

# Covid-19 Emergency Liquidity Supports

## to support Innovative Startups & Scaleups during Covid-19

A proposal to Government to provide emergency financing to **viable innovation-driven enterprises with strong potential to scale.**

*Date Last Updated: 24 April 2020*

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The proposal details time sensitive measures to safeguard the indigenous technology industry which is crucial to the Irish economy and our international reputation as a world class technology ecosystem.

Scale Ireland has prepared this proposal following collaboration with over 50 stakeholder organisations & individuals across the startup ecosystem, some of whom are listed below:



# Time-sensitive measures needed to protect indigenous innovation

Ireland has developed business supports (our overview of supports collated [here](#)) that are a good fit for traditional SMEs, and large multinationals. Supports are also being introduced for early-stage innovative startups that are LEO clients or HPSU EI Client companies.

**However, when it comes to startups and scaleups there is a critical gap in the state's support for viable innovation-driven companies.**

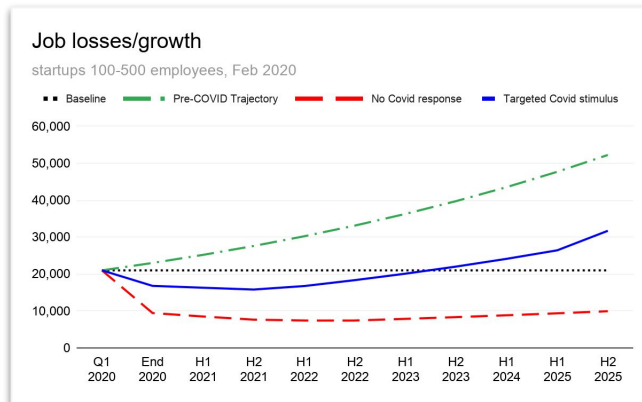
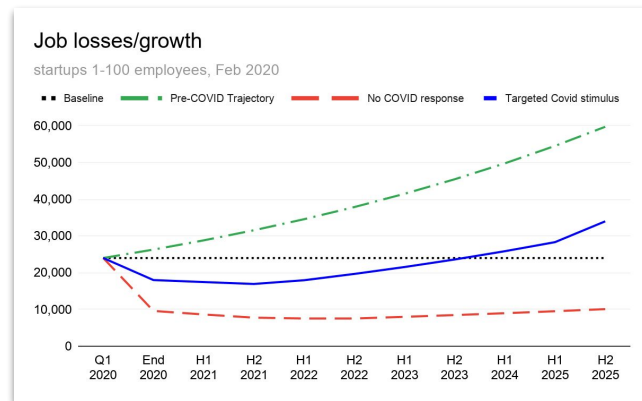
## The Problem: Forecast loss of jobs in the indigenous high-tech sector

There are over 1,900 product-innovation companies across Ireland employing over 45,000 people, according to TechIreland data. In order to respond to Covid these companies have taken extreme cost cutting measures to adapt. However without a targeted package of liquidity supports, we predict a loss of 30,000 existing high-tech jobs across a range of sectors and the foregoing of a further 60,000 future jobs that are expected to be created by 2025.

## The Solution: Targeted Stimulus for innovative companies to support jobs of the future

A targeted government rescue package including a blend of financing instruments of €350m that also leverages private sector money will restart the technology industry and is predicted to have a net impact of 47,000 jobs and an additional €3bn in annual wages alone by 2025.

A failure to address the important gaps in support for innovation-driven companies will lead to a catastrophic blow for the growth infrastructure of the economy. In contrast a swift intervention will have an incredible impact and return on investment to the exchequer.



# Analysis of Existing Measures; Gap Analysis

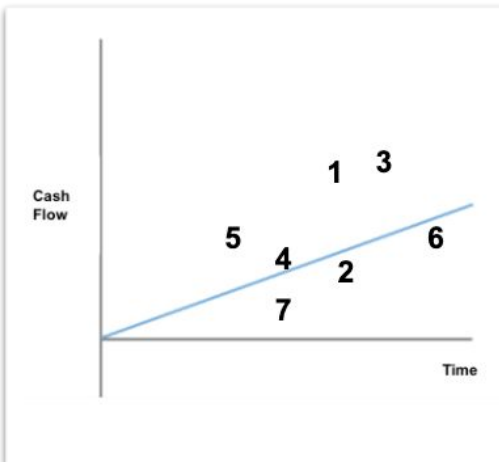
Our analysis of existing supports identifies several gaps for innovation-driven companies, particularly those that are later-stage / post-HPSU. For example EI's Sustaining Enterprise Fund typically only provides small amounts (say €250k) in spite of the €800k ceiling; while many companies are being excluded because they are deemed to be technically in "difficulty or distress" partly because they haven't capitalised R&D.

**There is a clear gap in supports for later stage high-growth firms, see table below and graphs to right.**

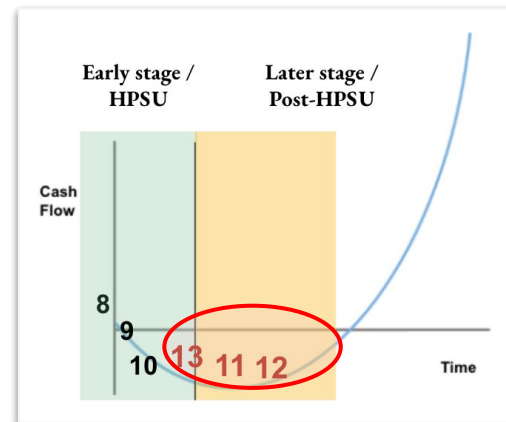
|   | Name of scheme  | Amount           | Suitable for Traditional SME? |                     | Suitable for Innovation-driven, High-growth firms? |                     |
|---|---|------------------|-------------------------------|---------------------|--|---------------------|
|   |   |                  | Small / early stage           | Large / later stage | Small / early stage / HPSU                         | Large / later stage |
| 1   | COVID-19 Working Capital Scheme (SBCI & channeled through Pillar Banks)   | €25,000 to €1.5m | ✓                             | ✓                   | ×  | ×                   |
| 2   | Future Growth Loan Scheme (SBCI)  | €100,000 to €3m  | ?                             | ✓                   | ×  | ×                   |
| 3   | Sustaining Enterprise Fund (EI)   | Up to €800,000   | ×                             | ✓                   | ×  | ×                   |
| 4   | Microfinance Ireland COVID-19 Business Loan                               | Up to €50,000    | ✓                             | ×                   | ×  | ×                   |
| 5   | New COVID-19 Business Loan (Microfinance Ireland in partnership with LEO) | €50,000          | ✓                             | ×                   | ×  | ×                   |
| 6   | SME Credit Guarantee Scheme (through Pillar Banks)                        |                  | ✓                             | ×                   | ×  | ×                   |
| 7   | LEAN for Micro (Local Enterprise Office)                                  | Up to €50,000    | ✓                             | ×                   | ?  | ×                   |
| 8   | EI HPSU - CSF Rounds  | 50,000           | ×                             | ×                   | ✓  | ×                   |
| 9   | EI HPSU - Follow on funding   | €250,000         | ×                             | ×                   | ✓  | ×                   |
| 10  | EI HPSU - €50k CLN (leveraging 50% match funding)                         | €50,000          | ×                             | ×                   | ✓  | ×                   |
| <b>New Schemes / Adapted Schemes Proposed</b> |   |                  |                               |                     |  |                     |
| 11  | <b>Debt:</b> High-growth Working Capital Scheme                           |                  | ×                             | ×                   | ✓  | ✓                   |
| 12  | <b>Investment:</b> The Centennial Bridging Fund                           |                  | ×                             | ×                   | ✓  | ✓                   |
| 13  | <b>Grants:</b> Covid-19 Fixed Cost Subsidy                                |                  | ×                             | ×                   | ✓  | ✓                   |



Linear growth firms



Innovation-driven, High Growth Firms



# International emergency supports for Startups during COVID-19



## France

**€300bn+, 25th March**

**Investment:** Bpifrance is investing €80m in startups designed to leveraging funding from private investors.

**Debt:** [€300bn State](#) guarantee for loans to relieve the cash flow of businesses and professionals who are suffering the shock of the health emergency. Low cost loans, with up to 90% guarantee by government

**Grants:** €1.5bn accelerated processing of requests for reimbursement of refundable corporate tax receivables in 2020.



## Austria

**€15bn overall package, 8th April**

€15bn [“Corona Assistance Fund”](#) business supports package with loans & grants tailored to startups.

**Debt:** guarantee instrument to secure operating loans; covering 90% of the loan amount up to €120m provided to companies which have no or insufficient liquidity to finance current business operations due to the Corona crisis

**Grants:** covering up to 75% of eligible fixed costs up to maximum of €90m.



## UK

**£330bn 18th March**

Government-backed loans worth £330bn announced March 18th . A further £1.25bn Investment and Grant package announced on April 19th means that there are different offerings available on the island of Ireland.

**Investment:** [“Future Fund”](#) £500m investment fund of public and private capital for high-growth companies impacted by the crisis.

**Grants** £750m of grants & liquidity for SMEs focusing on R&D.

**Debt:** [SME funding](#) up to £5m [Large Business](#) up to £50m

# Proposed Solution for Ireland- A Blend of Financing Instruments

## Debt

High-growth Working  
Capital Scheme

€200m

**Problem:** SBCI/ EI SEF has been set up to provide working capital loans for companies to include high-growth startups. However banks are not distributing the funds to companies that do not meet a bank's usual repayment criteria due to their focus on growth and/or large investment in R&D.

**Proposed solution:** amend qualifying criteria within existing schemes to release money in the form of low-interest debt to high-growth companies OR introduce new targeted scheme tailored to their needs.

In terms of international precedent, at Germany's [KfW](#), the minimum requirements for a company's creditworthiness, which otherwise apply to KfW's lending, have been significantly reduced. Terms have been relaxed in order to help as many companies as possible quickly and effectively.

## Grants

Covid-19 Fixed Cost  
Subsidy

€50m

**Problem:** A number of High-Growth companies are unable to meet fixed costs and operationally necessary payment obligations e.g. for business premises rents, insurance premiums, interest expenses, technology license costs.

**Proposed solution:** Graduated support of eligible fixed costs for businesses whose turnover has been reduced by over 40% resulting from the pandemic.

## Investment

The Centennial  
Bridging Fund

€100m

**Problem:** Approximately 300 companies raise private funding in Ireland each year. Companies whose recent 'traction' supports a likelihood of fundraising in absence of Covid 19 are now unable to raise the necessary finance. Governments such as the UK have stepped in as a catalyst to drive private investment and prevent the decimation of high growth companies.

**Proposed solution:** €100M investment commitment from Government, leveraging additional Private Investors. A new dedicated fund will safeguard 200 systemically important technology companies in 2020.

# Investment: Centennial Fund

**Size:** A new €100m fund to support 200 companies at an average rate of €500,000 capped at €3m per individual company.

## Identifying beneficiaries

- 1,900 High growth tech startups employ over 45k workers. According to TechIreland 284 of these have raised €500K-€5m in the past 36 months employing 3,800+ employees across the country; according to IVCA EIS data showed that there were 100-120 venture backed portfolio companies in Ireland at any one time
- A range of companies (venture backed and otherwise) will require funding and private venture capital alone will not suffice leading to numerous schemes across Europe

## Criteria

- Will run out of money less than 9 months
- Recent 'traction' supports likelihood of fundraising in absence of Covid 19, i.e. the Fund is not as a 'last throw of the dice' option

## Submission:

- Submissions reviewed by the investment committee
- Leverage BIC's/ WDC and other entities to assist in preparation of submission. A detailed plan to show how, with the Fund's investment, it can survive 9 - 12 months and prosper.

## Channel / Organisation

- Dedicated investment fund with lines of communication to ISIF / SBCI / EI Seed & Investment Capital Scheme. Fund reports the status of the Centennial Fund on a quarterly basis to the appropriate Government bodies
- An entity that can act quickly either independently or in collaboration with existing organisations.
- Investment decisions made by an Investment Committee that prioritises the timely release of funds to viable companies that isn't overburdened with existing workload.
- Investment committee composed of experienced investors or bankers, ex VCs or EI who understand the challenge that small business and startups face.
- Financial structure regarding fund management fees to be agreed.

## Key principles for the fund:

- **Establish Quickly** - Matching with private capital on a deal-by-deal basis (not in establishment of fund). Involving non-government institutions in the fund itself is likely to take too long to negotiate.
- **Dedicated Short-term Fund, Fast Administration:** Needs to be a standalone fund with its own structure, administered by qualified personnel
- **Avoid Adverse Selection** - require some level of matching capital from founders/angels/existing investors.
- **Efficient Selection** - automatic matching of existing investor contributions to leverage due diligence of private investors.
- **Standard Terms to Minimise Administration** - convertible loan note structure that permits repayability as opposed to being a fixed conversion to equity.

# Debt:

## High-Growth Working Capital

**Size: €200m**

Scale Ireland is inundated with requests from scale up companies who qualify for the existing schemes but were refused by Pillar Banks. These companies do not have access to additional working capital supports. They risk losing key members of staff to multinationals who can guarantee future employment and certainty. The closure of these enterprises is imminent, Speed is of the essence.

### **Proposed structure:**

- Similar to SBCI Working Capital fund of €450m or a targeted use of the EI Sustaining Enterprise Fund but focussed on High Growth companies
- An Immediate need has been identified for companies who have qualified for the SBCI fund but who were refused by the pillar banks based on usual bank criteria of capacity to repay from past earnings.

# Grants:

## Covid-19 Fixed Cost Subsidy

**Size: €50m**

Countries such as Austria have introduced non-repayable grants. Companies particularly affected by the Corona crisis can apply for a fixed cost subsidy for operationally necessary payment obligations e.g. for business premises rents, insurance premiums, interest expenses, such as leasing rates, license costs.

### **Proposed structure:**

- A tax-free and non-repayable grant
- Graduated as per loss of turnover of the company during the period of the Corona crisis in excess of 40% between March 2020 and its end
- Suggested bands:
  - 40-60% loss: 25% compensation
  - 60-80% loss: 50% compensation
  - 80-100% loss: 75% compensation
- Suggested cap of €1m per company ( Austria has cap of €90m)

# Case Study 1 - SMB SaaS

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**Sector & Location:** SMB SaaS, Dublin

**Current Employees/ Projected employees in 3 years:** 172 Global, including 130 in Ireland / Projected to rise to 400 by 2023

**Investment to date:** €9m (EI €400k, PE €5.5m, Angel 750k Grants €1.5m)

**Current Revenue / Projected revenue in 3 years:** €20m / €55m

**% Fall in Revenue since Covid began:** 70%

**Monthly Costs:** €2m (70% costs are salary related)

**Required Funding to survive next 6 months:** €2m

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**Experience in accessing govt supports to date:**

**SBCI Working Capital:** Confirmed eligibility for support, initially told we wouldn't get it because we had some cash in the bank, but this was cash we had raised for growth and would only last 3-4 months in the new situation. But we pulled in as many favours with contacts in our pillar bank that we had - and on reapplication got approved yesterday (20 April) for €1.5m

**Covid Wage Subsidy Scheme:** Lack of clarity around eligibility held up use of scheme; Guidelines have changed twice already. We are now getting it for a number of employees. We have had to get significant advice from KPMG to ensure that we are getting the full value of the support.

**Measures taken to date:** “At end March, we let 25 people go and rest of company took 20-30% pay cut (30% for highest earners). All in, it took our employee base from just under 200 to 172 but reduced our monthly payroll costs by 40%. We've severely cut back on all other overheads, and deferred pretty much all payments. Basically reducing our monthly outgoings from €2m to €1m temporarily.”

**Business impact of Covid:** “Our sector has been hit hard. All our clients are shut, no revenue. Churn has tripled but not as bad as we feared initially. We have pivoted to features that can generate our customers cash while closed such as Online Gift Vouchers & Ecommerce. This has kept many clients with us through this - although much reduced monthly fee until they re-open ”

**Impact on the business if unable to access working capital scheme:** “Without access to more short term capital we will have to start cutting into RnD. The initial lay offs we made were in G+A. These future cuts will mean we will have to cut much deeper into the team, and therefore limit our growth prospects and innovation in the future, and thus our ability to employ more people. We've secured 1.5m from SBCI but need another 2m.

**The one thing Government could do to help:** We have a small office in Germany, and their supports have been first class. Within a week of the crisis, they put €15,000 in our bank account. There were no delays or questions for any of the other businesses we know there, including salons. This support meant we have had no churn in Germany, and business confidence there is much stronger than in any other territory we are in (US, UK, Finland, Australia). The Wage subsidy scheme should be more straightforward. All the regulations around it create delays and uncertainty. Even if some companies take advantage of it - this would be a better outcome for the economy. Last month we went to committee in Enterprise Ireland for a €600k R&D development grant that we was expected to be approved. However it was rejected. At the very time when these grants should be approved more than ever. Two people on the committee asked whether companies should be investing at all in RnD during the crisis. This shows a complete lack of understanding of how technology companies succeed. We have seen countless examples over the last 20 years, where companies that invest in RnD in recessions outpace their peers in the years afterwards.

In our opinion, the best thing the Government could do for fast growing high potential companies, is get EI to double or triple down on grants for next few months. Get them approved and cash into the companies within the next 4 weeks. These grants are based on creating innovation, creating value. Forcing these type of companies to apply for loans from credit departments in the pillar banks, is a complete waste of resources and time. Time they should be spending on innovating right now. Even though we have been lucky to secure funding from SCBI, it was a complete time suck on our team.

# Case Study 2 - Ecommerce Tech

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**Current Employees/ Projected employees in 3 years:** 80 global, including 40 in Ireland / Projected to rise to 180 by 2023

**Investment to date:** €14.1m (EI €600k, VC €11.2m, VD: €2m, Grants €331k) since 2015

**Current Revenue / Projected revenue in 3 years:** €4m / €16m

**Monthly Costs:** €480k (80% costs are salary related)

**Required Funding to survive next 6 months:** €1.2m

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## Experience in accessing govt supports to date:

- **SBCI Working Capital:** confirmed eligibility for support, received token of approval; Bank rejected any form of support, saying that their policy had not changed even with SBCI guarantee; Criteria centres around repayment capacity from EBITDA, and if they break that in any way their guarantee/support from the EIB is void.
  - **Covid Wage Subsidy Scheme:** lack of clarity around eligibility held up use of scheme; From End March - mid-April many staff excluded as earning over €76k; new announcement that higher earners are included is welcome and will help reduce costs.
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**On inability to access working capital scheme:** *“Without access to short-term working capital we will flip from our top line growth & innovation focus to focusing on survival. By end of the year we will have reduce our Irish team by 40%+ and overseas team by 30% if we cannot access working capital.”*

**Relax Rules around eligibility:** *Eligibility rules to get support from EI SEF need to be relaxed. A company is currently defined as being a 'company in distress' under state aid rules, due to having R&D which has not been capitalised on the balance sheet. Thus we can't access financial supports.*

*Innovation focused businesses purposely invest in product R&D to create and exploit market opportunities, but these businesses, who employ a large number of highly skilled, well paid people, are being blocked from accessing supports on this technicality. I have seen significant evidence in France, Germany, Austria and other EU countries of such supports being made available.*

*Alternatively or additionally, the SBCI loan support/guarantee should be made accessible to such businesses by relaxing the requirement for banks to follow their existing loan qualification criteria if they want to avail of the SBCI guarantee of 80%. The banks are not lending to these businesses as repayment capacity from EBITDA is assessed as being inadequate, even though many of these businesses have significant repayment capacity from business growth/turnover.*

## Case Study 3 - Medtech/ Retailtech

**Current Employees/ Projected employees in 3 years:** 275 globally, including 100 in Ireland / Projected to rise to 500 by 2025

**Investment to date:** Circa €150m, funded through sales and debt.

**Current Revenue / Projected revenue in 3 years:** €35m / €100m

**Monthly Costs:** €2.5m (74% costs are payroll)

**Required Funding to survive next 6 months:** €3m

**Experience in accessing govt supports to date:**

- **SBCI Working Capital:** The SBCI Small Loan scheme is limited to 1.5m, and we can only apply for for the unsecured portion of this loan scheme of €500k under this programme, as we, in common with most companies our size who are not public, carry debt and are therefore not able to give primary security and therefore can only access the unsecured portion;
- **Sustaining Ireland Fund:** We understand we have to exhaust the process with the SBCI before we apply for this.
- **Covid Wage Subsidy Scheme: April** – subsidy covered €95k of a €600k pre-Covid Irish payroll. (Tiered pay cuts a further €135k; and tax deferrals €150k); May – rule changes mean this will reduce to €27k. Cut is primarily because we are topping up wages. We can't afford to lose our employees to the FDI companies (Facebook, Mastercard, Google, etc all recruiting heavily).

**Measures taken to date:** “We took tiered pay cuts to take 20% out of payroll. 5% out of the first €20k, 22.5% out of the next 60k and 45% out of everything above that so that the lower paid employees would be hit less. Now the wage subsidy scheme has been changed to exclude most of our lower paid employees. It seems designed to minimise support to R&D based companies like ours.”

**Business impact of Covid:** “90% of our customers are closed. We do expect 95% to reopen with significant pent up demand when the crisis is over. Right now, it's impossible to close the new big deals that our business depends on”

**Impact on the business if unable to access working capital scheme:** “Our R&D spend on our 60+ engineers is under threat if we can't put something in place. If we lay them off, we'll lose all of the investment we have made in assembling such a great team, and they'll be snapped up by Mastercard and Facebook flush with IDA money.”

• **The one thing Government could do to help:** The IDA should be asked to ask the FDI MNCs to wear the green jersey stay away from sitting staff in Irish companies.



# Appendix

# Survey 2 Insights: **Key Challenges for innovation-driven companies**

## Interim Findings\*

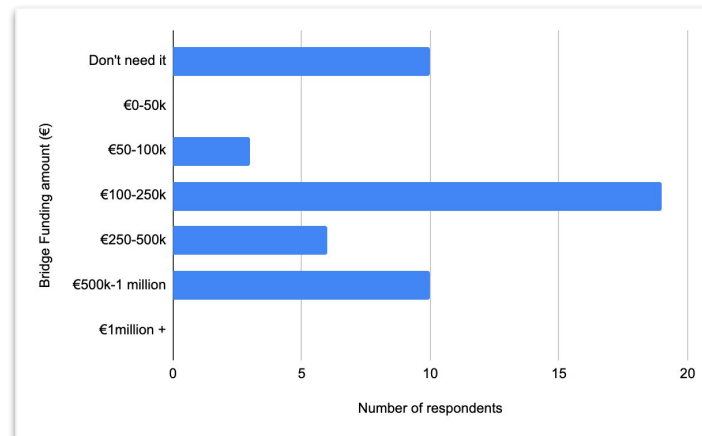
- Respondents employ over 1,100 people in Ireland, and span every province in Ireland
- **Over 86% of respondents report that they will run out of money by the end of 2020 without Government support; representing a loss of over 910 jobs.**

## Bridge Funding

- **Nearly 80% of the respondents (n = 51) have indicated that they will need some form of Government-backed Bridge Funding to survive until January 2021**
- The largest proportion of our respondents (over 39%, n = 19) indicated they would need to access Bridge Funding of between €100-250k

## How satisfied are startups / scale-ups with Government's COVID-19 response:

- More than 41% of respondents were either completely dissatisfied or dissatisfied with the COVID-19 business supports provided by the Government
- Over 28% of respondents indicated they are satisfied or somewhat satisfied with the COVID-19 business supports provided by the Government



**Bridge Funding amounts sought by respondents**

\*On April 17th, Scale Ireland circulated a second survey to its members. The findings above are the preliminary insights from this survey, which is still live as of 22nd April 2020. <sup>12</sup>

# Survey 2 Insights: Key Challenges for innovation-driven companies

|    |   |   |
|----|---|---|
| 01 | Support instruments are not meeting real needs of innovation-driven enterprises | <p>Eligibility rules to get support from EI SEF need to be relaxed. A company is currently defined as being a 'company in distress' under state aid rules, due to having R&amp;D which has not been capitalised on the balance sheet. Thus we can't access financial supports. (Dublin-based company, Mature Growth stage, 80 employees)</p> <p><b>"No support for pre-revenue hi-tech companies, all EI supports require EBITDA positive for 9 months"</b> (Galway-based company, Beta-Prototype stage, 9 employees)</p> <p><b>"As we have less than 10 employees we cannot access the Sustaining Enterprise Fund, which apparently eliminates 90% of all HPSUs"</b> (Dublin-based company, Revenue Growth stage, employs 9)</p> |
| 02 | Slow pace of response   | <p><b>"Everything is just much too slow - the government seems to think the Wage Subsidy Scheme is adequate to support the business sector when it is not. Other countries are providing instant access to very good levels of support (see the PPP in the USA or the Swiss govt supports which are issued within hours)."</b> (Dublin-based company, Revenue Growth stage, 40 employees in Ireland, 79 employees in total)</p>   |
| 03 | Threshold to access supports too high / unrealistic                             | <p><b>Too many check-list points to meet for some pre-revenue startups"</b> (Waterford-based company, Beta / Prototype stage, 1 employee)</p>   |
| 04 | Lack of coordination between Government agencies, banks and others              | <p>The SBCI process in particular will not help the businesses that need it. We were approved through SBCI and the banks still don't issue the loans. The news headlines and sound bites are just that. The banks don't want to get involved in helping SMEs out." (Dublin-based company, Mature stage, 42 employees)</p>   |

# Innovation-Driven Companies in Ireland: in numbers

Our partner TechIreland is tracking 1,900+ active Irish tech startup & scaleup businesses employing 45k people across Ireland:

- 1,800 companies with less than 100 employees, employing 24,000 people.
- 106 companies between 100 and 500 employees, employing 21,000 people.

While half of these companies are based in Dublin, 70% of their employees are outside Dublin and broadly dispersed across the country. Major regional clusters include Cork (190 companies) Galway (150 companies) and Limerick (90 companies) and smaller clusters in Co. Clare, Kerry, Kildare, Louth and Waterford.

## Targeting Bridge Financing Fund: Startups at greatest risk during Covid-19

Based on TechIreland data, more than **243** tech startups in Ireland have raised €100K-€2m in the previous 36 months and are at now likely at risk. These startups will likely need to raise capital in the middle of the pandemic from new or previous investors when capital is drying up.

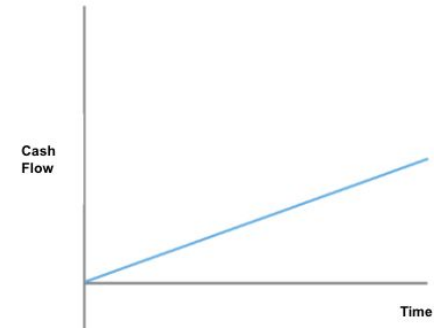
A large proportion of these are IP intensive operating in areas like Enterprise Solutions, Fintech, HealthTech and Disruptive Tech and they employ **3,800+** employees across the country.

It is our belief that we will see also see significant job losses in the 220,000 people employed in Enterprise Ireland supported companies.

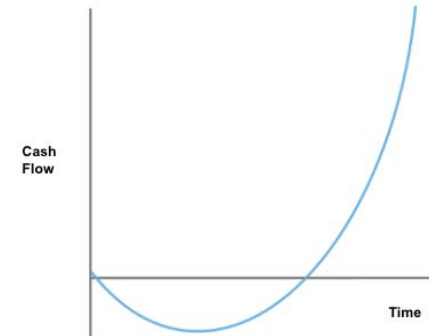
Our analysis in this instance is focussed on the 1900+ companies tracked by TechIreland, many of whom also receive EI support.

## SME Growth Curve

**TECH**IRELAND



## IDE Growth Curve



The growth curve of traditional SMEs versus “Innovation-driven Enterprises” or “Product Innovation Companies” which are tracked within the TechIreland data set.