TECH LAYOFFS HIT UNICORNS

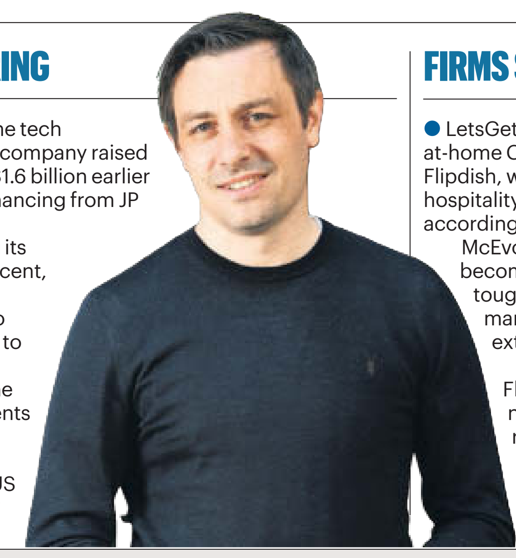
Some staff at Ireland's $1 billion-plus privately held firms are vulnerable as recession looms, writes *Laura Roddy*

GLOBAL CUTS DUE TO OVERHIRING

● Ireland's latest unicorn, Wayflyer, joined the tech masses in announcing layoffs last week. The company raised $150 million (€145 million) on a valuation of $1.6 billion earlier this year and secured $553 million in debt financing from JP Morgan and Credit Suisse.

Founder **Aidan Corbett** said it was cutting its workforce globally by 200 people, or 40 per cent, with 70 staff axed in Ireland. Explaining the reasons, he cited overhiring, trying to "do too much too soon", and a need for the business to be in a "stronger financial position".

Wayflyer, which is a short-term lender to the ecommerce sector, follows the digital payments giant Stripe in cutting staff. Is this down to overexuberance in projections for online transactions against a backdrop of looming US and UK recessions, or a deeper tech malaise?



FIRMS SHED STAFF TO STAY LEAN

● LetsGetChecked, the telehealth company that pivoted to at-home Covid-19 testing kits during the pandemic, and Flipdish, which makes online ordering software for hospitality businesses, will weather the tech storm, according to **Niall McEvoy**, a venture partner at Elkstone.

McEvoy said current layoffs were a result of companies becoming more prudent in an environment where it is tough to raise money. "They can't go out to the market again, so they're cutting costs in order to extend the runway," he said.

Elkstone has invested in LetsGetChecked and Flipdish, which have both made cuts to their staff numbers, but nevertheless investor confidence remains intact.

"We expect them both to come through the other side of this; they will emerge leaner, stronger and more focused," he said.

TECH TALENT EXPECTED TO FIND NEW ROLES

● Intercom announced that it will be cutting 39 jobs in Ireland, as it moves to shrink its global workforce by 13 per cent. Eoghan McCabe returned to chief executive from chairman, though this was pitched as a new phase of innovation for the firm rather than a signal it was tightening its belt.

Sarah-Jane Larkin of the Irish Venture Capital Association said that while no company wanted to see talent go, those released from Ireland's unicorns would not be hanging around for too long. "There have been such shortages in the tech sector that I think people will find other roles quickly," she said.

While Larkin was quietly confident that the investing landscape would stay buoyant over the next six months, only time will tell what will happen beyond that and, she said, it is too early to call "how deep" the slowdown will go.

NO JOB LOSSES IN THE PIPELINE AT OTHER UNICORNS

● Not all of Ireland's tech unicorns are shredding staff. Terry Clune, the founder of Taxback.com, confirmed to this paper last week that his company TransferMate would not be cutting any of its roles here.

TransferMate, which allows companies to send cross-border payments, hit unicorn status in May after a $70 million funding round, receiving a $1 billion valuation.

Meanwhile, another of Ireland's seven unicorns, Workhuman, said in a statement that it was "committed to Dublin". Founded by **Eric Mosley** in 1999, the company, which helps businesses with their human resources technology, reached unicorn status in 2020 when new investment valued it at $1.2 billion. It has revenues of more than $700 million a year and employs 400 people in Dublin. A spokesman said it was still hiring for roles.

Likewise Fenergo, a Dublin fintech, said that it has no plans for layoffs. "Our business remains strong as we continue responding to high demand for our SaaS solution across the globe," the company said.

START-UPS TAKE ADVANTAGE OF OPPORTUNITY

● While funding might be difficult for high-growth businesses looking for growth, there is still plenty of capital to go around for Ireland's start-ups, with both Larkin and McEvoy saying there have never been more funds available.

"Recessions spawn brilliant start-ups and we do think we will look back in five years and see a lot of new unicorns that were born in 2022 and 2023," McEvoy said. Downturns create opportunities for companies such as Fenergo, said Adam Griffiths of Taylor Wessing. The fintech had been eyeing a float on the **Irish Stock Exchange** before an equity investment worth $600 million from Astorg and Bridgepoint valued it at over $1.165 billion. The private equity firms' model is to grow companies via acquisition before selling up, he said.

ILLUSTRATION: VAUN RICHARDS

Outstanding in his field

Mark Turley used to deal in cars but is now earning his corn building Europe's biggest biorefinery in Hungary, with help from his brothers, writes *Brian Carey*

In 2008 Mark Turley, a former Dublin car dealer and property developer, found himself in deepest winter travelling to Wayzata, Minnesota, home of Cargill, one of the biggest agri-businesses in the world and America's largest private company by sales.

Turley was looking to build a bioethanol refinery in Hungary and investigated about 40 locations before happening upon a site owned by Cargill at Dunafoldvar, south of Budapest. The site consisted of just two silos, which took corn off barges on the Danube.

Turley and his then partner Fagen, an American contractor, had bigger plans. They presented Cargill management with a joint venture proposal to open 15 bioethanol plants across Europe.

"I remember it was minus 20 or 30, and there was a wind chill," Turley says.

"We left the car engine running in the car park [to keep the vehicle warm]. We didn't care if it was stolen."

Cargill told Turley to open the first plant and it would consider supporting further ventures as a 51 per cent majority shareholder. He politely declined. It turned out to be Cargill's loss.

Turley's holding company ClonBio has built Europe's largest biorefinery at Dunafoldvar. Trading as Pannonia Bio, the scale of the family-owned enterprise is jaw-dropping. It buys 5,000 tonnes of corn from farmers every day and produces 1.5 million litres of ethanol daily, about half of which ends up being blended with petrol to reduce carbon emissions of the Continent's car fleet. Another quarter of ethanol production goes to medical and industrial use, such as hand sanitisers, swabs, windscreen wiper fluid and microchip cleaner. The remainder is the premier cru: extra-neutral alcohol that is sold to drinks companies and ends up in gin and vodka.

Mark Turley, chief executive of the agri-business ClonBio, reckons refining barley is a game-changer for the non-meat market. "We are cutting out the cow," he says

Turley has his "own train set": eight to ten locomotives that pull up to 20 carriages of Pannonia ethanol across Europe.

Ethanol is only part of the picture. When the corn arrives at the refinery, which now covers 40 hectares, the insoluble fibre is separated and sent to make biogas. The remnants are then used to form organic fertiliser, about 8,000 tonnes a year, which is sold to biodynamic wineries and growers across Europe.

The stripped corn is milled into a flour and then fermented into a type of beer. "We make more beer than Guinness every year," Turley says. Rather than ending up as stout, the beer is stripped of its protein, fat, soluble fibre and oil. These are then used to produce 350,000 tonnes of a high-quality animal feed and 70,000 tonnes of corn oil a year.

Because the refinery is processing such vast quantities of feedstock, it can recover trace amounts of valuable protein at a commercial scale. This year it will make 20,000 tonnes of a gluten-free protein concentrate that is used in pet and fish feed. It has isolated soluble fibre that can be used to reduce the sugar and fat content and increase the probiotic properties of human food. A pilot plant will produce 2,000 tonnes this year. "We have people kicking down our doors waiting for this product," Turley says.

Pannonia "is a true biorefinery", he adds. "Everything gets used, there is absolutely no waste." The company has even developed technology that captures and compresses alcohol vapours generated during distillation, which is then converted to energy. The novel process won a prestigious global energy award from the Institution of Chemical Engineers. It cut the refinery's reliance on natural gas by a third. When added to its own biogas production, from the corn waste, the sprawling Dunafoldvar facility is 45 per cent energy self-sufficient – a massive competitive advantage in a country reliant on Russian gas.

Last year ClonBio made profits of €111 million off sales of €430 million. It is among the most profitable companies based in Hungary. The group has invested €250 million in the past two years in greenfield expansions and acquisitions, and will spend a similar amount in building out its operations in the next year. ClonBio is stretching rapidly to Slovenia, Lithuania, Serbia, Ireland and America. It will bring the same manic sense of efficiency and product innovation to the new territories, Turley says.

Its only "effluent" is water taken from the Danube for cooling, which is returned to the river in a purer form, Turley claims. Pannonia owns Hungary's biggest solar farm and one of its largest wind farms, acquired to offset the dwindling fossil fuels used at the refinery.

The Dublin entrepreneur is now turning his attention to barley, again to produce bioethanol but more importantly to deepen Pannonia's exposure to human nutrition and probiotics. "This is the game-changer," Turley says. It will produce a protein for the non-meat market. Most meat-free manufacturers use pea protein, which is green and has a taste and smell. The barley protein has no smell, no taste and is naturally brown – good for vegan burgers.

"We are cutting out the cow," he says.

It is a big bet. ClonBio is investing in barley refining in Hungary and spending €180 million on a new facility in Lithuania that will include a biomass plant to reduce reliance on Russia gas.

The company has also bought "a monster of a plant" near Chicago, which is being refurbished at a cost of €45 million. ClonBio plans on becoming a force in global food ingredients. "This is going to explode," Turley says. "We are looking to hire a top-end CEO to take this business and rev it off the charts."

ClonBio is clearly no ordinary family business, but then the Turleys are no ordinary family. Mark Turley is one of seven children, who grew up in Terenure, Dublin. His mother came from Scotland and his father from Shannonbridge, Co Roscommon. His mother died before she was 40, so Joe Turley – undisputed as the ClonBio chief's business hero – raised his family, "putting lunch and dinner on the table every day" while also running his Argus car hire business. "The house was run like a military operation."

His father instilled a work ethic in the children. By the age of ten Turley was washing cars after school when his friends were playing football. By the age of 14 he was selling cars from a pitch at Harold's Cross Motors. The Argus car hire business was run from the family home. "We had people collecting and dropping off cars at all hours," Turley says.

The minute he got his driving licence, Turley was transporting and collecting hire cars. He struggled at school, St Mary's College in Rathmines, due to his dyslexia. "I would spend hours learning spellings the night before and then go to school next day and I couldn't put them down on paper, and ended up getting the leather or the cane."

He failed his Inter Certificate but managed to pass his Leaving Cert. His father got him a place at a private college, "but I spent the whole time in the pub". Turley eventually ended up in California, selling cars. Before he left Ireland he told his father he fancied selling cars from a service station at the end of the Templeogue Road. Six months later he set up his own business, Rathdown Motors, on the site with a IR£100,000 loan from his father.

When Turley was just 18 years old, his accountant told him he had become the youngest company director in Ireland – the legal age limit had just being lowered. He spent 17 years running Rathdown Motors, a successful Honda and Jeep dealership. "I loved it," Turley says of his time in the motor trade.

He also dabbled in property and when his brother-in-law David Sharkey, who worked with the developer Sean Dunne, decamped to Poland in 2002 to look for opportunities there, Turley joined him.

"Poland was joining the EU and all the western companies were moving there," he says. They identified more than 30 properties and conducted due diligence on at least half of them, but it took two years to land a deal. The partners were told that the German developers of a new office and shopping development at Okecie, near Warsaw's Chopin airport, were looking to exit.

The Germans initially dismissed the Irish bidders on their first visits to Frankfurt until Caelum Developments, Turley and Sharkey's company, put down €2.2 million as a non-refundable deposit, which would be forfeited if they walked away from a transaction. They ended up buying the centre, which included the German insurance giant Real Garant as a tenant, for €55 million. They spent €8 million on a fit-out and then flipped the development within two years for €132 million.

Caelum was negotiating the purchase of more than 2,000 hectares of land from the Catholic church, which required the approval of Pope John Paul II, when Turley sold out of the venture in 2004. "The biggest lesson I learnt in Poland was that if you are going to do something, do it big," Turley says. "Whether it's a €1 million or €60 million deal, it is the same amount of time and energy."

His entry into the green economy was triggered by the European Commission's drive to promote alternative energy. Again, it was a case of kissing a lot of frogs to find a prince. He bought a paper factory in Rhumspringe, Germany, with a view to setting up a biomass plant.

"I visited Switzerland looking at anaerobic digestors and at one point I was going to build an incineration plant in Turkey," he says. Turley gravitated to biofuels. The European Commission had decreed that 10 per cent of fuel for transportation should be derived from biofuels by 2020. In scouting out opportunities he met Fergus Murphy, now ClonBio's direcotr of engineering and technology, who was working on NTR's Emerald biodiesel plant in Germany.

The NTR experience highlighted the vagaries of investing in alternatives at the time. The Irish company lost €30 million on the plant after the German government pulled tax incentives for biodiesel.

Turley settled on bioethanol because it did not require subsidies. He met with Fagen, which was building 45 bioethanol plans across the US, and convinced the American contractor to invest in its first project in Europe. Turley was working with local partners on a large bioethanol project in Croatia. "It turned out that we were going to import nearly all the corn from Hungary. Financially it did not make sense," he says. Turley lost "€1 million of my money and a year of my life" on the project. The time was more costly than the money, he adds.

At least he identified the ideal spot for his biorefinery. Cargill retained a marginal interest in the site – it took less than €1 million a year to receive and clean the corn – before ClonBio bought the company out.

Mistakes were made along the way. In 2010 Turley started building a second plant at Mohacs, a town further down the Danube, before Dunafoldvar was up and running. Then the European Commission halved its mandate to cut the use of biofuels in blended petrol and diesel down to 5 per cent over environmental concerns. The Mohacs project was abandoned at a cost of €10 million. The group later lost €15 million on a commodities trade. In total Turley reckons it lost €40 million across a range of failed projects, with little or no regret.

Although most objections to biofuel usage are directed at the use of palm oil in biodiesel, Turley gets agitated by the food-for-fuel debate, which reignited with the war in Ukraine. "Ninety-seven per cent of corn grown globally is fed to animals, not humans – it's as bitter as hell," he says. After Pannonia takes the starch from corn to make ethanol, it sells protein-rich feed back to the same farmer suppliers. They are getting three times the protein back for the same price as the corn, he says. "It's a great deal for them."

Under the EU mandate, biofuels must generate at least 35 per cent less greenhouse gases than fossil fuels.

"We are at 82 per cent lower greenhouse gases," he says.

Turley credits the plant efficiency and product innovation to the "geniuses" he hired to run the business. Murphy is his "director of everything". Others he picked up along the way. When Turley was planning his refinery in 2008 there were more than 30 rival bioethanol projects in Hungary. He identified the more serious ones and met their promoters. No other project ever got off the ground.

> "We have people kicking down our doors waiting for our product

Their best brains ended up working for Pannonia instead.

In 2010 the Dubliner held talks with Nordkap, a Swiss bank, about expansion finance. A hefty arrangement fee was part of the package. When the bank pulled out of the transaction in the wake of the banking crisis, Turley offered the fee to two Nordkap lending executives, both highly experienced lenders to the bioenergy sector, to source the finance.

Eric Sievers is now ClonBio's head of investments and Vadim Zubarev is director of development finance and sustainability. They are part of a management team that owns 10 per cent of the business.

The Turley family own the other 90 cent of ClonBio, which is chaired by Richie Boucher, the former Bank of Ireland chief executive and current CRH chairman. Mark Turley owns about 45 per cent of the business. The other main shareholders are his brothers Niall and Greg, who ran the Argus franchise for a number of years before founding CarTrawler, the world's biggest online aggregator of car rentals and Ireland's most successful ecommerce company. The brothers profited when CarTrawler was sold twice to private equity. The duo picked up most of Fagen's stake when the US company exited ClonBio in 2015.

A third brother, Joseph, has a business that sells technology to measure road markings. Turley says the family are a "tight" unit. A large group of the clan spent the past week fishing off Madagascar. According to the most recent accounts, the family have invested more than €52 million in ClonBio. The group has paid out dividends of €272 million.

Family values seep into the operating model. Mark Turley tells a story of visiting a bachelor uncle in Shannonbridge every summer as a youth and burying a bullock or a cow in a pit of lime. "It was a struggle to survive," he says, "and there were thousands like him."

When he was setting up Pannonia, Turley was told he would have to deal with bulk buyers or brokers who dealt only in 1,000 tonnes of corn or more. He insisted that he would deal directly with producers. Farmers can sell loads as small as 25 tonnes, effectively one truckload, at the gate of the biorefinery.

Some 16 years into the adventure – which started as a €7 million punt – Turley cannot see himself investing in anything else. ClonBio has delivered a 33 per cent annual return and there seems to be an endless stream of opportunities. It bought 75 per cent of a Canadian business, for example, to secure its technology. In Ireland, it invested in Limerick man Billy Costello's Green Generation, which converts food waste from Tesco into energy and recycles the food plastic.

"We have a lot in common – Billy just gets things done and doesn't take no for an answer," Turley says.

His travel schedule is punishing. Some years ago his brother Joseph convinced him to become a member of the Grange Golf Club. He has never played there. "I am with my second wife, we have young children. If I came home from travelling to play golf, I think I would be out looking for a third."

Even with growing electrification, Turley sees biofuels playing a role in the decarbonisation for the next 20 to 30 years, while the potential for the protein business is boundless. Don't expect to see him at the Grange any time soon.

Echelon fined €2m over cancelled grid contracts

Laura Roddy

Data centre company Echelon has been fined more than €2 million by EirGrid for deciding to pull two of its gas turbines from the grid.

Data and Power Hub Limited entered the T-4 capacity auctions in 2018, in which power generators can bid for long-term electricity supply contracts, and secured bids for two gas turbines that could generate almost 53 megawatts (MW) of energy each.

It was thought that the gas turbines would be built alongside Echelon's data centres and act as a back-up generator while also feeding back to the grid. In August the company decided to pull out of the market, however, and said that continuing with the contract "was not economically viable".

Niall Molloy leads Echelon

The company bid €46,149 per MW of electricity, half the price needed for a project to be considered commercially viable. The two generators should have been built in July and connected to the grid for next year but have been stuck in the planning system.

"Echelon is available to support the grid and is currently waiting for planning permission for an energy centre at its DUB 10 site in Clondalkin. We have every intention of bidding in the next auction," a company spokesman said.

Echelon, led by Niall Molloy, is one of many developers that have decided to cancel power projects in Ireland. Last December Energia also terminated its contract for the same year, while Statkraft pulled out of an agreement for 2024.

ESB hit the headlines last year for deciding to scrap plans for two gas generators. While the power company did not set the trend for scrapping plans, it has faced one of the largest fines, with the cancellation of each turbine contract costing it €1.05 million.

The cancelled gas plants were meant to generate more than 128MW combined.

Emissions policy advice cost over €3m

The government has paid McKinsey, the global management consulting business, €1.13 million to help prepare its policy around the sectoral emissions ceilings, *writes Laura Roddy*.

McKinsey got support from members of the climate action modelling group within the Department of the Environment, Climate and Communications while undertaking the report. It has been using modelling services from University College Cork.

The college has been contracted since December 2018 to provide climate and energy modelling services to the group. Its contract is worth a further €1.9 million. Both costs exclude VAT.

According to Eamon Ryan, the environment minister, McKinsey helped the department to prepare the sectoral emissions ceilings and identified plans and policies that would need to be adopted. It also set out a plan for how the department would approach annual climate planning.

The emissions ceilings were announced in July and target an overall reduction of 51 per cent of all emissions across all sectors.

The agriculture sector was one of the most contested. The industry will reduce its emissions by 25 per cent by 2030.

The plan did receive a backlash from the Climate Change Advisory Council, which said that the new budgets were not ambitious enough and would not result in Ireland reaching its 2030 targets as set out by the European Union.

Ireland did not reach its targets in 2020, which cost the exchequer €50 million in fines.

Few KBC staff take Bank of Ireland job transfer

Gretchen Friemann

Staff at the departing Belgium bank KBC have shown relatively scant interest so far in the offer of an equivalent job at Bank of Ireland with only a fraction of the 1,400-strong workforce opting to transfer over to the state's largest lender next year.

According to John O'Connell, general secretary of the Financial Services Union, close to 600 staff at KBC were expected to take up their rights and relocate to Bank of Ireland. He predicted that the numbers taking this path were likely to swell over the coming months.

O'Connell emphasised that demand for staff within the financial services sector remained strong. He added that he was still concerned about the sluggish pace of the account transfers, noting that

KBC boss Johan Thijs

only 38 per cent had been moved in an 11-month period, leaving just four months to migrate over the remainder.

KBC is expected to complete the transfer of its mortgage book to Bank of Ireland in February, triggering the first big wave of employee departures. It will take until the summer for the remainder of KBC Ireland's €9 billion performing loan book to be handed over, at which point a second group of employees will leave. Ulster Bank will also quit Ireland in 2023.

Earlier this month, KBC Group's chief financial officer, Luc Popelier, and its chief executive, Johan Thijs, told analysts that operating costs at the Irish arm had risen to €52 million in the third quarter, due to "one-offs" of close to €40 million, and added that this figure will probably "reduce to €15 million-€20 million per quarter" following the "completion of the Bank of Ireland transaction".

It is thought that both KBC and Ulster Bank will leave a residual presence in the country to resolve any legacy issues, which is the strategy pursued by the Danish lender Danske Bank.

Insurance reforms not legislation will cut costs

Brian Carey Agenda

Gouging insurance companies were back in the firing line last week, courtesy of the Central Bank of Ireland's private insurance report. The report revealed that motor insurers made profits of €176 million in 2021 on the back of lower frequency of claims during the pandemic and reduced costs due to government reforms.

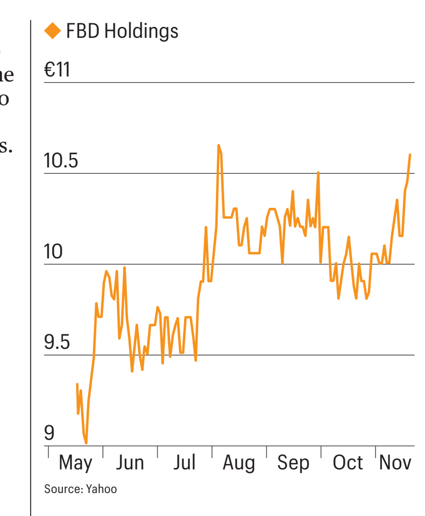
For opposition parties, the big hike in profits is not being reflected in falling insurance premiums.

Sinn Fein's Pearse Doherty, a very able crusader for insurance reform, has suggested that insurance companies be forced to pass on a lower cost of claims to motorists. He has legislation, which is before the finance committee, that would further "hold the industry to account to ensure that reduced personal injury awards are passed onto consumers, euro for euro".

The past three years, largely due to Covid, have been very lucrative for insurers. Shares in FBD Holdings are up 44 per cent in the year to date. Yet for the 12 years from 2009 to 2021, according to the Central Bank report, operating profits came in at 4 per cent of revenues. Frankly, that's the kind of return that would give gougers a good name.

Also Doherty's contention that premiums have "not budged" is not totally accurate. The Central Bank database notes that premiums have in fact fallen 17 per cent in the past four years. While Doherty is dismissive of a government sucked in by "insurance industry spin", these are the Central Bank's data. As the former American defence secretary James Schlesinger famously said, everyone is entitled to his own views, but not his own facts.

If insurance is a lucrative business in Ireland, then one might expect a higher level of competition and lower attrition rate among new entrants. Over the past decade, there has been no dash of new insurers keen to enter the market; rather there has been a litany of loss-making exits, particularly in motor insurance.



Source: Yahoo

The insurance reforms will hopefully promote more competition. The longer those reforms show evidence of reducing the cost of claims, and improving profitability, the greater chance of new players entering the market and driving down premiums.

A regime that "holds the industry to account" to ensure that reduced awards are passed "euro for euro" is not going to promote competition in the market.

It is more likely to do the opposite.

Irish banks push back against ECB

Why do central banks hike interest rates to stem inflation? Higher borrowing costs act as a disincentive to invest while higher savings rates should attract and promote savings.

Irish banks are pushing hard against the disinflationary actions of the European Central Bank (ECB). They have been the slowest to pass on rate hikes to mortgage customers, and their offers to savers have been derisory.

Irish bank mortgage rates are now close to the EU average, having been a distant laggard for years. Savings rates are now a big and very stark outlier (see Money, page 9).

The Irish banks already have too many deposits so they have no intention of incentivising to attract more. The rate is kept low and this cheap source of funding underpins its mortgage rate policy. So the ECB's rate rises are likely to have a relatively muted effect on inflation here.

High savings explain why Ireland's consumer sentiment seems at odds with consumer behaviour. People seem to be buying through the fear. The new year may bring a new realism.

Value trumps transparency at Eir

It's not asset stripping, it's extracting value. As we predicted here, the French billionaire Xavier Niel and his fellow shareholders in Eir, the American hedge funds Davidson Kempner and Anchorage Capital, are back in the clover. The after-tax proceeds of sale of a minority stake in the Eir fibre network to InfraVia has gone straight to the back pockets of its shareholders. The dividend payment in the year to date is €800 million. It brings the total extraction of valuation since Niel's arrival in 2018 to €1.73 billion.

For years, proponents of competition in the telecom sector argued that the network and retail arms of Eir should be separated. This would allow for greater transparency in the market. Company bosses insisted that it would be far too complex an exercise. Amazingly, in the interests of extracting value, not competition, these hurdles have been overcome. In keeping a majority stake in Fibre Networks Ireland, Eir is also managing to have its cake and eat it.

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RISING STARS STRIKE IT RICH

Irish tech start-ups can move to another level when bought by a multinational, says *Laura Roddy*

KINZEN DUO STRIKE SOUND DEAL WITH SPOTIFY

● Investors in Mark Little and **Áine Kerr**'s Kinzen were rejoicing last week when the company was sold to Spotify, the music streaming giant.

While the terms of the deal have not been disclosed, John Phelan, of the Halo Business Angel Network (Hban), says it is a good signal for other Irish start-ups, with those who have invested likely to reinvest again.

Hban's members had put money into Kinzen, which helps its clients fight misinformation, alongside big names such as the Dublin-based entrepreneur Ray Nolan and the former Richmond Marketing director Alan Metcalfe. "When Glofox was sold last month for €200 million, our investors got 20 times their money back," Phelan said. "Those investors are going to reinvest again so it is only a good thing."

Although Kinzen is not at the same stage as Glofox, investors reckon that the deal was "substantial" considering it is Kerr and Little's second time exiting a company — they sold Storyful to News Corp for €18 million in 2013. Leo Hamill, a partner at Investec, said the company's technology is valuable to Spotify, which could have spent three years developing its own intellectual property.

PLAIN SAILING FOR CAPE CLEAR

● While there have been a number of high-profile sales to larger multinationals in recent years, Cape Clear's sale to Workday in 2008 has been touted as one of the most successful.

The web services integration company was set up nine years previously by serial entrepreneur Annrai O'Toole and **David Clarke**. Niall McEvoy, a venture partner at investment firm Elkstone, described it as a hugely successful story, with the company continuing to grow "massively".

In terms of acquisition sizes, Cape Clear fell into a middle bracket of businesses that might typically be "subsumed" by a larger tech company — but that was not the case with Cape Clear. Last April Workday said it was getting set to grow the Irish office with 1,000 hires.

Similarly, MasterCard's purchase of Orbiscom, an Irish payments software outfit, in 2009 had a massive bearing on the credit card giant siting its European technology hub in Dublin a decade later.

POINTY STAYS DISTINCT AFTER GOOGLE TAKEOVER

● Google's purchase of Pointy in 2020 for $160 million (€164 million) was a landmark deal for the search engine dominator in the Irish market.

Set up in 2014 by **Mark Cummins** and Charles Bibby, the company builds ecommerce solutions for bricks-and-mortar retailers, and use point of sale technology to linking shop stock to the website. After the sale, the business now operates as "Pointy from Google".

Sarah-Jane Larkin, director of the Irish Venture Capital Association, said that some smaller companies often risk being subsumed by larger ones when they are bought.

Buyers simply take the technology and jobs disappear from Ireland. Pointy's story has been different to date. Despite founder Cummins deciding to step down as general manager earlier this year, the company has kept its name and operations, with most of its 25 members of staff staying with the company.

Likewise, Spotify has said that Kinzen's Dublin office will remain, with 22 staff intact. Whether it becomes a Spotify hub for content moderation remains to be seen.

NOW FACTORY LOSES STAFF AFTER IBM SALE

● **Tom Morrisroe**'s Now Factory, which was bought by IBM for about €110 million in 2013, hasn't been doing so well. The data analytics business was set up in 2006 by Morrisroe to help communication service providers improve customer experience and find new business opportunities.

While it kept its operations in Ireland and became known as "The Now Factory at IBM", the company was later merged into IBM and witnessed a shaving of its staff and operations here, according to industry sources.

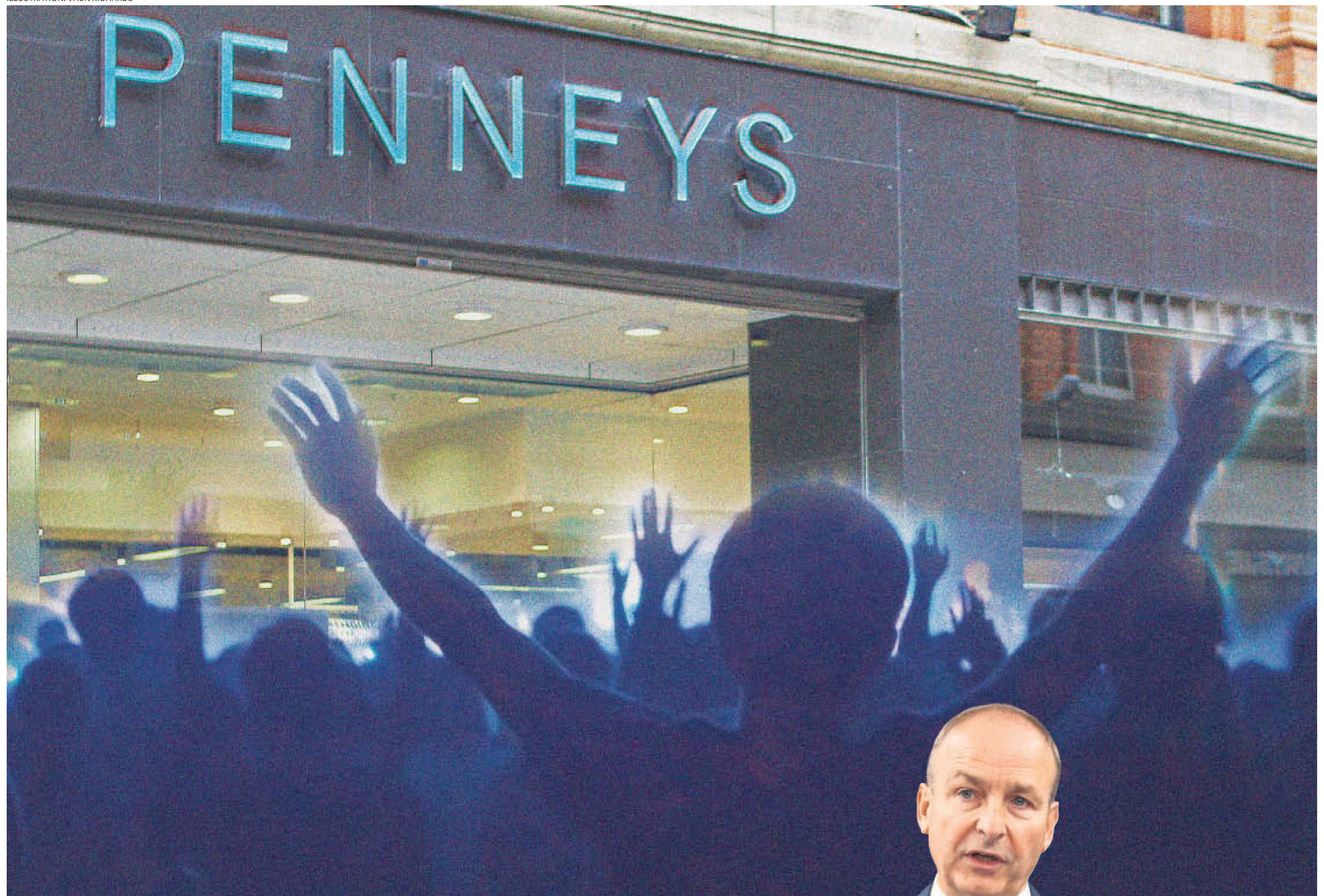
Nevertheless, Ireland has benefited from the sale in other ways — Morrisroe has gone on to set up another technology company, Area 22, and also reinvested some of the money he earned from the sale in Johnny Ronan's Ronan Group Real Estate docklands development.

GAMING TECH SCORES BIG UNDER NEW OWNERS

● Like Kerr and Little, Dylan Collins is a deal rodeo veteran. His company Demonware was bought by the industry giant Activision in 2007. Collins then set up SuperAwesome, which focuses on providing security to children using the internet; **Fortnite** developer Epic Games bought the company in 2020.

Irish gaming technology businesses have done well under new owners. Digit Game Studios, bought by Scopely in 2019, has more than 100 employees here. Meanwhile, Havok is still trading in Suffolk Street in Dublin with more than 100 employees. The company was bought by Intel in 2007 for €113 million before ownership passed to Microsoft in 2015. Its technology keeps detailed graphics running smoothly in games while loading huge amounts of data.

ILLUSTRATION: VAUN RICHARDS



Penneys' halo effect

Wherever the fashion retailer lands, the fortunes of neighbouring stores receive a huge boost. Where's next, asks *Linda Daly*

When Micheál Martin goes to contest the next general election, the taoiseach may cast his mind back to the day he opened a new Penneys store in Tallaght to queues of eager consumers – and wish he had the magic pixie dust that the Irish-founded retailer seems to have.

In the three weeks since the opening of the 43,500 sq ft premises – after a 20-year wait for locals – footfall at the Square shopping centre has increased by 40 per cent, according to Jack Martin, director of retail for the Square.

"There is now a surge in the morning after children are dropped to school, and another between 4pm and 6.30pm when kids get out of school," Martin said.

The operators have taken the opportunity to introduce new parking charges, restaurants are busier than ever and Level 1 in the Square, sleepy since Debenhams shut down in April 2020, is now prime real estate.

In property circles, the phenomenon has coined its own term: the Penneys/Primark effect. When the retailer moves into a mall or onto a high street, it has a halo effect on the surrounding retailers, which also report increased footfall that can last for months and years.

Springboard, a retail intelligence company that measures footfall around the UK, carried out analysis in 2020 on behalf of the Financial Times examining 18 locations where Primark had opened stores. It found that footfall typically rose by 48 per cent on the day the store opened. After a month, the uplift was 18.3 per cent; six months later it was still 7 per cent above pre-Primark levels.

"Penneys/Primark acts as a permanent driver of footfall," Diane Wehrle, marketing and insights director at Springboard, said.

Martin said he expects the high rates of increased footfall to continue at the Square through to the Christmas season and beyond. Initial reports from Penneys' neighbours in the centre have also been positive.

Niall Fortune, a co-founder of Eddie Rocket's, said that his third-floor restaurant at the Square had reported an uplift in business in recent weeks. "Penneys is a great draw in shopping schemes, along with TK Maxx," he said.

Ross Monaghan, sales director for UK and Ireland for the jewellery retailer Pandora, said sales in its Tallaght outlet had been "performing exceptionally well", partially due to the opening of Penneys in the centre. The retailer launched a three-for-two promotion to coincide with the launch.

Sunil Shah, who operates the Skechers franchise in Ireland, felt the arrival of Penneys in Tallaght was "only good news" for his second-floor business.

"Penneys is a very commercially driven business for all ages. Skechers sells a price-sensitive but technology-driven product," Shah said. "There are similarities between the stores but I wouldn't say they are competitors; we complement each other."

However, for Penneys' fashion competitors such as River Island, New Look and H&M – all of which are based on Level 2 in the Square – the uplift from its arrival may take a little longer to be felt, according to Martin.

In the three weeks since Micheál Martin opened the newest branch of Penneys, at the Square in Tallaght, footfall at the shopping centre has increased by 40 per cent

"We are confident that it is going to come," he said.

Duncan Graham, managing director of Retail Excellence, said that the operators of stores such as River Island should not be concerned. "In overall retail terms, putting aside any issues people may have with the concept of fast fashion, I'd rather have a Penneys in my shopping centre or my retail street than not," Graham said. "It is getting people back into shops."

Damien O'Neill, head of sales for Penneys in Ireland, found it difficult to trace back to when the retailer exploded in popularity. The company, which was set up in Dublin in 1969 by Arthur Ryan on behalf of the Weston family, owners of Associated British Foods, now has more than 400 stores in 13 European countries and the US, with 37 in Ireland alone.

A significant turning point certainly came in 2005 when Primark, as it had to be called in the UK due to a copyright clash with the US retailer JC Penney, purchased 120 Littlewoods shops around the UK in a £409 million deal, increasing its footprint by 60 per cent. A year later it started its international expansion with the opening of a store in Madrid.

> **Every owner of a vacant Debenhams store in the UK and Ireland would have contacted Penneys**

Penneys doesn't do above-the-line advertising. Instead it focuses on social media, where it has 24 million fans across its channels. Nor does it sell online but it is trialling a click and collect service in stores in the north of England which, if rolled out, will continue to drive footfall to Penneys and surrounding stores.

In recent months the fashion retailer has also been placing a focus on experiential shopping, introducing nail bars and Scrumdiddly's ice cream parlours into its Irish stores.

"Our business is committed to bricks and mortar," O'Neill said. "Certainly, where we have opened stores that are trading, we try to drive footfall into those city centre stores and those shopping centres."

That ability to drive footfall undoubtedly gives Penneys leverage in rental negotiations. It tends to get rent-free periods at the start of leases. At Tallaght, the retailer invested €10 million in fitting out the old Debenhams unit.

Karl Stewart, director of retail at Cushman & Wakefield, which along with its joint agent Bannon was instrumental in bringing Penneys to Tallaght, said that its attraction as an anchor tenant was down to the "universality of the product offering".

"We always had an ambition to deliver Penneys to Tallaght," Stewart said. "Its products appeal to all demographics. The new stores are so well merchandised, and the range is so good. It is a stalwart of the high street."

Aside from the grocery retailers Dunnes and Tesco, other in-demand anchor stores include Sports Direct, TK Maxx, Next and Marks & Spencer. Internationally, Apple and Nike outlets also tend to attract high footfall.

Neil Bannon, executive chairman of Bannon and director of Sigma Retail Partners, which manages the Square on behalf of its American owner Oaktree, said Penneys was way ahead of the pack in the UK and Ireland.

"Every owner of a vacant Debenhams store in the UK and Ireland would have contacted Penneys," Bannon said. "So they had their choice of where they wanted to go."

For landlords, the presence of Penneys/Primark may not bring in the big bucks in terms of rents initially but it will increase the attractiveness of the location – and a centre in demand will be able to command higher rents.

Monaghan said that when Pandora was choosing its new locations it would "assess customer needs first and foremost", look at the "surrounding mid-market retailer mix", including food and beverage and entertainment, but also look at the presence of strong brands such as Penneys. "It's an obvious factor when considering where to open new Pandora stores," he said.

As the Square's director of retail, Martin hopes that Penneys will be a catalyst for bringing in new tenants – especially those from the Inditex stable, namely Zara and Bershka.

"Penneys coming in has changed the whole dynamic for us as a destination of choice. For a long time the Square struggled to attract the mix of brands," he said. "That looks likely to change now."

Checking Penneys off the list as a tenant will also probably increase the real estate value of the Square for its owner Oaktree, which bought the shopping centre from Nama for €250 million in 2018 – should it decide to sell.

While it issued a profit warning last month, Primark is still a steady bet. This year, it expects to record a turnover of £7.7 billion (€8.8 billion), and has set a target of opening 530 stores by the end of 2026. In Ireland, it has started its €250 million capital investment and redevelopment plan. Its Eyre Square store in Galway is undergoing a 15,000 sq ft extension, bringing it to 60,000 sq ft. Its Patrick Street store in Cork is going up in size by nearly 50 per cent, to 54,000 sq ft. It is also extending its Clonmel store in Tipperary, and is relocating from its single-floor unit in Dundrum Town Centre to two floors.

The Sunday Times first reported last year that the company was going to open in Paddy McKillen Jr's Bray scheme. O'Neill declined to comment on whether that would go ahead. "Certainly what we want to do is continue to review our portfolio in Ireland. Where we see opportunities, of course, we will look at them and speak to the various developers."

Bray residents and local businesses could yet experience the Penneys effect.

Alternative lenders feel the pinch

After years of undercutting high street mortgages, non-banks now suffer most as funding costs rise. By *Gretchen Friemann*

After a period of stellar growth, Ireland's non-bank lenders are facing rockier times as higher funding costs leave the smaller players at a competitive disadvantage to the three pillar banks.

Last week Finance Ireland raised rates on its new mortgage products by up to two percentage points, narrowing the refinancing options for many homeowners and businesses and sparking outrage among mortgage brokers.

ICS Mortgages, which is owned by Dilosk, is to increase all its new fixed rates by 0.5 points across all loan-to-value bands from the start of this month. Its five-year fixed rate for those with a 90 per cent loan-to-value ratio will be 4.19 per cent.

Avant Money has also raised rates in recent weeks.

The mortgage reset among the non-bank lenders comes ahead of an anticipated rate hikes from Bank of Ireland, AIB and Permanent TSB. For now, the banks continue to offer historically cheap home loans despite successive rate increases from the European Central Bank (ECB).

The rate freeze – to date only tracker mortgages have been affected – is likely to end within weeks as the market braces for another aggressive move from the ECB at the end of October.

For non-bank lenders the adjustment cannot come quickly enough.

The banks are exploiting what had been a burden: their bloated deposit books. The savings are a source of cheap funding not available to the non-banks.

The current competitive pressure threatens to send these newer entrants into retreat. Up until earlier this year, non-bank lenders offered some of the cheapest deals in the market. Their share of new mortgage lending grew from 3 per cent in 2007 to 13 per cent in 2021. This included almost 30 per cent of the buy-to-let and refinancing markets, and about 10 per cent of the larger first-time buyer and subsequent buyer segments.

Though their housebuying loan market share is small, in a market where Ulster Bank and KBC are exiting, the non-bank lenders were seen as a bulwark against the dominance of the remaining three banks.

Dilosk became the first non-bank lender to enter the Irish mortgage market in the aftermath of the property crash when it snapped up ICS Mortgages from Bank of Ireland. It is controlled by brothers Fergal and Oran McGrath, who own a combined 51 per cent stake.

Roughly a third of the company is held by the UK firms Attestor Capital and Chenavari. Earlier this year it was reported that the investment bank Houlihan Lokey had been engaged to find a buyer for Chenavari's 14.4 per cent stake.

In March Dilosk became the first lender to react to the relentless surge in "swap rates", which are priced off bond yields. The swap rate is what lenders must pay to financial institutions to acquire fixed funding for a set period of time. Since then, Dilosk has tightened its lending criteria and the rates on its buy-to-let and home loan products. Sources close to the alternative lender claim its buy-to-let business remains buoyant, and say the slowdown in owner-occupier mortgages comes on the back of a stellar year in 2021, when its total loan book expanded by close to €850 million.

Diarmaid Sheridan, an analyst with Davy, says the severe dislocation in capital markets has played havoc with the non-bank lenders' business model, which thrived in a low interest rate environment. Access to cheap funding allowed these smaller players to offer more competitive products than the pillar banks, which are hemmed in by a harsher regulatory regime.

Now the tables have turned on the interest rates.

Non-bank lenders also rely on the securitisation market, where bundles of already written mortgages are packaged into bonds and sold to institutional investors.

While stormy financial markets resulted in a hiatus for residential mortgage backed securities (RMBS), there are signs of a recovery.

At the end of last week Finance Ireland, headed by Billy Kane, launched a €413 million RMBS deal, the biggest portfolio it has yet sold into the market. ICS Mortgages is also expected to launch a sizeable RMBS deal before the end of the year.

Finance Ireland also has a funding agreement with the asset manager M&G, which is a 41 per cent shareholder. Dilosk is thought to be in talks with institutions about a similar financing deal. Avant Money is backed by Bankinter, a Spanish bank.

This suggests that the non-bank lenders are not going away. Pressure is also likely to mount on the banks to reprice their deposit books, diluting their funding advantage.

Yet the steep rate rises of recent weeks are not good for business. Michael Dowling, a mortgage broker, warned that it will be harder for the non-banks to drum up business next year unless they offer a "really attractive rate".

COLM MAHADY/FENNELLS

From left, Frank Donnellan, Jim Hickey and Billy Kane from Finance Ireland, which has raised rates by two points

Former executives keep pressure on Malin for 5% stake

Kelly Martin and Sean Murphy are still set on taking state-backed life sciences outfit to court in €9m row

Gretchen Friemann

Former Malin Corporation chief executive Kelly Martin and director Sean Murphy are pressing ahead later this month with a lawsuit against the state-backed life sciences firm that, if successful, would secure them a near 5 per cent stake in the listed minnow.

In August a third founder, the high-flying corporate lawyer John Given, and previously Malin's chairman, decided to abandon the case.

The founders are seeking to have their class A or founder shares converted into ordinary shares, offering them an opportunity to reap a roughly €9 million windfall, based on last week's market capitalisation.

Hostile action: Kelly Martin

Malin's stock is trading at close to €4.40, a far cry from the €20 and €28 valuation levels that were set as hurdles the company would have to clear if the founders' shares were to crystallise into ordinary stock. Alternatively, a conversion could be triggered by a so-called change of control event.

Martin and Murphy contend that Malin's sale of Altan Pharma, a Spanish investee company in which the Dublin-listed firm held a 65 per cent stake, constituted a change of control. Altan was sold for about €68 million on October 1 and the founders launched their case in the High Court on October 12.

The company utterly rejects that any change of control was triggered through the sale of a subsidiary investee company. Malin has so far run up a €1.5 million bill fending off the hostile action from the founders, according to its latest results.

Martin is a former executive of Elan, which once accounted for a fifth of the value of the Irish stock exchange. He walked away with $55 million after he negotiated a takeover deal for the drug firm. He then set up Brandon Point Industries, which made a string of investments in life science companies, which were then reversed into Malin. Backed by the Ireland Strategic Investment Fund, Malin raised €330 million when it floated in 2015.

Dogged by poor share performance, Martin left Malin two years later, accepting over €5 million in severance paid out in cash and shares. He has since held leadership roles at Novan, a Nasdaq-listed minnow, and Radius Health, a small Nasdaq-listed pharma outfit that markets a drug aimed at combating osteoporosis.

During his near three-year tenure at Novan, Malin, a former Merrill Lynch banker, received a $737,000 salary and roughly the same figure again as a bonus, paid out in shares.

Distillery gets last orders from Revenue over debt

Linda Daly

Revenue has petitioned to wind up Dublin Distillers & Co Teoranta, a spirits company founded by the Carlow businessman Illann Power, who is facing three charges of alleged breaches of company law.

Power, 30, is accused of providing false B1 annual returns to the Companies Registration Office, contrary to the Companies Act 2014. He was arrested in July after an investigation into his company by the Corporate Enforcement Authority.

Bail was initially granted on various conditions, including that Power surrender all his travel documents and sign on daily at a local garda station. However, last month the court ordered that his passport be returned, allowing him to move to the US. His defence team had argued that the father of one had ties here.

Illann Power has filed for bankruptcy in America

The Currency business news website reported in July that Power had filed for bankruptcy in the US in June.

Documents filed with the bankruptcy courts of the southern district of Florida said the businessman had total debts of $1.09 million (€1.12 million), the vast majority of which – $955,000 – is owed to Revenue. He had assets of $19,824, it said.

Dublin Distillers was set up in 2011. In the same year Power set up Banshee Spirits, which he told The Sunday Times was wound up in 2014 with debts of €350,000.

He reportedly co-founded a fund, Nohovation Partners, in 2017 that aimed to invest €25 million in start-ups but closed without making an investment. At the time it said it had considered more than 1,000 pitches from companies but could not find an "investable one".

The petition to wind up the company, which was brought by the collector-general Joseph Howley, is due to be heard at the High Court next month, on November 7.

Tesco sales boosted by online shoppers

Brian Carey

The supermarket chain Tesco said that online purchases accounted for 9 per cent of total Irish sales in the six months to the end of July as delivery and "click and collect" held steady after the end of pandemic restrictions.

Tesco's year-on-year sales in Ireland fell a marginal 0.1 per cent to £1.3 billion (€1.5 billion), showing a strong performance last year due to the end of Covid-19 restrictions. Sales were 12.1 per cent ahead of 2019. They grew 2.4 per cent in three months to the end of July, reflecting the growing influence of inflation.

"I see it as our role to protect customers from as much inflation as possible," Ken Murphy, the Tesco group chief executive, told analysts.

"We will continue to inflate a little bit less and a little bit later than the rest of the market and take it on ourselves to navigate the other challenges we face as a business to the best of our ability."

Murphy said that group online sales had fallen after the lifting of restrictions but remained "significantly larger" than before the pandemic. Tesco said it retained nearly 70 per cent of the customers that it had gained over the past two years. Sales at its city centre convenience stores grew by 26 per cent, reflecting the return to work.

Murphy said that convenience stores in Ireland had performed strongly. It also got a bounce here from rising clothing sales.

Tesco opened five new "click and collect" centres in Ireland and the service is now available across over 70 per cent of its larger stores.

EirGrid charge is a shock to wind farm developers

Laura Roddy

A leading renewable energy company has complained that EirGrid's connection price for offshore wind farms is "excessive" at €10,000 per megawatt (MW).

SSE Renewables – which is investing €2.5 billion in an 800MW offshore wind farm, called Arklow Bank, lying off the east coast of Ireland – will have to pay upfront costs of €8 million to EirGrid under connection rules.

The energy firm asked the Commission for the Regulation of Utilities (CRU) to propose a "bespoke" payment instead.

In a submission to a consultation held by the CRU on the policy, SSE said it would rather pay a first-stage payment that is the lesser of 50 per cent of the connection cost or €10,000 per MW.

Missing link: offshore farms

"SSE strongly disagrees with any scenario where EirGrid would charge more than the full grid connection costs through stage payments," it said.

The company also asked that the payment be made refundable if the project were to be "declined or quashed by JR [judicial review]".

Arklow Bank is one of seven projects that have been awarded maritime area consent licences by the Department of the Environment.

Developers can now apply for planning permission for their offshore projects, and auctions will be held later this year for the turbines to supply energy.

The new policy outlines that phase one developers will have the option to take a grid connection from EirGrid until the end of December 2025.

DP Energy, which has partnered with Spanish giant Iberdrola to develop three projects, asked for the date to be brought forward to 2024, to give investors in phase two projects "confidence" to invest. It said there is "an urgent need" for engagement with EirGrid for the next phase of offshore projects.

Real meat of Flipdish shows unicorn is fantasy

Brian Carey Agenda

Two weeks ago, this newspaper revealed that Flipdish, a company that makes online ordering software for restaurants and the like, was trimming its workforce of 254 staff. It is a business with more than ample stores of cash, chasing a global opportunity. Ahead of a worldwide recession, with consumers heading for the hills, it has applied the brakes. That's a prudent move.

Yet its now modest workforce does somewhat undermine Flipdish's status as a unicorn, or a company that is worth over $1 billion. That's because Flipdish is not worth $1 billion, or $1.25 billion as reported. It's time to shoot a few unicorns.

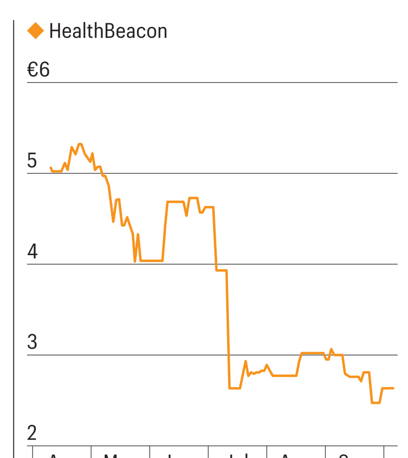
Flipdish achieved its lofty status after a very successful $100 million funding round led by the Chinese internet behemoth Tencent. To reach the lofty $1.25 billion valuation, the new investors would have taken a mere 8 per cent of the company. For Tencent, paying $100 million for an 8 per cent stake in a developing company sounds like a big leap of faith.

The new investors did back the company to the tune of $100 million and probably did get an 8 per cent stake. Yet the billion-dollar valuation, like the unicorn, has no real grounding in reality.

Tencent and co invested by means of preference rather ordinary shares. This is a vital distinction. Preference shares act more like debt than equity, and should not really be used in calculating a company's enterprise value.

Now preference shares may convert into ordinary equity. And at the date of investment, the conversion rate is one preference share equals one ordinary share, hence the ability of companies to use the unicorn term and the implied valuation at that date.

Yet there is a world of difference between the two types of stock. Unlike ordinary shares, preference equity has in-built downside protection. Let's say that Flipdish trades for several years at a reasonable if unremarkable level. A decision is taken to sell the business for $125 million, or 10 per cent of its current unicorn valuation.



Source: Yahoo

This is deemed a liquidation event and, when the proceeds are divided out, the preference shareholders are at the top of the queue. They will get their money back and any rolled-up dividends first, just like a secured lender.

Tencent does not get 8 per cent of its money, it gets 100 per cent. Ordinary shareholders will get paid only if there is money left over. Furthermore, preference holders can nominate when they want to convert their shares.

Out of the €110 million or so raised by Flipdish, only €2 million has been raised in ordinary risk capital. Incoming preference equity investors will often buy out stock from existing ordinary shareholders at a premium.

So even in the deemed liquidation, ordinary shareholders at the back of the queue may not be out of pocket. The only victim is the truth. The company was never really worth $1.25 billion.

The unicorn label – one newspaper even dubbed Flipdish as Ireland's latest "official" unicorn – is a PR gimmick.

In the technology sector, this serves one purpose: to attract staff. Yet tech whizzes taking share options in a unicorn will not get downside protection and should ask valid questions about the actual value of what they are offered.

Flipdish is a great story. It has raised €110 million from the smartest people in ecommerce. It should not need PR guff to attract staff.

Unlike Flipdish, HealthBeacon decided to raise €25 million through the stock market, all ordinary shares, no preference equity. The shares have lost 55 per cent of their value since floating last December. The business has a market value today of €44 million.

If Jim Joyce had gone another route, the medtech founder could easily be heading a unicorn by now. He chose the real world instead.

Rental health service

Institutional funders seem to have taken flight from the residential property market. Rising construction costs and interest rates have put the private rental sector (PRS) in a spin. The pipeline of deals has frozen. This has to represent a chance for the state to forward-fund developments and divert stock from private housing to social and affordable.

Darragh O'Brien, the housing minister, twisted the dagger last weekend by flagging that he would end exemptions for PRS development on building regulations.

Can the government actually move swiftly enough to muster its resources and seize the opportunity? Or will it get bogged down in a swamp of bureaucracy in Brussels and court cases at home?

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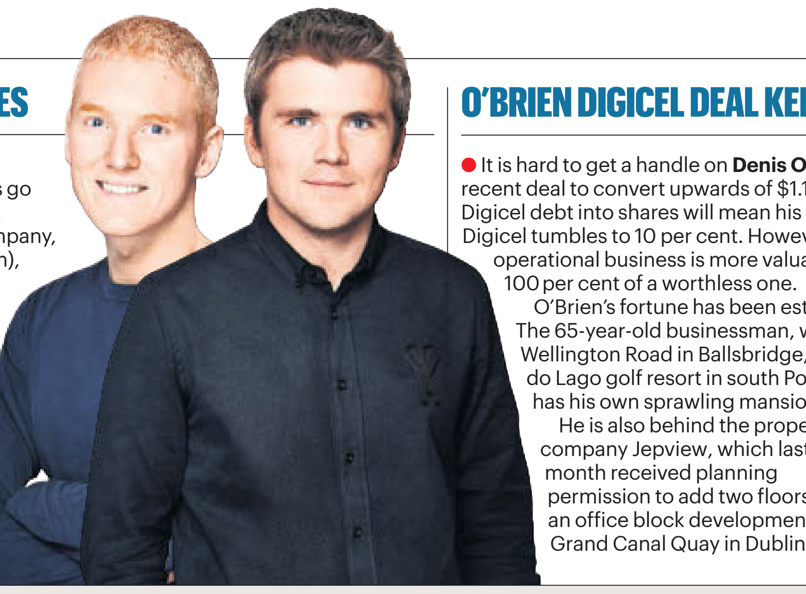
MIXED FORTUNES

How has the past year been for Ireland's tycoons? It's not all been plain sailing, writes *Linda Daly*

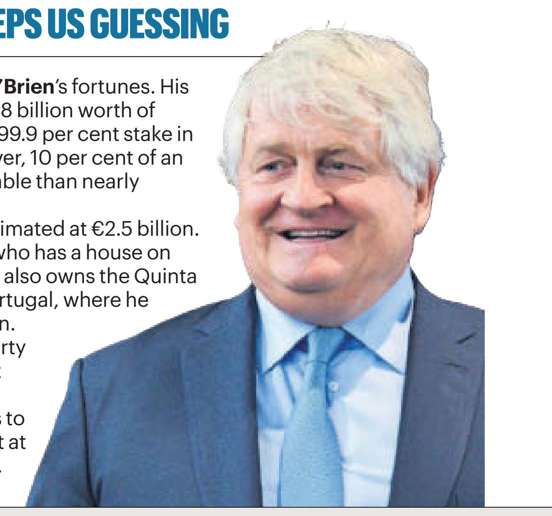
STRIPE STRUGGLES HIT BROTHERS' RICHES



● Since becoming millionaires in their teens, the Limerick brothers **John** and **Patrick Collison** have seen their fortunes go stratospheric. However, the past year has dented their bank accounts. Last November Stripe, their online payments company, announced job cuts. In March it raised $6.5 billion (€6 billion), which valued it at $50 billion, almost half its 2021 valuation of $95 billion. The Collisons' personal fortunes stand somewhere around the €5 billion mark.

That is still plenty of money for John to complete his €6 million renovation of Abbey Leix, a Palladian mansion on 1,100 acres in Co Laois which he bought for €20 million in 2021. On June 3 the estate will open to the public for an annual charity day. John also has a share in Weston airport and the brothers have been investing in start-ups such as the tech firm Retool and Watershed, a climate change software company.

O'BRIEN DIGICEL DEAL KEEPS US GUESSING



● It is hard to get a handle on **Denis O'Brien**'s fortunes. His recent deal to convert upwards of $1.18 billion worth of Digicel debt into shares will mean his 99.9 per cent stake in Digicel tumbles to 10 per cent. However, 10 per cent of an operational business is more valuable than nearly 100 per cent of a worthless one.

O'Brien's fortune has been estimated at €2.5 billion. The 65-year-old businessman, who has a house on Wellington Road in Ballsbridge, also owns the Quinta do Lago golf resort in south Portugal, where he has his own sprawling mansion.

He is also behind the property company Jepview, which last month received planning permission to add two floors to an office block development at Grand Canal Quay in Dublin.

RISING TIDE OF COSTS HIT COULSON IN THE POCKET

● Appearing in today's Sunday Times Rich List, the packaging billionaire **Paul Coulson** has seen his fortune fall by £273 million to just over £1.5 billion. The 71-year-old Dubliner owns about a third of Ardagh Group, one of the world's biggest glass and metal packaging giants with 65 factories worldwide.

The company has been throwing its weight behind sustainable, recyclable cans in recent years. It floated its metal packaging arm on the New York Stock Exchange in 2021 but since then shares have fallen 68 per cent, from $11.49 to $3.65, as its margins have tightened due to rising costs and the dollar strength against the euro and sterling.

Coulson has a mansion on Shrewsbury Road in Ballsbridge. In April he padded out his coffers with the sale of his **luxury yacht**, Icon, which had been on the market for about €45 million.

MURTAGH CLAN KEEP IT IN THE FAMILY

● Since selling off €114.5 million worth of shares in his materials company Kingspan in 2018 and 2019, **Eugene Murtagh** has held on to 14.9 per cent of the company.

The billionaire, along with his sons Gene, Kingspan's chief executive, and Paul have consistently appeared in the top ten on Ireland's Sunday Times Rich List.

Their net worth stands at about €2 billion. It recently announced it was leaving the London Stock Exchange.

Murtagh, 80, is also a director of his son Paul's company Carraig Capital, an investment company. He is also a director and shareholder in a distillery and vineyard, Château Puynard in Bordeaux, which he co-owns with his daughter Naomi and her husband Andrew Eakin. The Murtagh family had been poised to buy Buswells Hotel in Dublin city centre for €22 million last year but talks are thought to have fallen through.

ART SALE IS MAGNIER'S LATEST WINNER

● John Magnier's net worth is likely to have edged closer to €2 billion this year. The bloodstock tycoon owns the €70 million Coolmore stud business, the five-star Cashel Palace hotel in Tipperary, and a share in a €1 billion property portfolio in Europe.

The value of his joint stake with JP McManus in Mitchells & Butlers, one of the largest operators of restaurants, pubs and bars in the UK, has risen — its share price is up by 45 per cent in the year to date. The avid art owner also recently had a coup when the UK's National Portrait Gallery and the Getty Museum in the US agreed to pay £25 million each to him for **Portrait of Mai**, an 18th century life-size painting by Joshua Reynolds. He is believed to have bought it in 2001 for £10.3 million.

A HIVE of activity

Financial advisers who sell regulated and unregulated investments are part of a huge business. But as more schemes turn sour, *Brian Carey* asks if investors know the difference

In March 2020 Arena Capital Partners, a promoter of unregulated loan notes, was offering an attractive incentive to investment brokers. Arena, which at that time had raised more than €90 million from Irish investors to buy wind turbines in the UK and Europe, said it would take its top ten brokers on an all-expenses paid, four-day trip to Paris for the France v Ireland rugby match.

To qualify for the reward, financial brokers were given four months to place at least €500,000 worth of Arena loan notes.

At the time the Central Bank of Ireland, which regulates investment brokers, was introducing a ban on such incentives. The bank said that "such benefits are designed to influence an intermediary to place business with a particular provider rather than to provide any direct benefits to consumers".

The crackdown on jollies, however, only related to the sale of regulated investments. Arena's loan notes were unregulated. So for the participating brokers, the incentive was allowable.

That promotion gave an insight into the world of unregulated investments. Distributed by financial advisers across the country, the investments are not authorised by the Central Bank. Investors who suffer losses on unregulated investments do not have access to the Investor Compensation Company and may not have recourse to the Financial Services and Pensions Ombudsman (FSPO).

These are often high-risk investments. Yet as a number of loan note schemes turn sour, the sheer scale of the market becomes more apparent. So too do the risks involved.

Up to €150 million was invested in loan notes issued by Dolphin Trust, a collapsed German property investment company. More than 1,700 Irish investors are believed to have made an investment and they face crippling losses.

Investors pumped more than €240 million into an energy-from-waste product in England promoted by Solar 21, an alternative energy investment company. Last week the High Court in Dublin heard an application from Solar 21 to write down the value of these loan notes by almost 40 per cent after it was confirmed that funds raised for the project were applied to biomass and biogas schemes.

Investors who bought loan notes in Tower Trade Finance, a supply chain lender, face losing 70 per cent of the €13 million owed to them after the company went into liquidation. Tower Trade Finance and Deal Partners Logistics, a related company, were dragged down after its biggest customer JACC Distributors, a former agent for New Balance sportswear in Ireland and supplier of kit to the Republic of Ireland senior soccer team, went bust.

There is no accurate figure for the amount of money invested in unregulated loan notes over the past decade but it probably is close to €1 billion, most of it through pension schemes. The rise of the loan note in the early part of the last decade was driven by a scarcity of capital in the wake of the great financial crisis for promoters, and rock-bottom interest rates for investors.

Loan note issues also offered large commissions to brokers. For example, fundraising costs in relation to the Solar 21 EFW notes amounted to £26 million (€30 million).

Many loan note investments perform well. Cantor Fitzgerald Corporate Finance raised loan notes for Boxever, a travel software company, Kilternan Cemetery Park, a new graveyard in south Co Dublin, and for a housing development in north Co Dublin. PrepayPower, the pay-as-you-go electricity provider, funded much of its growth from investor loan notes that carried coupons of 11 and 12 per cent. In the case of Cantor and PrepayPower, the instruments were marketed to private clients, sophisticated investors who were comfortable with higher risks and returns.

The loan note market also involved a lot of repeat business: investors earned high returns in one scheme and rolled them over into the next one.

Paddy Delaney of Informed Decisions, is a fee-based adviser, and as such does not accept the type of third-party commissions that are common in loan note schemes.

"Let me be clear here. There is nothing necessarily wrong with investing a slice of your investible assets in a small business," he wrote in a recent blog. "But, if you were to do that, I'd suggest to only do so if you have a firm knowledge of the business, who is running it, what the upside is and what your stake is … and not to do it through a myriad of intermediaries and unknown parties."

The big movers in loan notes were not large stockbrokers but relatively small investment advisers. Ian Greer, a former apprentice engineer with Ryanair, left

David O'Shea, far left, set up BlackBee; investors were burnt when JACC Distributors went bust; wind power can attract investors; €44.8 million was secured on iNUA hotels

the airline to become a mortgage and investment broker in 2004. He set up Arena Capital Partners in 2014, aiming to raise money from Irish investors to buy turbines on wind farms in the UK and Italy.

Arena recently launched its 18th fund and is looking to raise €20 million. The firm has raised more than €100 million from Irish investors. In 2021 it sold a portfolio of turbines and raised more than €30 million in cash. Some of the proceeds were used to repay those who invested in earlier funds.

Michael Bradley, a former executive with Zurich, a multinational insurer, set up Clear Financial, now a sizeable broker, in 2002. With his brother Andrew he set up Solar 21 initially to offer renewable investments to Irish investors, setting up solar farms in Italy. Much of the money invested in the now-troubled energy-from-waste businesses in Yorkshire was recycled from previous successful, high-yielding solar investments.

BlackBee has been one of the most active loan note promoters in Munster. It was set up in 2014 by David O'Shea, a former investment director with Quintas, a Cork wealth manager. It has issued more than €150 million in loan note on various projects.

In the High Court on Friday, an official liquidator was appointed to BlackBee Investments, part of the BlackBee Group. BlackBee Investments was involved in managing regulated investment on behalf of clients and was in the process of being wound down when the Central Bank took action following concerns about the governance of that business.

Loan note investments, however, were issued by City Quarter Capital II, a separate company. It is not connected to the company in official liquidation and is entirely unaffected. In April it gave updates on 11 loan note investments, office properties and nursing homes. It also arranged €44.8 million of loan notes secured on equity in the iNua Collection, a chain of regional hotels.

All three sectors – hotels, offices and nursing homes – were affected by the Covid-19 pandemic. As a result, understandably most loan notes passed their maturity date without repayment. Investor returns now depend on the successful sale of underlying properties or a refinancing of the loan notes with a bank or other investors.

In an environment of rising interest rates and falling property values, however, this will not be easy.

BlackBee's involvement in the nursing home sector goes back almost a decade. It raised funds for the Ditchley Group, helping it to buy seven nursing homes, mostly in Munster.

It then set up Aperee Group, which planned to raise €240 million to consolidate the nursing home sector. Aperee added a further three facilities and two development sites, deploying a fraction of the proposed capital. In 2021 Aperee took over the management of the Ditchley Group.

BlackBee last year hired PwC to find a buyer for the portfolio of nursing homes.

It says a claim by two Aperee executives for a shareholding in the group complicated the sale. Sources say bids fell short of expectations. It was then reported that O'Shea was to lead a group of equity investors to acquire the homes with the aid of bank debt.

The latest update to shareholders says Aperee plans to refinance the portfolio with a financial institution, with a target set for the return of capital and any outstanding interest in the fourth quarter of this year. It looks ambitious.

The portfolio is of mix of new and older generation homes. Some investor notes or bonds are secured on the properties, some only have security over shares in Aperee Holdings.

Its Glanmire nursing home, one of the development sites acquired by Aperee, is unfinished. Many older homes also face costs to meet the latest fire safety regulations. An accountants' report is due this month which will give details of the cost. Any refinancing would need to include funds for capital expenditure as well as refinancing the investors' loan notes.

The likelihood of a successful refinance is hard to gauge as there are no up-to-date group accounts for Aperee. The last accounts for Ditchley Group, prior to the merger, show debts owed to AIB of more than €10 million. The company says that a sale of Talacare, a primary car centre in Tallaght, Co Dublin should be completed in two to three months, allowing payment for investors.

Hotelier iNua Hospitality, which owns eight hotels including the five-star Muckross Park in Killarney and the Hibernian Hotel in Kilkenny, is in refinancing talks yet only on its €66 million of senior debt. This is held by Earlsfort Capital. A new facility will be in place by the third quarter of this year, the company said.

iNua Hospitality said it had "no plans to refinance its equity in the near term". Pointing to a strong recovery in trading, the board said it was "happy that the initial investor mandate is now back on track". The investor loan notes are secured solely on shares in iNua Hospitality.

BlackBee's entire commercial property portfolio is on the market. It includes the ground and third floor of City Quarter in Cork city, where BlackBee has its headquarters and several assets in Dublin acquired with RQTwo, the property asset management company headed by Simon and Chris Kelly, sons of legendary property figure Paddy Kelly.

An office at Block 2 Blackrock Business Park in Dublin is the subject of two bids and will probably see investors in Blackrock Office Bond II repaid in full.

Properties in Tallaght and at Parkgate in Dublin are let to the HSE and should attract bids. Plans to turn Quinn's pub in Drumcondra, Dublin – cement tycoon Sean Quinn's first hospitality venture in the capital – into homes failed to get planning approval. This, says BlackBee, will affect "the commerciality" of the investment. BlackBee says it has received "a number of approaches" for the pub.

Investors also put €7 million into the purchase of Zurich House in Blackrock, Co Dublin, and St John's House, Tallaght. Both buildings are up for sale. BlackBee says an offer was made on the Blackrock property which would have resulted in loss for investors and was rejected. A "further opportunistic bid" has been received and is "under review."

The investor loan ranks behind senior debt of more than €13 million owed to Finance Ireland. The loan does not mature until the end of 2024, giving some scope for the vendors.

Although BlackBee provides quarterly updates to investors, publicly available information about its loan note activities is less up to date.

City Quarter Capital II issues the loan notes and then lends the money. Its latest set of annual accounts, availed in the Companies Office, date to 2018.

Plans to develop Quinns pub fell through when planning was refused

> **Hoey questions whether investors understand the nature of the investment**

Ben Hoey, a former Bank of Ireland and Kennedy Wilson executive, who acts as a "financial counsellor" representing investors. His focus is the financial advice given to investors. Hoey represents a number if investors in Europa Strategic Partners, which issued a €4.5 million loan note. Several individuals invested all their pensions in the loan notes.

Europa was headed by Stuart Baillie, a former chief financial officer of PrepayPower, and promised a 40 per cent return on a four-year term. The company was to develop a private security business in India. The business failed.

Hoey took a case to the FSPO against a broker who advised two clients to invest in Europa. By the time the FSPO made an award in favour of the investors, the Central Bank had closed down the firm and the broker himself has gone bankrupt. Hoey is continuing to advance other cases.

According to Delaney, an issue for clients wishing to pursue their financial advisers is that broker professional indemnity insurance may only cover the sale of authorised investment products. Hoey disagrees and says all brokers must follow the regulators' code of conduct.

Regulatory intervention has been limited. In June 2020 Simon Sloan, head of consumer protection at the Central Bank of Ireland, sent a "Dear CEO" letter to investment firms, saying that the regulator was aware that some were "offering products and services outside the scope of regulation".

"Where firms engage in both regulated and unregulated activities, there is a significant risk that clients may misunderstand the protections they are afforded when investing in unregulated products," Sloan wrote.

He said the regulatory status of the products needs to be stressed "at every stage" and advisers need to explicitly state what protections are lost when clients invest in a product deemed to be out of the scope of regulation. The investment firm's regulatory status should not be used as a marketing tool, he warned.

Promotional brochures for loan note investments carry explicit and sometimes stark risk warnings. Some also outline the commissions paid to brokers, which can be substantial.

In the case of Solar 21's energy-from-waste scheme, funding costs of £26 million were incurred, mostly paid to Wealth Options, a Kildare broker, for the "design and distribution" of the loan note scheme. Wealth Options has been heavily involved in loan note schemes, including Dolphin Trust.

Hoey questions whether investors understand the nature of the investment. He said the term loan notes is loose, and that sophisticated investors understand the risk but many retail investors do not.

The complexities of the renewables industry, this can be a challenge even for experienced investors. Arena Capital Partners raises loan notes to buy and operate wind turbines. It has its own maintenance firms. Investment is not linked to one project. The funds are pooled and risk is spread.

The latest accounts for Arena show a balance sheet deficit of €30.3 million and losses for 2021 of €12.8 million. The directors say, however, that once long-term power-purchase agreements are in place for wind energy plants under construction, cashflow projections show that the company will be profitable. All its developments that have reached construction have secured power-purchase agreements.

"Unregulated Investments Ireland are generally high-risk products with huge amount of complexity," Delaney wrote in his *Informed Decisions* blog. He questions whether financial advisers can truly understand these businesses. His advice: buyer beware.

The Central Bank of Ireland told The Sunday Times that it is to examine how unauthorised financial products are being distributed through regulated financial advisers as part of a review of its consumer protection code.

The bank is considering whether "additional obligations" should be placed on companies when they undertake unregulated activity such as the sale of unauthorised loan note investments. It said there were concerns that "consumers are not always aware that they are dealing with unregulated firms, or accessing unregulated products or services".

Fingleton trial date set but frail banker won't be there

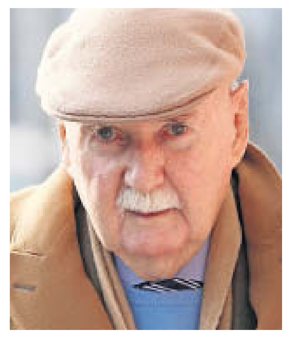
Gretchen Friemann

The High Court has set October 17 as the trial date for Michael Fingleton, the former boss of Irish Nationwide Building Society, who is accused of mismanaging the collapsed lender.

The banker, who is in his eighties and frail and unwell, will not appear in court as his son and wife now have power of attorney over him.

News of the trial date follows the appeal court's decision to quash Fingleton's attempt to have the action taken against him by the liquidators of the society dismissed or permanently stayed on the grounds of his ill health and the passage of time.

State liquidators IRBC (Irish Bank Resolution Corporation), which took over INBS in the wake of the



Unwell: Michael Fingleton

crash, filed a €6 billion lawsuit against Fingleton in 2012. The claim for damages equalled the cost of the clean-up bill for the defunct society.

In the recent appeal court case, the IRBC reduced the claim to five soured loans totalling €290 million.

Last week at the Commercial Court, Padraic Lyons SC, acting for Fingleton, argued that the IRBC had abandoned the majority of its claim against INBS's former boss. Lyndon MacCann SC, acting for IRBC, said Lyons was "playing to the gallery", adding: "We haven't abandoned any of our claim . . . set out in July 2013."

Fingleton's trial, if it goes ahead, is expected to run for several months, driving up the already considerable legal costs in the case.

Although Fingleton has few assets left, the stakes for both sides remain high. The legal costs run into the millions while in parallel to the case, the state-backed liquidators are also pursuing a claim for over half of the net €4.5 million proceeds Fingleton's wife, Eileen, made from the sale of a field adjoining the family home in south Co Dublin to a developer.

Activist builder's €30m site claim

Laura Roddy

Jerry Beades, the anti-possession campaigner, has asked Dublin city council for €30 million after it made a compulsory purchase order for a derelict site on Richmond Avenue, Dublin.

Nos 21 and 27-29 Richmond Avenue were entered into the derelict sites register in December 2012 and the council decided to proceed with a compulsory purchase order of the property and land in 2019, becoming the official owner in April 2021.

Beades had been building a 60-unit apartment block on the site but ran out of funding during the financial crash.

He submitted a claim of €30 million compensation for the site in April last year, according to a judgment in the High Court last week. A month later Beades objected to Dublin city council entering the site, alleging he has equipment there needed for his business.

Beades sought relief including an order restraining the council and Owen Keegan, its chief executive, from taking further steps towards the CPO and a direction that the council vacate the property. Both were dismissed.

Justice Eileen Roberts said on May 15 that Beades's application to the High Court failed to establish a "fair issue" or a "strong case likely to succeed at trial".

Beades had also asked the court to allow him to access the property and his machinery. Roberts said that efforts had been made to arrange the collection of his items. She urged both sides to engage in the compensation process.

Aer Lingus gets a €11m lift to launch Ohio service

Aer Lingus is receiving marketing incentives of almost $12 million (€11 million) over three years to support its new service to Cleveland, Ohio, *writes Brian Carey*. The support is believed to be the largest committed to tempt an airline to fly to the midwestern state.

The incentives are being provided by the city of Cleveland, Cuyahoga County and the Greater Cleveland Partnership, with up to $9.4 million coming from Jobs Ohio, the private economic development arm of the state government. The service, which was launched this weekend, restored a transatlantic service to Cleveland for the first time since 2018.

Financial support from regional America cities to tempt airlines to launch transatlantic services is common. The minimum revenue guarantee only becomes payable if the service fails to meet set monthly performance targets. Indianapolis, St Louis and Pittsburgh have all struck similar deals. The guarantees help the airline build up the service and ensure viability in its start-up phase.

Aer Lingus is to operate its largest North American programme this summer. It said last week that bookings were up more than 20 per cent on 2019, with 2.25 million seats on sale. It said premium leisure travel bounced back with the strong dollar having a positive effect.

Aer Lingus has grown its long-haul network from six to 19 transatlantic routes since 2013, leveraging off Dublin airport's US pre-clearance facilities. On average more than 37 per cent of passengers on board Aer Lingus transatlantic flights connect to and from the UK and Europe.

Dublin is one of the few airports to offer pre-clearance. Edinburgh, where Aer Lingus also has a presence, is looking to introduce the facility for its passengers within the next two years.

City needs pizzazz not plazas after HMV return

Brian Carey Agenda

There were echoes of the famous Basil Fawlty quip: "A satisfied customer. We should have him stuffed."

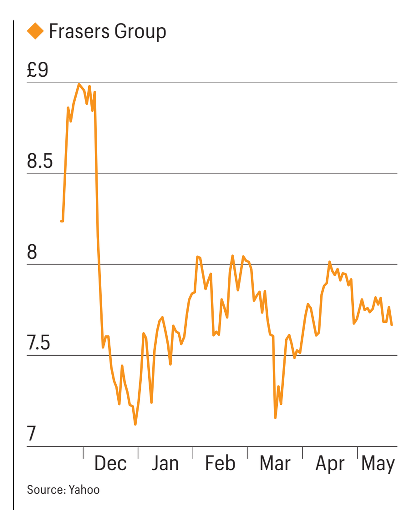
The return of the music retailer HMV to Henry Street in Dublin was greeted with a fanfare that bordered on incredulity. No retail market has been more brutalised than entertainment through Netflix, Spotify and online gaming. Yet here was one of the great names of the trade back in the city centre. We should have it stuffed. A case, perhaps, of the old dog for the hard road.

The fuss was a tad disrespecting of Golden Discs, with 20 stores nationwide, including a 4,000 sq ft store in the Stephen's Green Centre. Yet even the 60-year-old Golden Discs might grudgingly welcome back the 102-year-old prodigal HMV whose first store on London's Oxford Street was opened by the composer Edward Elgar. All retail investment is good, particularly in our city and town centres.

HMV returning to Ireland is being spearheaded by its relatively new owner, Doug Putman, who wants to create "a pop culture destination". Hopefully it will also sell a few vinyl records. At Golden Discs, good old-fashioned LPs accounts for 40-50 per cent of sales. Putman owns Toys 'R' Us Canada and Rooms+Spaces, a homewares chain. So he is a retailer.

Yet Putman, a 39-year-old from Ontario, also realised that retailing must have pizzazz to survive.

In charting the decline of bricks and mortar retail, it's hard to know where to attribute the most blame: ecommerce, private equity owners or city and town planners. Each has wrought its own form of destruction. If a retailer-driven HMV is to succeed in Dublin, then arguably the city has to step up as a shopper-friendly destination. It has to bring its own pizzazz.



Source: Yahoo

Nobody knows quite how, but the city has fallen to an invasion of traffic-calming batons and ugly street furniture. Its centre is chaotic and cluttered. The most visible retail activity is in narcotics.

City fathers dream of a European-style plaza in front of Trinity College, yet they really need to attend to the reality on the streets across the entire city centre.

There are the seeds of a retail revival north of Liffey. Across O'Connell Street from HMV, the opening is imminent of the new Clerys Quarter. The development will come nowhere near recreating the venerable old store in its heyday, yet it will bring Flannels, an upmarket fashion store owned by Mike Ashley's Fraser group, and H&M, a fast-fashion store. They arrive in spite of the city fathers, not because of them.

Seven years after purchasing 5.5 acres in the centre of the city, UK group Hammerson is still wading through councillors' objections and High Court hearings as it tries to advance its Dublin Central regeneration project.

An Post had office staff start to leave the GPO this week. How long will the Prince's Street offices lay vacant? Is there even the vaguest notion of an alternative use? Dublin's north city centre has great potential. It needs a plan, not a plaza. More progress, less batons and more vision, less bile.

Glenveagh plan gets green light

It looks like An Bord Pleanala's bottleneck has been unplugged in jig time. Glenveagh updated the market on Friday that it has been green-lighted on 2,000 units, largely from ABP. In February Glenveagh boss Stephen Garvey was blaming the planning system for holding up development. Davy says Garvey now has a clear path to the end of 2024 in terms of delivery.

The Central Bank's relaxation of mortgage rules is underpinning strong demand from first-time buyers. Whether the Glenveagh share price has a similar smooth roll to €1.60, as Davy predicts, a 60 per cent uplift from current levels is probably a harder call.

Interest rates can squeeze business

A businessman needs to refinance loans on his property last valued at €3 million. He has a loan covering 70 per cent loan of value. The bank is skittish, wants to bring the loan down to 60 per cent so the businessman can service it from the operating company. Businessman gets a valuation from estate agent which is 20 per cent lower at €2.4 million. So the secured loan available is reduced from €2.1 million to €1.44 million or 60 per cent of €2.4 million. The business has to find €660,000 equity from somewhere.

Now if this businessman also has warehoused tax debt, which will be need to repaid next year, then he is under some pressure. It's a real case and a classic example of how interest rates can squeeze a business.

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