THE IRISH GROWTH ECONOMY

The businesses that are shaping the country's future

EXECUTIVE SUMMARY

Key messages

- The more than 3,200 small and mid-sized businesses in Ireland's "growth economy" together generate €71 billion in revenue, according to exclusive research carried out by PwC in partnership with BGF*.
- Combined turnover of Irish growth economy companies grew at 16% a year on an annualised basis, significantly faster than either Irish GDP or the UK's growth economy.
- The growth economy of Ireland is much bigger, proportional to the wider economy and the population, than the UK's growth economy, a testament to the determination, innovation and creativity of the people who live and work here.
- However, Irish growth economy companies face distinct challenges. In a small domestic market, many of them must internationalise early in their journey if they are to survive and thrive.
- It is crucial to ensure growth economy companies are well capitalised. We believe financial support must include equity funding, not only debt.
- BGF's patient capital model is ideally suited to supporting ambitious Irish small and mid-sized companies.

Features of the growth economy

- The Irish growth economy is spread across all sectors and is highly dynamic. Sixty percent of growth economy companies only entered the growth economy within the past four years.
- The growth economy is concentrated in the Greater Dublin area; however, the fastest revenue growth is outside the capital with counties Limerick, Meath, Kerry and Wexford featuring prominently.
- The majority (55%) of growth economy companies operate in at least one of the four sector cohorts identified in the Irish government's Enterprise 2025 plan.
- The Covid-19 pandemic has revealed the resilience of the growth economy, but also highlighted the need to provide these companies with the fuel required to help them return to growth.

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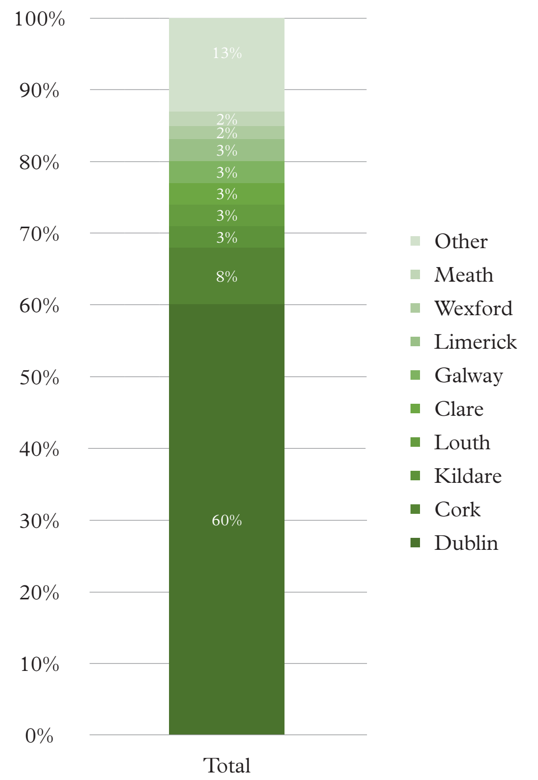
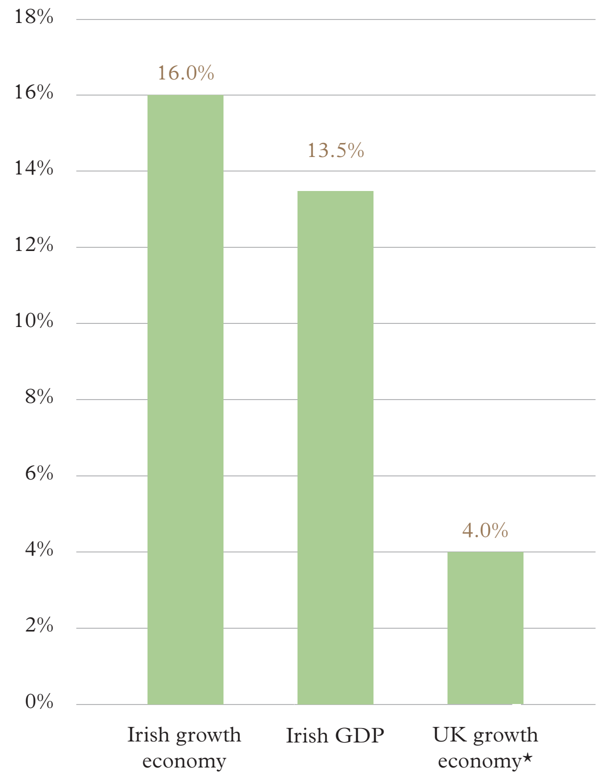
Definition of the growth economy

- PwC defines the Irish growth economy as companies that report turnover of between €3-120 million. This is a different set of businesses to typical definitions of small and mid-sized companies and a different set to "scale ups".
- Companies less than two years old are excluded, as are companies that do not publicly report revenue.
- Based on these parameters, there were 3,223 growth economy businesses in 2018, up from 2,134 in 2014.
- Combined turnover of Irish growth economy companies was approximately €71 billion in 2018, a figure that has grown at 16% a year between 2014-18, significantly faster than Irish GDP and the growth economy of the UK.
- For a detailed explanation of PwC's methodology, turn to page 14.

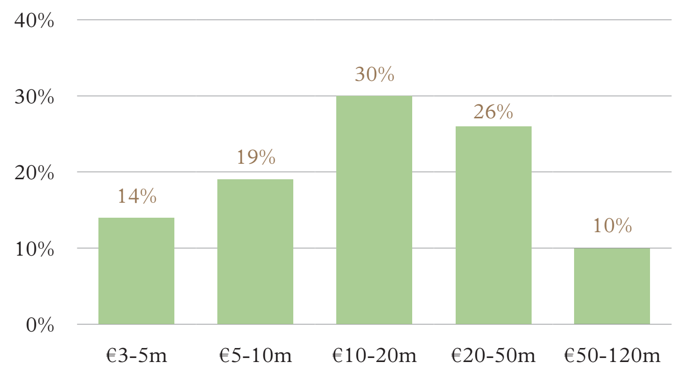
1. Growth economy by region



3. Growth rate (annualised %)



2. Growth economy companies by revenue



*PwC's Irish growth economy data refer to 2018 and growth rates refer to the period 2014-18. See page 14 for more information.

*UK data based on annualised % growth for 2013-18

PREFACE

Nick Ashmore, director, Ireland Strategic Investment Fund (ISIF)

This report is an important and fresh perspective on the growth economy in Ireland. It offers us a new lens through which to examine the challenges and opportunities facing a critical cohort of companies that represent a major element of the economy's growth engine.

A dynamic and rapidly growing sector, with many new entrants, companies in this cohort need capital to grow and for many of them, bank debt is not the solution. Covid-19 has made the need for capital more acute while at the same time serving to restrict access to it.

In light of the importance of this segment, the Ireland Strategic Investment Fund (ISIF) has worked hard over the last six years to ensure capital is available through support for BGF and other equity funds, credit funds and in some cases, through investing directly.

With a statutory mandate to invest on a commercial basis in a manner designed to support economic activity and employment in Ireland, ISIF has a long investment time horizon and therefore can act as a very patient source of long-term capital. The Fund's flexible capital can adapt and be responsive to the capital requirements of businesses and projects in the Irish market.

More recently, this has been the central focus of the Pandemic Stabilisation and Recovery Fund (PSRF) in helping medium and larger scale businesses to address the challenges of the Covid-19 slowdown. The PSRF was established in May 2020, following a review by the Minister for Finance of potential supports for Ireland's economy during the pandemic. As the pandemic recedes, the PSRF will shift from stabilisation investments towards recovery investments and this will play a key role in assisting the growth economy to flourish beyond the crisis. ISIF has made over €400 million in commitments to a wide range of sectors and industries in 2020, supporting companies impacted by the economic fallout of the pandemic.

In March 2021, ISIF announced a €42 million ($50 million) investment in global payments technology company Stripe, founded by Irish entrepreneurs Patrick and John Collison. This will not only bring immediate economic impact for Ireland – given the integral nature of Stripe's business to the payments infrastructure globally and the commitment of more than 1,000 jobs to be added here in the next five years – but the investment also comes with the promise to help and support 10,000 Irish small and mid-sized enterprises to trade globally over the next five years.

This exciting partnership will create important opportunities for the types of businesses in Ireland's growth economy, providing a stepping stone to further realise the potential of their operations.

"The clear evidence that companies don't have to be based in Dublin to grow quickly is an interesting counterpoint to many of the lessons from the Covid-19 crisis, about the viability of remote work."

The clear evidence that companies don't have to be based in Dublin to grow quickly is an interesting counterpoint to many of the lessons from the Covid-19 crisis, about the viability of remote work. This is especially true in the case of the technology arena and reveals a strong opportunity to see the economic benefits of the growth company sector widely spread across the state. With this in mind and as part of its continued focus on priorities that will support Project Ireland 2040, ISIF seeks to invest under the theme of Regional Development, along with the themes of Housing, Indigenous Businesses, Climate Change and sectors adversely affected by Brexit.

Regional investments are a growing and vibrant part of ISIF's portfolio. The backing of the acquisition of the Green Isle and Donegal Catch food manufacturing and export businesses in 2019 is a good example of facilitating a business's plans to grow its revenues and diversify its business base. The acquisition has supported over 100 jobs at the manufacturing plant in Gurteen, Co Sligo and offices in Naas, Co Kildare.

In another example of regional success, following a €15 million equity investment from ISIF in 2019 to help finance its future expansion, Irish whiskey and gin producer West Cork Distillers bought the majority stake in the business, held by the UK-based Halewood group, and has more than doubled the production capacity of the distillery in Skibbereen. It now employs around 120 people, most of whom are based in West Cork.

Similarly, Cavan-based ATA acquired German cutting tools specialist, Karnasch Professional Tools, in an acquisition facilitated by a €15 million equity investment from ISIF, making it the largest acquisition to date for the precision engineering group. ATA operates in over 70 countries, with a network of over 1,400 distributors and five facilities following the addition of Karnasch.

These important investments - along with ISIF's direct investments in Irish success stories such as AMCS, Cubic Telecom and Finance Ireland – can act as a source of inspiration to the growth economy, as it moves forward from the challenges of the last year.

The Irish funding landscape for the growth economy has changed markedly for the better since the financial crisis but remains a work in progress. It will continue to be a focus of the ISIF, not least through its collaboration with its co-investors in the BGF Ireland Fund, and the world class investment team and platform BGF is bringing to bear on the opportunity in Ireland.

We look forward to continuing to work with BGF and supporting the Irish economy.

INTRODUCTION

Leo Casey, head of Republic of Ireland, BGF

BGF was set up in the UK in the wake of the global financial crisis to supply equity financing to the growth economy – those small and mid-sized companies that are big enough to have outgrown early-stage funding but not yet large enough to access the huge pools of capital available to large, listed multinationals.

The need was so great, and the benefits of BGF so evident, that it soon became clear Ireland must have its own fund to support the innovative efforts of small and mid-sized businesses here. Since 2017, BGF's Irish investment team has been proud to oversee the €250 million BGF Ireland fund, which is backed by the Ireland Strategic Investment Fund (ISIF), AIB, Bank of Ireland, Ulster Bank and BGF's existing shareholders.

What this report makes clear is that we have a thriving growth economy here in Ireland. We should all be proud of the efforts of our entrepreneurs and business owners, who are active across all sectors of the economy, using their skills, knowledge and ingenuity to solve problems, create new business models and access new markets.

We are, in fact, punching above our weight. As this report shows, the revenues of Ireland's growth economy are one sixth of the revenues of the UK growth economy, even though the Irish population is only one fourteenth the size of the UK's.

This dynamic group of small and mid-sized companies hasn't come about by accident. It is a testament not only to our entrepreneurial culture but to sound industrial policy over the past 50 years. By bringing multinationals such as Intel, Google, Dell and Pfizer to Ireland, successive governments created the need for an ecosystem of small and mid-sized companies to cater to the needs of those big players. In addition, those large multinationals have spawned spin-offs as talented individuals have taken their skills and expertise and applied them in a start-up setting.

In short, there is much to celebrate about Ireland's growth economy, and I hope the analysis in this report, produced in partnership with PwC, will underline the value of this crucial market segment.

However, the growth economy, despite being a thriving market segment, is a fragile thing. Fully 60% of the companies in the Irish growth economy only entered the segment within the previous four years. While that is evidence of an impressive dynamism, it also hints at the many challenges that these businesses must overcome. By contrast, similar research by PwC for the UK market found that around 46% of UK growth economy companies entered the segment in the previous four years. What explains the higher level of activity among Irish businesses than their peers in the UK?

> "As the country recovers from the Covid-19 pandemic, the need for equity funding to support small and mid-sized businesses has never been greater."

I suspect fundamental characteristics of the Irish market help to explain the difference. Without a large domestic market to play into, Irish companies must internationalise early, with all the associated risks that come with that. I often use the phrase "Irish businesses have to grow up fast". They must learn to survive away from home, overcoming the challenges involved with overseas expansion at a much earlier stage of growth than companies based in larger markets such as the UK or US.

Given the challenges inherent in the Irish market, it is essential that Irish growth economy companies are given the support they need. Businesses need capital to grow and debt is not the only solution. Over-reliance on debt has caused numerous, well-documented economic problems, not least the demise of the Celtic Tiger in the late 2000s. At BGF, we believe that equity funding must be available to the most promising growth economy businesses. That's why we exist and that's why ISIF and our other shareholders back us.

As the country recovers from the Covid-19 pandemic, the need for equity funding to support small and mid-sized businesses has never been greater. We cannot overcome the effects of the pandemic without growth.

As this report shows, the growth economy is strong and resilient. The picture is not uniformly positive, though. Today, growth economy companies tend to be clustered around Dublin, whereas we believe economic development ought to be more evenly spread. Change is coming, especially in sectors such as technology that support remote working, and this is a trend we aim to support. One of BGF's core ambitions is to deploy capital across the country, not only in the capital – that's why we opened an office in Cork in 2020.

It has been a privilege to lead BGF's efforts in Ireland these past three years. With seven investments and counting, and five investors on the staff, I'm confident that BGF's Irish team can be at least as successful as the UK's. Given the size of Ireland's growth economy and the appeal of what we offer – patient capital and minority, non-controlling shareholdings – I believe we are a great fit for Ireland's entrepreneurs.

"When BGF was established in 2011, it was to address a severe shortfall in funding for small and mid-sized businesses in the UK, which were being starved of the capital they needed to reach their potential.

The shortfall was nothing new. It had been identified at least as long ago as 1931 in the Macmillan Report, which recommended measures such as the formation of an institution dedicated to providing finance for smaller companies. But in all that time, the shortfall had not gone away, and in the wake of the global financial crisis, the gap threatened to become an abyss.

Since our foundation, BGF has done our best to close the gap, investing a total of £2.5 billion in about 400 businesses. We invest in growth-stage businesses and quoted companies across almost every region and sector of the UK and Irish economies.

Since setting up our Ireland operation in 2017, Leo and the team have brought all the benefits of BGF's investment approach to the Irish market. We invest patient capital in businesses led by great management teams. We take minority, non-controlling shareholdings. We support businesses with the expertise offered by our Talent Network, one of the largest networks of board-level executives in the UK and Ireland. I'm impressed by what the Ireland team have achieved and excited by what the future holds."

Stephen Welton,
executive chairman, BGF

INNOVATION THAT SPANS EVERY SECTOR

The growth economy is diverse. According to PwC's research, produced in partnership with BGF, growth economy companies are found in every major sector of the Irish economy.

As chart 4 shows, a third of growth economy businesses were involved in business and support services, followed by 15% that were involved with consumer services and leisure, and 9% whose primary business was infrastructure.

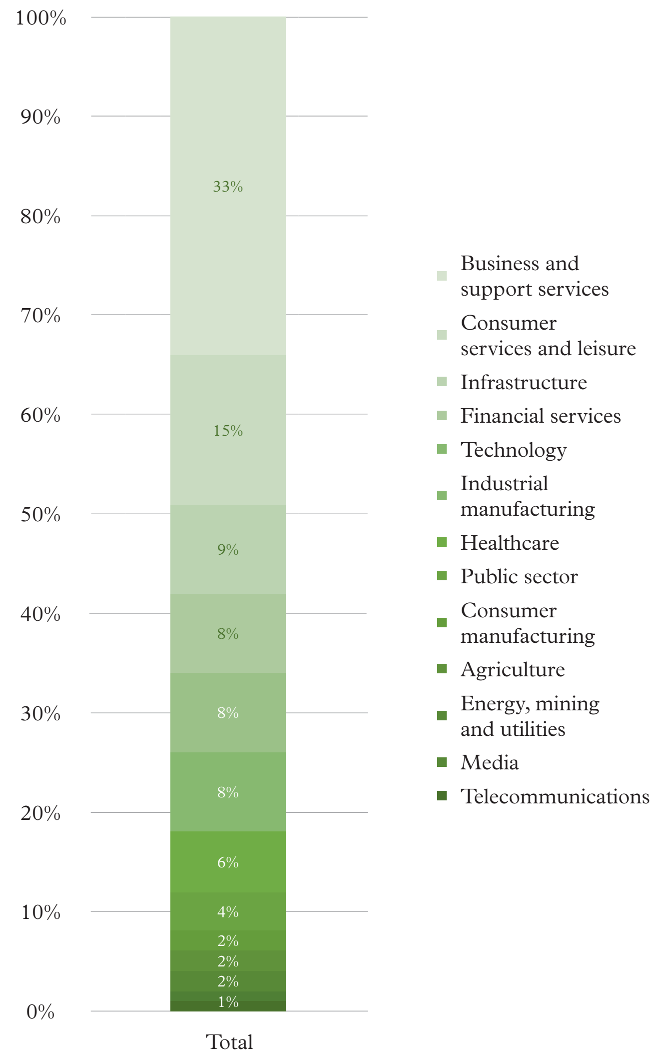
How does this compare with the Irish private sector as a whole? Chart 5 shows that growth economy companies are overrepresented in business and support services, technology and industrial manufacturing. In contrast, growth economy companies are comparatively underrepresented in consumer services and leisure, and infrastructure.

Given the scale and breadth of the growth economy, it is no surprise that it is crucially important to Ireland's strategic ambitions. PwC found that a majority (55%) of Irish growth economy companies operate in at least one of the four sector cohorts identified by the Irish government as key areas of development under the Enterprise 2025 plan. These cohorts are: 'building on strengths', 'realising untapped potential', 'transforming employment intensive sectors', and 'competitive other services and sectors'.

In addition, the growth economy contains a number of high-growth businesses in the manufacturing and technology sectors, which are focus areas of the government's Industrial 4.0 strategy.

The growth economy is crucial, both to the present-day running of the economy as a whole, and to the future of the country.

4. Sector split of the Irish growth economy, by number of companies*



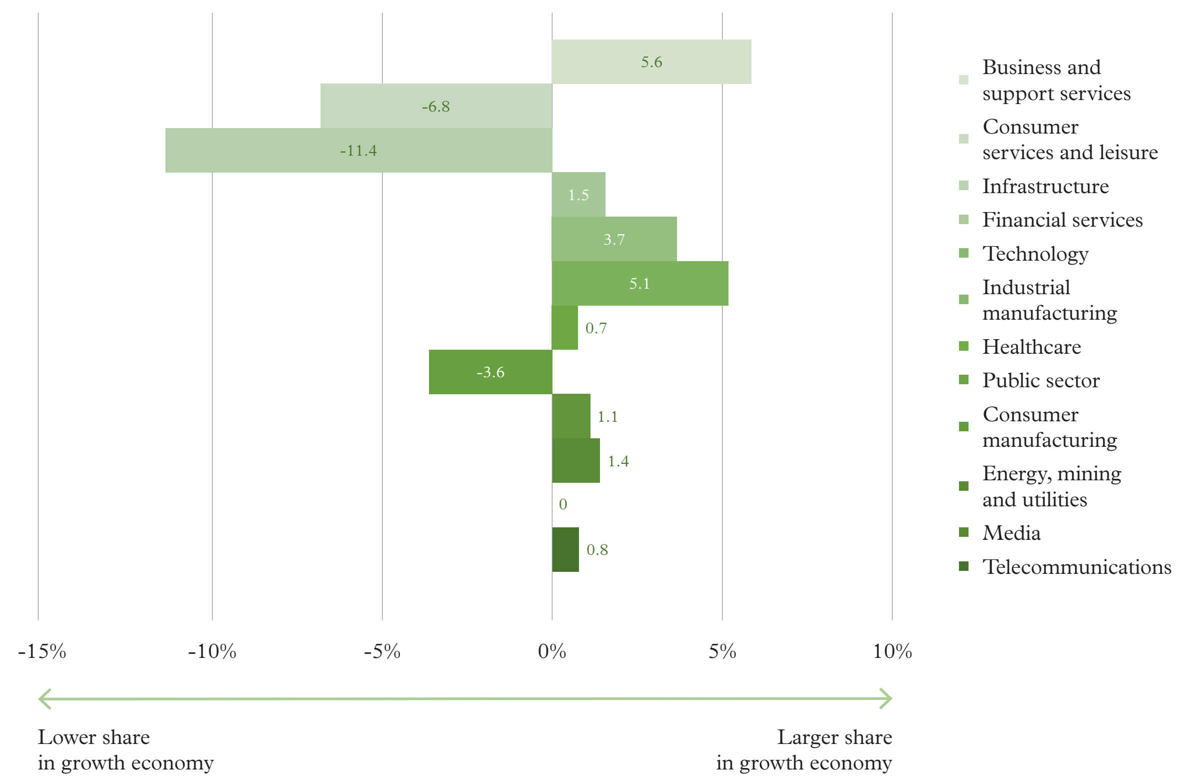
*323 companies with unknown sector are excluded

"A majority of Irish growth economy companies operate in at least one of the four sector cohorts identified by the Irish government as key areas of development under the Enterprise 2025 plan."

"The Irish mid-market has demonstrated resilience and innovation in the face of both Covid-19 and Brexit challenges. We are seeing increased business opportunities both in Dublin and regionally, which is critical for balanced and sustainable growth for all of the Island. Current market challenges bring uncertainty but also opportunity, evident through foreign direct investment and growth in technology and technology-enabled businesses. As a partner with BGF we see opportunity to structure and fund sustainable capital structures reflecting debt and equity combinations that ensure sustainable balance sheets and successful businesses."

Michael Lauhoff, head of corporate banking Ireland and Northern Ireland, Bank of Ireland

5. Growth economy sectors compared with economy as a whole (percentage point difference)*



*Excludes agriculture, which is not included in the Business Demography

DUBLIN DOMINATES, BUT CHANGE IS COMING

In the same way that the growth economy spans every major industry in Ireland, it is also spread across the country. These businesses are key employers across the provinces, providing job opportunities and training in exciting new industries as well as in established fields.

However, there is a undoubtedly a clustering of these companies in the capital. On page 3, chart 1 showed that 60% of growth economy businesses are based in Dublin. Chart 6 (below) shows that revenues are concentrated there too. Cork comes in second place, accounting for a little under a fifth of growth economy revenues.

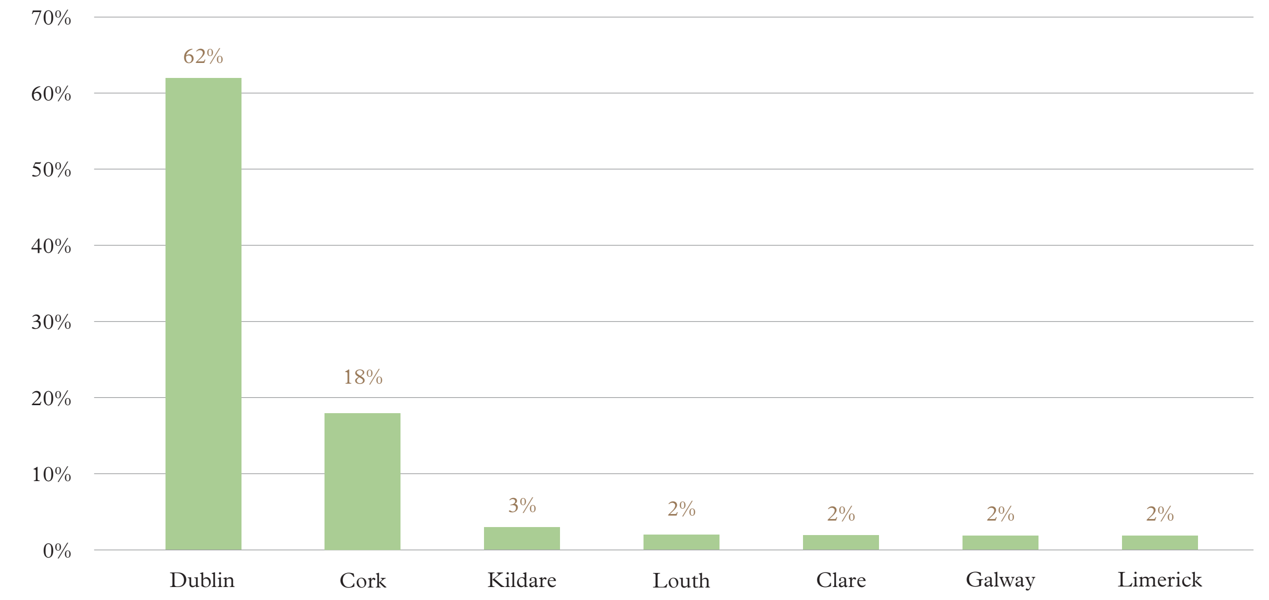
Part of BGF's mission is to support growth economy companies across the country, not only in the capital. It's what BGF has done in the UK, where about 70% of its investments have been made in companies based outside London. Therefore, it is encouraging to see that regions outside Dublin are the ones experiencing fastest growth in revenues. Chart 7 shows that growth economy companies based in Kerry and Meath experienced annualised revenue growth of 23% a year, while Wexford and Limerick were not far behind with growth of 21% and 20% respectively. In contrast, revenues for Dublin-based businesses grew at 16% a year during the period, on an annualised basis.

Evidently, Dublin is still dominant as a base for growth economy companies. Among Irish businesses as a whole, 32% were based in Dublin, according to PwC. That means the growth economy is more heavily concentrated in Dublin than the private sector as a whole. However, this situation is far from being static. Anecdotal evidence suggests that many small and mid-sized businesses are choosing to establish themselves outside the capital, especially in sectors, such as technology and medtech, which are well suited to remote working. The vibrant technology and medtech clusters that have emerged in Limerick and Galway respectively are evidence of this regional growth.

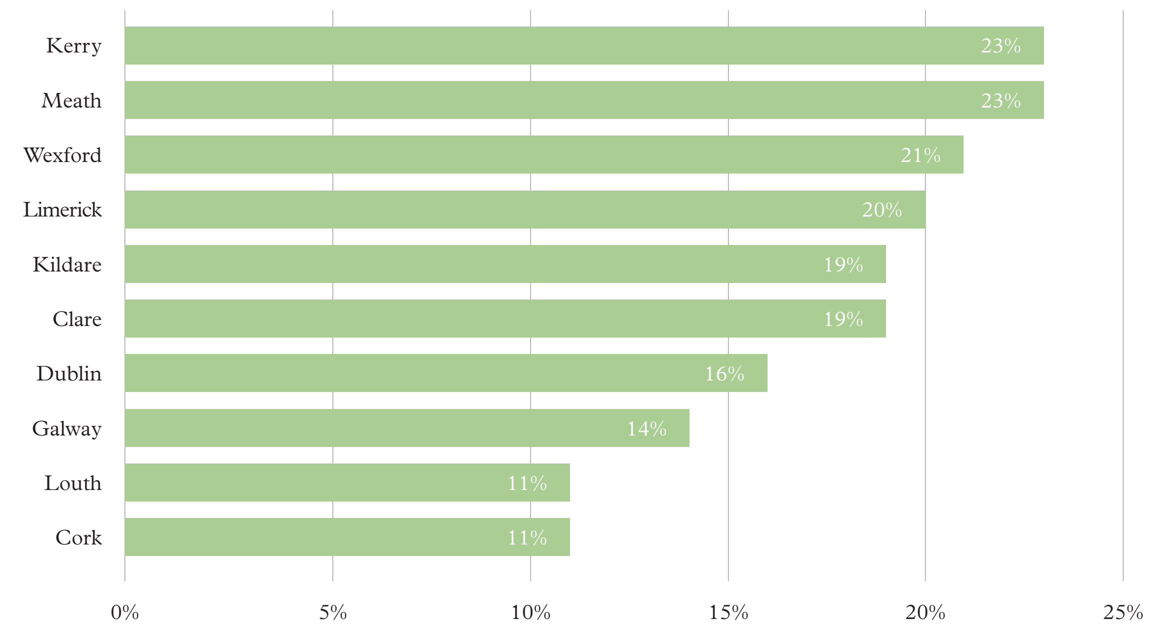
> "The growth economy is more heavily concentrated in Dublin than the private sector as a whole. However, this situation is far from being static."

> "A key focus for AIB is Backing Brave and our equity commitment and partnership with BGF Ireland is an important element of delivering that strategy. The long-term supply of growth capital dedicated to Irish small and mid-sized enterprises has helped address an infrastructural deficit that existed in the Irish economy. Working with BGF Ireland, AIB seeks to support entrepreneurs and businesses to scale up and fulfil their dreams and ambitions."
>
> **Finlay McFadyen, head of investment banking, AIB**

6. Contribution to growth economy revenues by top seven counties



7. Revenue growth of growth economy companies in top ten counties (annualised %)



IRELAND PUNCHES ABOVE ITS WEIGHT VERSUS UK

The size and value of the growth economy in the UK has been estimated in a previous piece of research published by BGF in partnership with PwC*. How does the data for Ireland compare? According to almost every measure, Ireland's growth economy is punching above its weight.

The revenues generated by the Irish growth economy are one sixth of the revenues of the UK's growth economy (see chart, right), even though Ireland's population is one fourteenth the size of the UK's. Although the UK has, overall, twelve times more companies than Ireland, the Irish growth economy is one-seventh the size of the UK's. In other words, there are proportionally more growth economy businesses in Ireland than in the UK.

Finally, combined revenues of Irish growth economy companies have grown 16% a year on an annualised basis. The equivalent figure for the UK's growth economy is just 4%.

Another point of difference is the proportion of companies that entered the growth economy within the previous four years. For Ireland, the figure was 60%, whereas in the UK the equivalent proportion was 46%.

What conclusions should be drawn from these findings? Firstly, that the growth economy is a crucial contributor to national prosperity. Secondly, that Ireland's entrepreneurial spirit is alive and well, especially when compared with the UK. However, the country cannot afford to be complacent. The high churn in growth economy companies is evidence both of dynamism and vulnerability. These businesses must be supported if they are to reach their potential. That's why BGF will continue to provide growth capital to help these companies succeed.

"Ulster Bank is a strong supporter of BGF and we welcome the publication of this report on Ireland's growth economy, which shows that the combined turnover at Irish growth economy companies grew at 16% a year between 2014 and 2018. This research demonstrates how dynamic and exciting this sector is, and shines a helpful spotlight on trends in the small and mid-sized market. We know from speaking to our customers that they value meaningful support in order to expand and innovate, particularly after a year of uncertainty. The findings of this report will prove invaluable as Irish small and mid-sized enterprises continue to grow into the future."

Eddie Cullen, managing director of commercial banking, Ulster Bank

"The revenues generated by the Irish growth economy are one sixth of the revenues of the UK's growth economy, even though Ireland's population is one fourteenth the size of the UK's."

	Ireland[1]	UK[1]	Comparison (ratio or percentage point)
GDP	€324 billion	£2,061 billion	1/7[2]
GDP growth 2014-18, annualised %	14%	2%	12%
Population	4.9 million	66.7 million	1/14
Number of businesses, whole economy[3]	228,000	2,660,000	1/12
Number of businesses, growth economy	3,223	21,401	1/7
Total revenue, growth economy	€71 billion	£434 billion	1/6
Growth economy revenue / GDP (%)	22%	21%	1%
Growth economy revenue growth 2014-18 (annualised %)	16%	4%[4]	12%
% of growth economy companies that entered in past four years	60%	46%	14%

*'From survive to thrive: funding the growth economy to kickstart an investment-led recovery' by Sir Anthony Seldon and Stephen Welton (2020).

1) 2018 data unless stated otherwise; 2) calculated using 2018 average GBP/EUR exchange rate of 1.14; 3) excludes companies not tax registered; 4) annualised % for 2013-18. Source: CRO, CRIF Vision-Net, World Bank, CSO, ONS, PwC analysis

METHODOLOGY

PwC created this report using data supplied by CRIF Vision Net, an Irish based provider of company information. The underlying source of data is Companies Registration Office (CRO) filings.

CRIF Vision Net created two datasets of Irish businesses (for 2014 and 2018) based on scanned CRO annual return documents stored digitally.

When examining this report, it is important to be aware that:

- Many small sized companies are exempt from the full reporting requirements relating to annual financial statements. PwC assumes that companies targeting growth and/or investment are likely to report revenues but it is recognised that a lack of reporting creates limitations to the dataset.
- Some Irish businesses have non-filing structures in place to avoid publishing their statutory accounts.
- The population of Irish companies includes many fund administration and aviation leasing businesses (parent or subsidiary of international ultimate owner) which are based in Ireland for tax reasons. Many of these have been excluded manually from the dataset.

"PwC created this report using data supplied by CRIF Vision Net, an Irish based provider of company information. The underlying source of data is Companies Registration Office (CRO) filings."

About BGF

Set up in 2011, BGF is an investment partner for growing companies in every sector of the economy in the UK and Ireland. With over 170 staff in 16 offices around the UK and Ireland, BGF provides local expertise to exciting entrepreneurs and small businesses. BGF has invested £2.5 billion since 2011 in about 400 companies, three-quarters of which are based outside London, making it the most active growth investor in the world. The BGF model has been replicated in Canada and Australia.