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AIB report shows that 62% of businesses are not familiar with equity finance

- **Businesses advised to consider equity finance to develop new markets post Brexit decision**
- **Debt finance not the only option to fund SME expansion**

Most Irish SMEs rely on traditional forms of finance to grow their business, despite a large increase in the availability of alternative sources of capital for SMEs at all stages of their development, according to a new research report, “Equity Finance – The Irish Equity Challenge” published today.

The research, carried out by Ipsos MRBI for AIB, finds that 71% of those surveyed said they were partly financed by the reinvestment of profits from the business, while 56% also relied on traditional bank debt in the form of a business loan or overdraft.

The majority of SMEs surveyed are forecasting growth, however 20% reported that future access to finance was a factor in limiting the potential of their growth, while 24% of respondents cited economic factors as a potentially limiting factor. Just 1% of the SMEs surveyed secured investment from either a venture capital firm or an equity firm to help them grow and expand.

Of the 70% of companies that had no wish to use equity finance, 77% cited the possible loss of control of their business as a deterrent, while 69% said that they preferred debt finance. Furthermore, six out of ten (61%) believed they would have to sell some or all of the business in order to pay back the equity investor while 60% believed that maintaining ownership was more important than achieving growth.

Growth Capital and Banking Relations Manager with Enterprise Ireland, Donnchadh Cullinan, said: “It is a concern that 70% of companies surveyed are not interested in using equity finance, especially in the context of Brexit and the longer-term economic strategy which requires we grow more indigenous companies of the scale needed to reach new export markets. While the UK is, and will remain, our biggest export market for some time to come, a key priority for Enterprise Ireland is increasing the reach of client company exports into new markets, with two-thirds of exports going beyond the UK. For many, this will require additional finance for investment in projects that may take some time to deliver a return. Equity finance is an excellent option in this context. In the past, companies got used to funding their balance sheet with 100% debt, often secured against a property. Over-reliance on debt is not a good thing and companies should explore other forms of capital including equity.”

AIB’s Head of Equity Investment Unit, Ray Fitzpatrick, said: “The Government identifies the development of a strong and vibrant equity finance market as one of several steps required to support business development from start up through to growth and expansion. Equity is not for everybody and not all companies will be either suitable or will want or need external equity finance, although it does help maximise the range of other finance options that companies can bring on board and offers a degree of comfort to lenders when they see a company has raised private equity. Generally, new equity investors are not seeking to run the business, rather they are backing the owner and management team and will work with them to grow the business and generate return for all shareholders, with the aim of exiting the arrangement after four to six years. ’’

Speaking ahead of the launch of the report, AIB's Head of Business Banking, Catherine Moroney, said: "AIB wants to raise awareness among business owners about the supply of finance for growth - whether equity, mezzanine finance or senior debt - not just from AIB but also the Government supply of funding for example through SBCI, Microfinance Ireland and Enterprise Ireland. Making that ecosystem accessible and easy to understand is vital."

Despite the apparent equity finance education gap, there has been strong growth in equity finance raised by Irish SMEs, as shown in the Irish Venture Capital Association Pulse Surveys, with €734m raised in the first nine months of 2016.

AIB supports the providers of this equity finance as a significant investor in Ireland to the Irish seed, venture and growth capital funds with commitments currently totalling €140 million to eleven funds. These funds have a combined fund size of c.€800m, a large part of which is providing equity finance to Irish SMEs with high growth potential including the emerging companies in the technology and life sciences sectors.

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