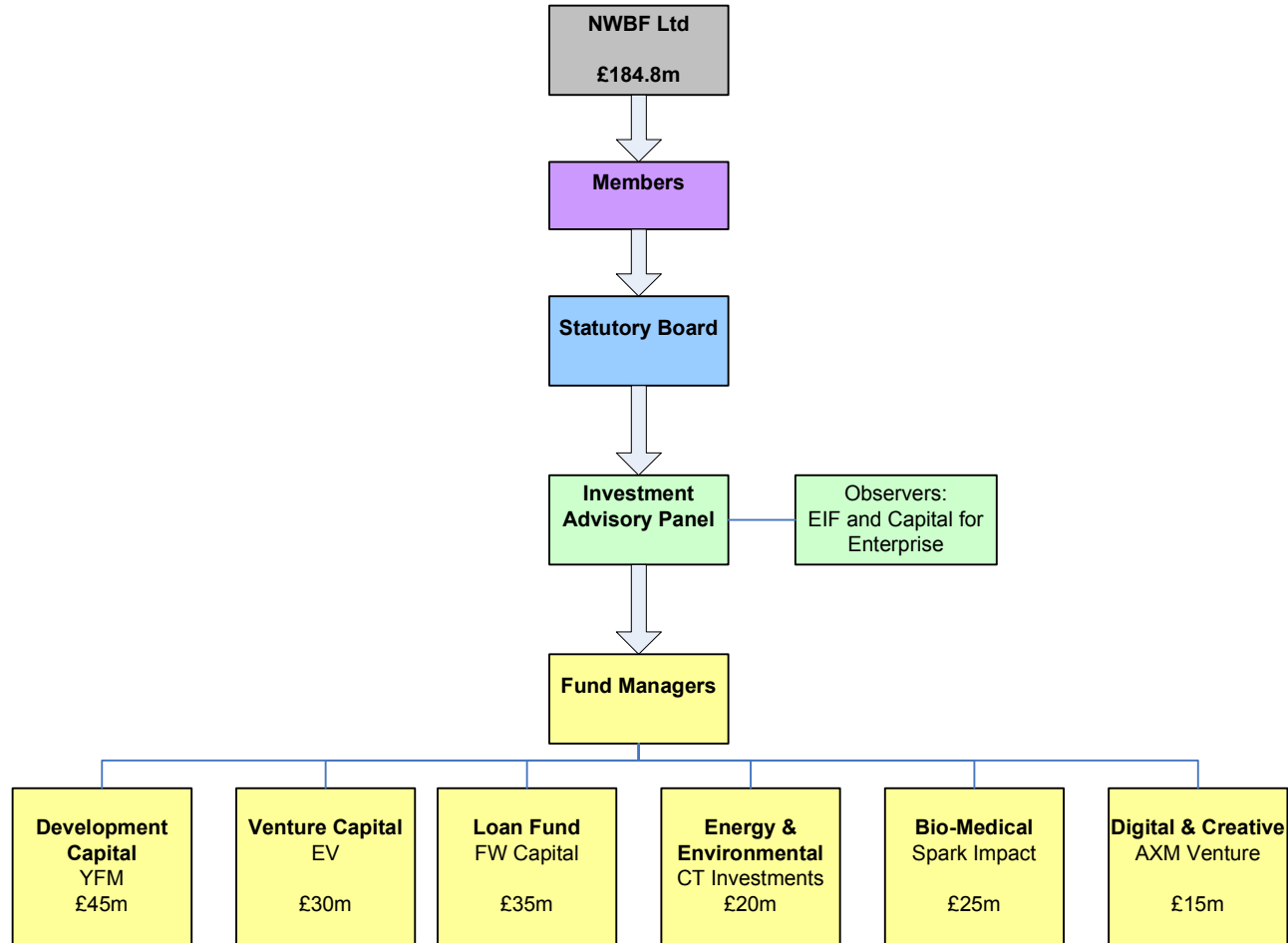


# VCLF APPROVALS

- **ERDF Approval RDA and PMC €102m grant**
- **All central government approvals**
  - BIS CPRG approval – Economic case
  - CLG stage 1 and 2 Approval – ERDF investment
  - Secretary of state approval - 5 2 c private company
  - BIS approval to regional JEREMIE funds
  - Compliance with Solutions for Business
- **EIB Board approval of €102m loan**
- **ERDF and private sector funding totalling £184.8m**

# GOING FORWARD – INVESTMENT

- High level of investment rates needed
- Managing the three different drivers of the fund – overall returns; cashflow through the fund life; and outputs
- Managing the approach to “gap funding” in a volatile funding environment
- Managing the availability of investment funds beyond 2015
- Building a robust and growing network of private sector co-investment funds to support the investment activities of The North West Fund



# GOING FORWARD - FUNDS

<b>Product Fund</b>	<b>Selected Fund Manager</b>	<b>Initial allocation (£m)</b>
<b>Development Capital</b>	<b>YFM Private Equity</b>	<b>45</b>
<b>Venture Capital</b>	<b>Enterprise Ventures</b>	<b>30</b>
<b>Business Loans</b>	<b>FW Capital</b>	<b>35</b>
<b>Energy &amp; Environmental</b>	<b>CT Investment Partners</b>	<b>20</b>
<b>Biomedical</b>	<b>Spark Impact</b>	<b>25</b>
<b>Digital &amp; Creative</b>	<b>AXM Venture Capital</b>	<b>15</b>

# GOING FORWARD – THE NORTH WEST **FUND**

- The North West Fund will be ready to take on-line applications from beginning of December
- Fund details and eligibility criteria will be available on the website -
- [www.thenorthwestfund.co.uk](http://www.thenorthwestfund.co.uk)