

CASE STUDY

# Impact Measurement and Management Spotlight: Energy Foundry

MARCH 24, 2023



**Energy Foundry** is an early-stage venture capital fund with an AUM of **\$15-49 million** that invests in pre-revenue climate tech, sustainability and energy transition businesses in North America. Their Impact Measurement and Management (IMM) is managed by each deal's respective investment team, and supported by MBA interns on a project-by-project basis.

## IMM Fundamental #1: define clear impact objectives for the portfolio and its investments

Energy Foundry defines its impact objectives in terms of the impact potential of its investments, rather than impact *realized* during the ownership period.

This is in part a natural consequence of their focus on early-stage ventures, where emphasizing potential rather than current performance is standard practice. Energy Foundry applies the familiar financial logic of many venture capitalists – invest in potential, rather than current performance – to investing in impact.

It is also, however, a reflection of their particular investment strategy *within* the venture capital space. Energy Foundry observed that many other investors in the climate tech space were hesitant to invest in companies without reliable revenue streams already in place, and were therefore overlooking high-potential pre-revenue investment opportunities. Because products and services are often the primary driver of impact in climate tech, an undersupplied capital market for high-potential pre-revenue companies represented an opportunity for Energy Foundry to identify financially promising and high-impact investments.

Energy Foundry has organized their investment strategy around identifying these overlooked opportunities. Defining their impact objectives explicitly in terms of impact potential was a strategic choice designed to align their impact management with their financial objectives.

### KEY TAKEAWAY

- For early stage investors (pre-revenue), unique opportunity to define impact objectives in terms of impact potential of its investments, versus those realized during the ownership period

## IMM Fundamental #2: establish an IMM process

Energy Foundry's IMM process is built to assess early-stage ventures' impact potential using a replacement model. This model compares the current sustainability profile of the leading products in a prospective investee's sector (e.g. EV batteries) with that of their investee, and estimates the net

environmental impact that would occur if their investee's product captured the market share of their would-be competitors.

Energy Foundry first conducts this assessment as a part of pre-investment due diligence, and then updates their model during the ownership period as they monitor how their investee's products evolve as the company scales.

“By the time that we've invested into [a company], we've really dug into what we think their scale-up plan will actually look like. We take the model that we based our investment on to extrapolate what we think their per-unit impact is, and scale that up based on what we think is achievable for this company.”

#### KEY TAKEAWAY

- Replacement models allow early stage investors to evaluate potential impact by looking at the current impact of leading products in a given sector versus the projected impact of their investees product if they were to gain market share

## IMM Fundamental #3: establish manager's contribution

Energy Foundry's manager contribution strategy centers on their unique network of technical specialists and experienced climate tech entrepreneurs, which they leverage to identify investment opportunities in undersupplied climate tech capital markets, de-risk promising companies seen by other investors as too financially risky, and provide capacity-building support to their portfolio companies.

Energy Foundry also seeks to broaden access to capital in their sector by providing mentorship services to accelerators and entrepreneur hubs, and help founders without pre-existing relationships to capital providers navigate the fundraising process.

#### KEY TAKEAWAYS

- Leverage the experts in your network to provide specialized support and guidance to portfolio companies
- Act as a mentor for entrepreneurs across accelerators and networks to build relationships and increase access for first-time founders



## IMM Fundamental #4: measure the impact of each investment

Rather than measure the current sustainability impact of its investees during the ownership period, Energy Foundry conducts a quarterly review of changes in the sustainability profile of their investee's products as their companies' revenue projections evolve and they adapt to shifting market conditions, which they use to update their replacement model projections of the companies' impact potential.

*See IMM Baseline #2: Establish an IMM Process* for more on Energy Foundry's replacement model approach.



Since we are a venture fund that invests in early-stage companies, a lot of times, the companies we are investing in are pre-revenue—so they haven't yet made their impact because they're going to need to sell their solution before that solution can make an impact. We put together an impact management framework where we create a unit model to calculate potential impact of [the] company [in our portfolio] over time. Once the company starts selling their product, we update that unit model to estimate impact from actual sales."

### KEY TAKEAWAY

- Importance of continued iterations and learning: as early stage company matures, revisit their projected impact, given changing business models and market conditions

# Appendix: ICM Fundamentals of Impact Measurement and Management (IMM)



Impact investors set themselves apart from traditional investors because of their objective to invest for both financial returns and impact. A successful IMM practice can enable investors to enhance their impact, increase their business value, and communicate more effectively.

The ICM Fundamentals of IMM were generated in 2020 by leaders in the ICM network to set a high but achievable bar for a variety of private capital fund managers seeking both superior returns and meaningful impact. Together they comprise a solid floor on which fund managers can build a more ambitious and effective practice over time.

## The ICM Fundamentals of IMM:

- ✓ Helps investors define what is useful, practical, important
- ✓ Differentiates ICM members as market leaders
- ✓ Supports members to become more sophisticated and effective
- ✓ Ensures continued quality of ICM's best-in-class network, by embedding expectations for IMM in criteria for inclusion

### THE ICM FUNDAMENTALS FOR IMM

	INVESTMENT PROCESS	IMM PRACTICE	THE ICM FUNDAMENTALS	GROWING YOUR IMM PRACTICE →
PRE-INVESTMENT	Investment strategy development 	A. Define clear <b>impact objectives(s)</b> for the portfolio and its investments	✓ <b>Yes</b>	
		B. Establish an <b>IMM process</b>	✓ <b>Yes</b> , informally	✓ <b>Yes</b> , more intentionally, consistently, and thoughtfully
		C. Establish Manager's <b>contribution</b>	✓ <b>Yes</b> , qualitatively (informal)	✓ <b>Yes</b> , qualitatively (formal narrative)
POST-INVESTMENT	Investment management 	E. <b>Measure</b> the impact of each investment (OPIM #6)	✓ <b>Yes</b>	

### GROWING YOUR IMM PRACTICE

	INVESTMENT PROCESS	IMM PRACTICE	THE ICM FUNDAMENTALS	GROWING YOUR IMM PRACTICE →
PRE-INVESTMENT	Investment strategy development 	A. Define clear <b>impact objectives(s)</b> for the portfolio and its investments	✓ <b>Yes</b>	
		B. Establish an <b>IMM process</b>	✓ <b>Yes</b> , informally	✓ <b>Yes</b> , more intentionally, consistently, and thoughtfully
		C. Establish Manager's <b>contribution</b>	✓ <b>Yes</b> , qualitatively (informal)	✓ <b>Yes</b> , qualitatively (formal narrative)
		D. Assess <b>expected impact</b> of each investment	✗ <b>No</b>	✓ <b>Yes</b> , qualitatively (formal narrative) ✓ <b>Yes</b> , qualitatively through assessing alignment to impact thesis and establishing quantitative forecasts of impact
POST-INVESTMENT	Investment management 	E. <b>Measure</b> the impact of each investment	✓ <b>Yes</b>	
		F. <b>Manage</b> the impact of each investment	✗ <b>No</b>	✓ <b>Yes</b> , and leverage data to accelerate impact
		G. Assess, address, monitor, and manage <b>potential negative impacts</b> of each investment	✗ <b>No</b>	✓ <b>Yes</b> , informally ✓ <b>Yes</b> , formally
	Exit Planning 	H. Conduct <b>exits</b> considering effect on sustained impact	✗ <b>No</b>	✓ <b>Yes</b> , informally ✓ <b>Yes</b> , formally
		I. <b>Review, document, and improve</b> decisions and processes based on achievement of impact and lessons learned	✗ <b>No</b>	✓ <b>Yes</b>

\* The ICM Fundamentals of IMM are informed by the Impact Principles with some modifications to ensure they are fit for purpose by market rate private capital impact investors of a variety of sizes and strategies.

# IMPACT CAPITAL MANAGERS

---

**The Impact Capital Managers mission is to accelerate the performance of our members and to scale the private capital impact investing marketplace with integrity and authenticity.** We do this through our membership association, which includes 100+ funds representing more than \$60B in impact-focused capital, and through field-building initiatives and partnerships supported by the ICM Institute. The ICM network of peers is engaged and collaborative by nature. As part of our commitment to grow the marketplace with integrity, members must meet certain criteria including standards on impact measurement and management. ICM is a proud organizer of the Mosaic Fellowship and with Achieve Partners, producer of the Better Money, Better World podcast.

---

 [icmadmin@impactcapitalmanagers.com](mailto:icmadmin@impactcapitalmanagers.com)

 [Impact Capital Managers](#)

 [@ICM\\_Network](#)