

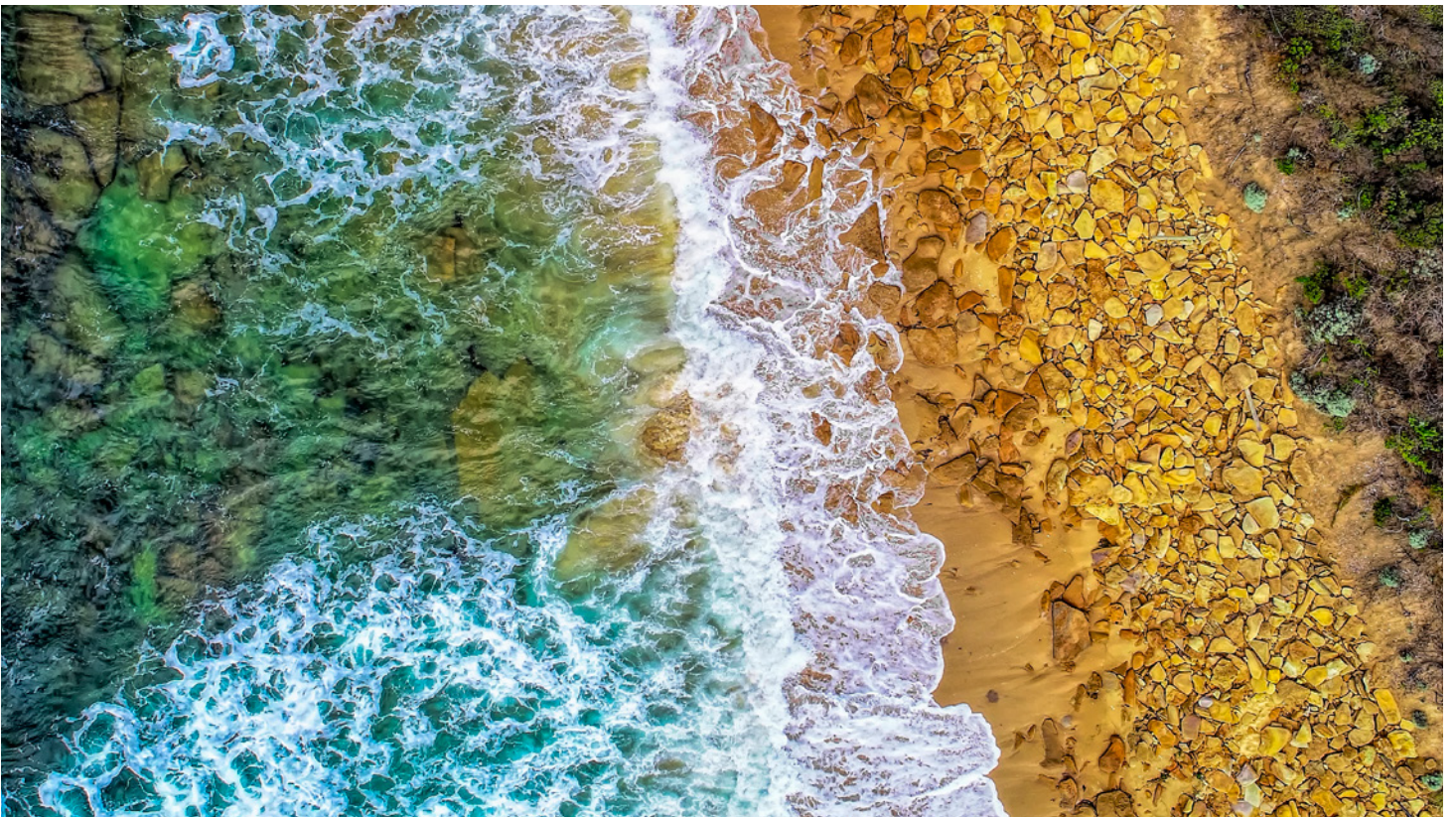


**MORRISON  
FOERSTER**

**IMPACT  
CAPITAL  
MANAGERS**

# **Alpha in Impact: Strengthening Outcomes**

*Impact and Financial Value at Exit*





# Table of Contents

Foreword from Impact Capital Managers	II
Foreword from Morrison Foerster	IV
Introduction	01
Executive Summary	01
Background	02
Research Objective	02
Research Approach	03
Key Themes	05
Initial Data Summary	06
Introduction: Exit Case Studies	16
EverFi	17
Redlen Technologies	21
Vital Farms	23
Graduation Alliance	25
QMerit	27
Credly	29
RENOVA	31
AMFM Healthcare	33
Employee Ownership: Impact Tools Spotlight	35
Introduction to Employee Ownership	35
CHI Overhead Doors	37
Community Energy	41
Pipeworks	43
Legal Tools	45
Conclusion	47
Appendix	49

## Foreword from Impact Capital Managers

The Impact Capital Managers (ICM) mission is to advance the performance of our members — over 100 private capital funds seeking meaningful impact and superior investor returns — and to scale the market with integrity and authenticity.

From our very earliest days as a selective membership association and affiliated field building Institute, we've championed the idea that there does not need to be a tradeoff between impact and financial return. That under the right conditions and when approached with skill impact can in fact be a driver of financial return and outperformance. The implications of this thesis are difficult to overstate: if impact investing can compete with “traditional” investing then most investing should move in this direction, and we should see a rapid acceleration of the mainstreaming trend. Given the urgent problems faced by people and planet who wouldn't be interested in doing well by doing good? This was the common refrain from early impact investing adopters. Today, despite the politicization of ESG by a small but vocal minority of special interests, a growing number of institutional fiduciaries are demanding the freedom to pursue these kinds of investments. Taking advantage of the massive economic opportunity generated by the trillion-dollar net zero energy transition, for example, while also avoiding factors that could pose material risks to companies is less about a particular social agenda than it is about basic prudence, loyalty, and care.

Still, performance data has been lagging the narrative. To date, the biggest obstacle to mainstreaming impact investing has been a lack of track record. The longer holding period that typically characterizes private capital investments can translate into deeper and more intentional impact. In fact, some would argue that because of incentives and structure, listed equities are incapable of being categorized as impact investments. But a longer track record and fewer mandatory disclosures in private capital also means a slower, more inconsistent feedback loop on financial return.

And financial return is only one side of this coin. Performance benchmarks are meaningless if their underlying assumptions about impact are unsound. This is relevant because if impact investing has yet to go mainstream, marketing of impact investing has become ubiquitous. In 2018, The Global Impact Investment Network's (GIIN) Annual Impact Investor Survey estimated a total market size of \$228 billion in assets under management (AUM) inclusive of private and public equities. In October 2022, that number jumped to \$1.2 trillion. How much of this new capital is defensibly impact? We argue that labeling a fund or investment product as “impact” or “ESG” is meaningless and irresponsible without appropriate diligence, disclosures, and standards. Legal tools are an increasingly essential part of this equation at all points in an investment lifecycle, including exit events. Fund managers today have a plethora of fit-for-purpose options to protect impact during exits, meet contractual obligations, and deliver on their commitments to stakeholders.

Hence the title for this study: Strengthening Outcomes. We believe this research makes a solid case for thematic investing in the private market as a strategy to generate market-leading returns and defensible impact. But we invite readers to draw their own conclusions about the financial returns generated from a variety of exits and the degree to which managing for impact was a causative, not just correlative, factor in their performance. With proper due diligence and the effective use of legal tools, impact investing in the private market can and should be about strong outcomes and informed choices, not tradeoffs or politics.

Thank you to our friends at Morrison Foerster for their guidance and to the many ICM members who participated in this research in ways big and small. Last but not least, we are grateful to our Research Fellow Divya Walia. Divya is a dual degree MBA/MIA candidate at Columbia Business School and the Columbia School of International and Public Affairs, and the primary author of this report.

Sincerely,

Marieke Spence, Executive Director  
Impact Capital Managers, Inc.





### Foreword from Morrison Foerster

The impact investing market size represents over a trillion dollars of assets under management (AUM) as of 2022. Of this market, \$322.2 billion USD are under control by private market impact funds, an increase from \$286 billion in 2021. As of September 30, 2022, \$113.3 billion dollars were held in dry powder, waiting to be invested. Private equity funds accounted for 24.6% of private market investment vehicles, raising 30% of impact capital in 2022. These numbers demonstrate increased interest in directing capital for impact within the private market investing landscape.

With the growth in impact investing, there has been a concomitant increase in exits by impact investors. Many general partners have made impact commitments to their limited partners, whether in their main fund documents or in side letters with impact-focused limited partners. The need to comply with such mandates, achieve impact goals, and protect the mission orientation of companies has led to increased attention to the structuring of exit events. Both buyers and sellers are embracing different legal provisions and tools to assist in structuring exit events, whether it is in connection with a private or public sale, IPO or direct listing. Not only can these tools help substantiate an investor’s impact goals and commitments to their limited partners, they can help investors avoid accusations of “greenwashing,” by showing how impact is embedded in deal structures.

The tools to adopt at exit vary based on several factors and must be decided on a deal-by-deal basis. There is a universe of options available to protect impact at exit depending on factors such as investment objectives, whether an investor has a majority or minority stake in the portfolio company, whether an investor will retain a stake in the company after the exit event, and market conditions. Some “softer” protections include highlighting a company’s mission in information memos and conducting reverse impact diligence on potential buyers, with the aim of identifying mission-aligned buyers. Investors have also worked with companies to adopt new corporate forms, such as the Delaware public benefit corporation, which can help ensure that even after an impact investor exits a company, the board will still be required to consider the company’s mission and impact on the world. In addition, some investors have begun to include covenants in definitive transaction documents related to a company’s impact, with penalty payments that can be triggered in the event the buyer breaches the impact covenants. As the impact investing market continues to evolve, we expect to see continued evolution in the structuring of exits of impact investments, as buyers and sellers identify which tools are most suitable for achieving their impact and financial goals.

Morrison Foerster’s Social Enterprise + Impact Investing Group have been at the forefront of designing and advancing legal tools to protect impact at exit. In our work we have observed and stress-tested many innovative legal tools, and we understand that as investors continue to develop and refine their strategies for achieving impact, the legal and operational resources available to them must also evolve. We are grateful for the opportunity to work with Impact Capital Managers and Divya Walia on this study and the insights gained from participating ICM members.

Sincerely,

Susan H. Mac Cormac, Partner  
Michael Santos, Associate  
Harry Stanwyck, Associate  
Daniel Irvin, Associate





# Introduction

## Executive Summary

Impact Capital Managers represents over \$60 billion of impact-focused capital and connects a network of 100+ of the leading private capital investment funds seeking competitive, market rate returns. As market-rate investors, the challenge for ICM member organizations is to prove that impact can and does drive financial return. Inconsistency in impact measurement and reporting makes it difficult to establish a quantitative correlation between impact and financial performance. However, ICM member examples demonstrate that, when done right, effective investment stewardship from an impact perspective is the same as effective stewardship from a financial perspective. Nowhere is this clearer than at the exit stage, where impact and financial value creation during the life of the investment are realized. This report is interested in showing the impact-specific drivers that most influenced exit outcomes for ICM portfolio companies. While this report centers on ICM members' firms, we hope the findings can be useful for the private capital impact investing landscape more broadly.

ICM member organizations represent just one pillar of the effort to mobilize capital towards crucial social and environmental issues. As market-rate investors, ICM funds should be assessed independently from other investors on the impact capital spectrum, including concessionary rate investment funds, philanthropy, and public organizations. ICM members also differ from other areas of the sustainable investing landscape in that they represent mainly private capital. On one hand, this gives investors freedom from short term shareholder pressure and allows for a focus on long-term impact creation. However, this also creates opacity around their impact and its relationship to realized financial value. This report attempts to reduce some of that opacity by including transaction-level information that show both impact and financial return.

This report is also focused on specific considerations that impact investors face at exit. Unlike traditional investors, realized financial value is not the only outcome that matters. As mission-driven capital allocators, most ICM firms are interested in impact created and future impact potential as metrics of exit success. Impact investors are also concerned with how to protect that impact at exit. Many general partners have committed to their limited partners in their governing documents that they will seek to create impact with their investments. Protecting impact at exit and fulfilling their commitments to their limited partners is thus of particular importance. In addition to exit-level analysis, the report includes a discussion of impact tools used by investors to create and maintain impact at exit.

## Background

Over the course of the past decade, evidence that impact investing can be an effective investing thesis has continued to mount. Alongside academic studies and benchmarks showing that impact investments can perform just as well as conventional investments, proof that impact investments can promote positive social and environmental outcomes is growing.<sup>1</sup>

Research efforts over the past 8 – 10 years include both quantitative and qualitative research. Quantitative research on the financial performance of impact investments is typically pooled at the fund level, while quantitative research on impact performance generally aims to quantify the social and environmental impact of impact investments.<sup>2,3</sup> Qualitative research and case studies on the business value of applying an impact lens throughout the investment lifecycle is also a major component of outstanding research.<sup>4</sup>

In aggregate, these studies represent a growing body of evidence for the potential of impact investing to drive financial returns and positive social and environmental outcomes. While they have not yet proven that impact investments consistently outperform, they have demonstrated that some do. In comparison to traditional investments, impact investments trend towards factors that mitigate risk during volatile market conditions, such as having a resilient workforce and being consistently attractive to investors. Research has also uncovered the mechanisms by which using an impact lens (e.g., seeking businesses with positive impact and managing toward those goals) can help manage a portfolio and add value for companies.

However, fund managers continue to face an uphill battle in convincing many investors that impact can be achieved alongside competitive financial returns. The misperception that impact means sacrificing returns hinders the growth of the field, particularly in the private equity and venture capital space, where the opportunity to catalyze impact is arguably the greatest. At this pivotal moment for the field, analyzing the track record of portfolio company exits by impact investors may help corroborate the link between impact and realized financial value.

## Research Objective

In 2018, Impact Capital Managers (ICM) and Tideline published The Alpha in Impact, which outlined the ways in which impact objectives enhance financial performance, drawing from evidence within ICM member funds. The report categorized the concept of “impact alpha” into ten specific drivers within three core areas: accessing opportunities, creating value, and strengthening outcomes (see page 3).

Since the publication of the last Alpha in Impact report, the impact investing field has achieved substantial growth. In 2018, The Global Impact Investment Network's (GIIN) Annual Impact Investor Survey included 226 respondents, estimating a total market size of \$228 billion in assets under management (AUM). As of October 2022, the GIIN reported an estimated market size of \$1.164 trillion, with over 3,349 impact investing organizations.<sup>5</sup> This reflects a ~50% annual growth rate for impact AUM during this period. This unprecedented growth in the industry is reflected in ICM's membership, which has grown from 35 members to over 100 since the last report.

This next research venture aims to address the new questions arising from this growing field and continues ICM's mission to empower impact funds in creating long-lasting value for their investors and the communities and causes they support. An increased and up-to-date sample size of realized exits can help draw firmer conclusions about the relationship between impact and alpha at exit and provides rich material for analysis of our ten identified value drivers. With now over 100 member funds representing \$60 billion in impact-focused, market rate return capital, ICM is uniquely positioned to examine this data set. Preliminary research has shown that successful exits have been occurring in impact investing, mainly via strategic acquisition and secondary sale, with a few IPOs. Our research objectives were as follows:

- 1. Analyze the ways in which selecting and managing for positive impact drives realized value at exit.**
- 2. Identify variables that affect the ways impact drives exit.**
- 3. Surface examples that illustrate how this value is captured at exit.**





## Research Approach

Our research approach had two goals. First, we aimed to make use of ICM’s large membership base to draw conclusions on the overall landscape of portfolio company exits by impact investors. Next, we wanted to closely analyze specific examples of exits to identify a comprehensive set of potential driving variables for both successful and unsuccessful exits.

The first part of our research began in March 2022. We disseminated a survey to the full ICM membership (at that time consisting of 78 member firms) asking them to list all of their completed exits. We received full or partial responses from 30 firms, which yielded information for ~230 exits. Our goal at this stage was to get a broad understanding of the types of portfolio company exits impact investors were making, in which industries, and generally gauge the perceived performance of those exits and what drove that performance.

A persistent challenge faced by researchers in this field is the developing but inconsistent approaches to impact measurement and reporting in the broad impact investing industry, which is also the case in assessing ICM member firms. The lack of consistent approaches to impact measurement limited our ability to objectively compare results across firms. While industry-wide initiatives have made strides in this area, this issue remains a barrier to understanding true quantitative correlation between impact and financial value. As an organization, ICM encourages process-oriented standards around impact measurement. This framework is intentionally not prescriptive to acknowledge that each fund’s unique sector, stage, and size necessitate different forms of measurement. Despite this inherent subjectivity, we still believed that comparing firms’ performance against expectations was valuable to understand the relationship between financial and impact performance for each exit.

Accordingly, we designed our survey questions on financial and impact performance knowing they would be subjective, but with the goal to maintain consistency. Each firm had a base-level expectation for financial and impact performance, regardless of how performance was measured. For example, expected financial performance is often indicated through a hurdle rate, a target IRR, or MOIC level. While the “expected impact level” is more complicated, ICM firms are expected to have clear impact objectives and follow some sort of measurement and data collection process to assess alignment with the stated objective. We asked firms to state the outcome of the exit relative to their target level: did the exit outperform, perform at target, or underperform relative to expectations? This question was asked for both financial and impact “return.” We also asked firms to link the outcome of the exit to the ten Impact Drivers from the original Alpha in Impact report to better understand the most important determinants of exit outcome from an impact lens.

The second phase of our research dived deeper into specific exits to disaggregate and evaluate the drivers of realized value at exit. While all ICM members were invited to participate at the time of data collection, firms decided whether to opt-in to the study. We acknowledge that self-reporting could cause bias towards “winning” exits for firms. However, the linkages we draw between impact considerations in the investment process and exit outcomes are the result of strategies deployed by fund managers across extensive portfolios, including lessons learned from underperformers. During numerous interviews, ICM members discussed lessons learned from prior impact investments, both successful and unsuccessful.

The exit-specific deep dives involved a second, more comprehensive survey and an in-depth interview. At this stage, we organized our data collection around three primary questions:

- 1. How does selecting impact targets drive realized value?**
- 2. How does investing for impact help attract buyers?**
- 3. How do impact-driven tools help increase impact value at exit?**



## Key Themes

In addition to general observations from a broad data set, our data collection revealed a set of key themes that emerged around each of our focus questions. These themes tie impact-specific drivers to realized value at exit.

How does selecting impact targets drive realized value?

- **Targeted Capital Provider for Impact:** Impact investors are seen as uniquely additive to firms who are looking to raise capital from mission-aligned investors. As compared to traditional funds, impact funds are branded as better long-term partners with more patience around the exit process, especially for small- and medium-sized businesses. Many ICM funds are thematic investors focused on one impact theme or sector. Thematic impact investors who have gained name recognition due to their track record are often sought out for their industry-specific expertise. Being an impact-driven capital provider can thus expand the opportunity set for investment and create strong alignment with management early on.
- **Specific Impact Framework:** Some impact firms deploy specific frameworks to guide portfolio companies to their targeted impact objectives. Such frameworks include concrete steps towards creating quality jobs, increasing employee engagement, or improving sustainability practices. Through careful deployment and measurement, these frameworks can yield tangible results that increase the value of the company.

How does investing for impact help attract buyers?

- **Scaled Impact-Driven Business Segments:** Impact investors are focused on scaling business lines within companies that are most aligned with their particular impact objectives. By directing management focus and financial resources to these areas, impact-driven business segments experience significant expansion during the life of the investment. The most impactful segments within a portfolio company can prove to be the most scalable profit centers, leading to financial growth.

- **Rigorous Impact Reporting:** Firms that have rigorous processes around impact measurement are able to use reporting as a strategic tool during the exit process. Firms who set specific impact objectives prior to investment, collect data throughout the investment lifecycle, and report outcomes achieved as part of their reporting are able to demonstrate impact as a significant component of portfolio company value.
- **Early Inbound Offers from Strategic Buyers:** A common theme amongst exits analyzed was receiving early inbound offers from strategic buyers interested in the significant growth achieved and potential for future impact from portfolio companies. This is emblematic of the collinear nature of impact and financial returns at companies where ICM member firms have worked to effectively grow the core business.

How do impact-driven tools help maintain impact at exit?

- **Strong Management Team:** Impact investors often form mission alignment with management teams early in the investment process. Belief in management vision and their ability to create meaningful impact and financial return causes investors to prioritize buyers who will keep leadership as part of their offer. This continuity has the effect of impact remaining a key focus for the company post-exit.
- **Impact Governance Guidelines:** Through the use of legal tools and impact-specific covenants, ICM member firms can create formal post-exit governance procedures to protect for impact. Some firms also incorporate impact governance into board structure or create separate entities that are focused on impact measurement and reporting. Maintaining a position on a company's board post-exit can also codify and preserve impact.

<sup>1</sup> See Appendix for examples of this research.

<sup>2</sup> E.g., Cambridge Associates, Wharton

<sup>3</sup> E.g., GIIIN Evaluating Impact Performance

<sup>4</sup> E.g., GIIIN Business Value of Impact Measurement, ICM Impact Alpha

<sup>5</sup> Hand, D., Ringel, B., Danel, A. (2022) Sizing the Impact Investing Market: 2022. The Global Impact Investing Network (GIIIN). New York.



# Initial Data Summary

## Introduction

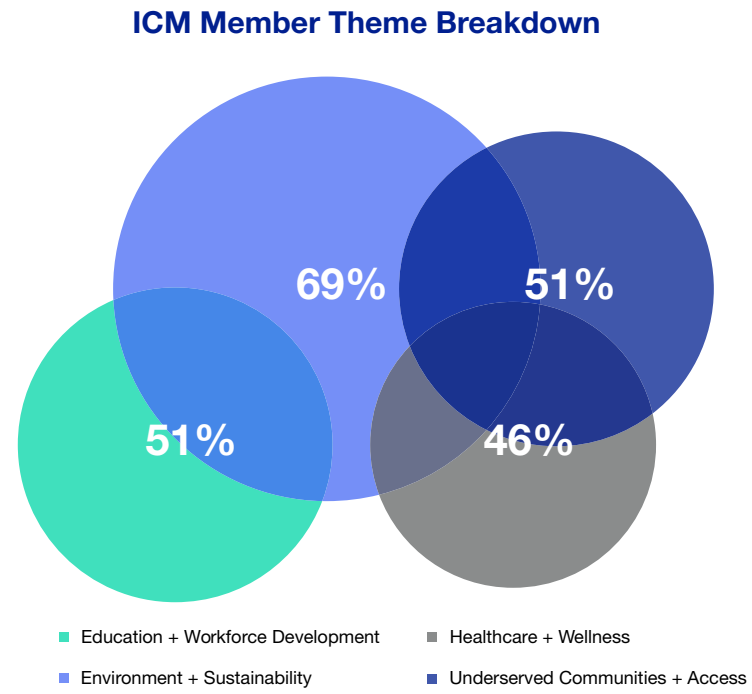
Before delving into stories of individual exits, a review of data taken across the broad ICM membership demonstrates the heterogeneity of overall exits. In March 2022, we asked ICM firms to compile a list of all of their exits to date and provide the following information for each exit: type of exit, industry of exited company, impact theme of exited company, earliest funding round, financial performance, impact performance, and the most important of the 10 drivers from the original Alpha in Impact report to determining the outcome of the exit.

At the time of the survey, ICM had 78 member firms. We received full or partial information on ~230 exits from 30 impact-focused market-rate investment firms. While we recognize potential bias in the data due to the limited sample size, we believe that the information gathered across a diverse range of exits and firms provides useful insights to understanding the composition and performance of exits by impact investors.



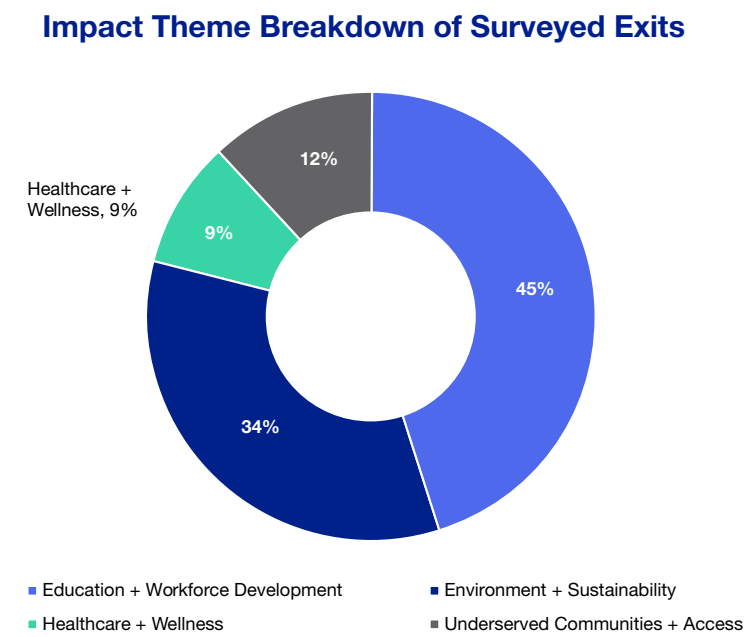
## Impact Theme Breakdown of Exits

Chart 1

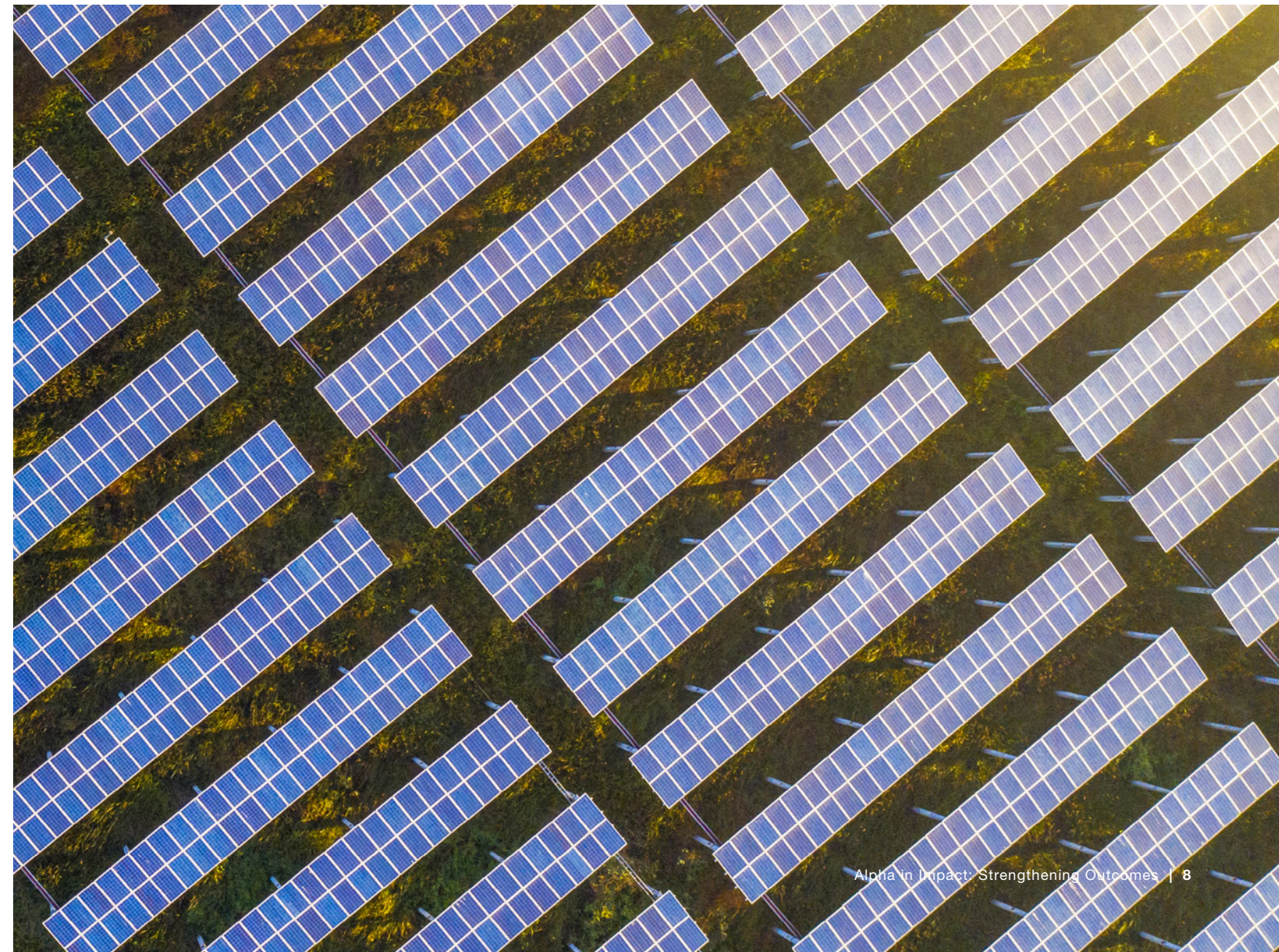


ICM member firms work across a range of industries, impact themes, and geographies. Some firms are explicitly focused on a single theme or impact vector, while others cut across a variety. Respondent survey data shows a heavy bias toward exits in the Education + Workforce Development and Environment + Sustainability categories. As the corresponding breakdown of impact themes across the entire ICM membership shows, this is largely a reflection of the overall makeup of the organization. Additionally, survey respondents with a large amount of exits tended to focus on the Education + Workforce Development impact theme. The gathered data might indicate that exits within the themes of education and the environment are more numerous due to the development and attractiveness of these sectors in recent market environments, with the pandemic and government funding as potential stimulants. Further research could confirm this.

Chart 2



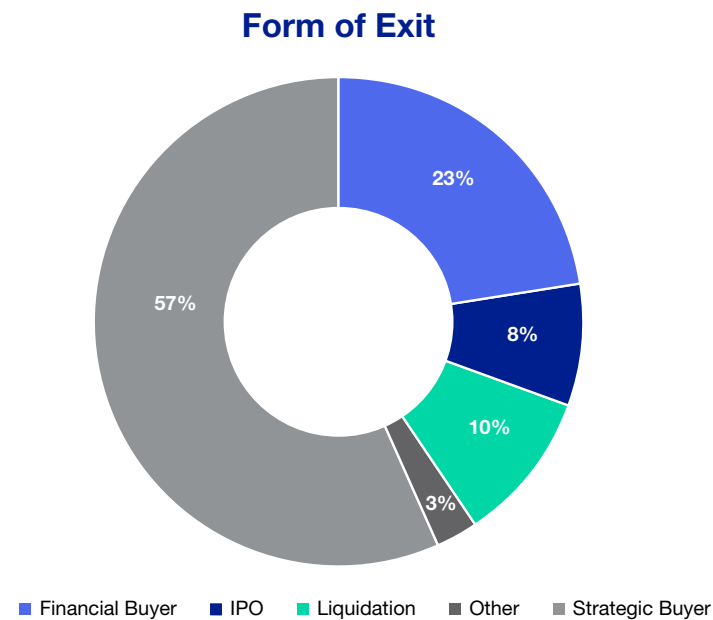
Based on 232 survey responses





## Exit Type

Chart 3



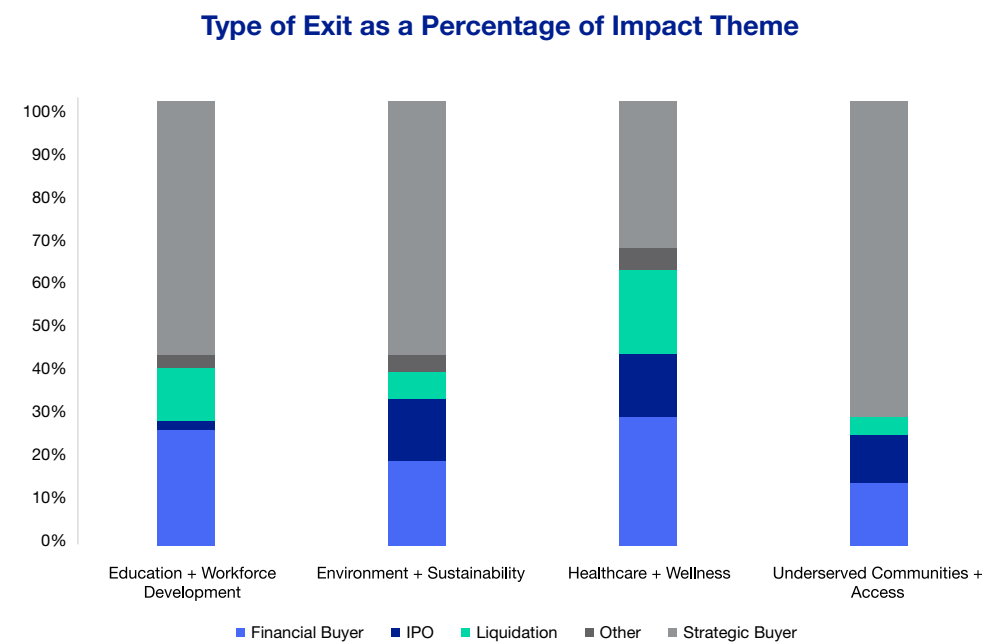
Based on 230 survey responses

Another interesting outcome of the broad exit survey was the type of exits impact firms chose to take. Our surveyed exits revealed that exits to strategic buyers reflected nearly 60% of exits, with exits to financial buyers second at 22%. IPOs reflect a minority of exits from surveyed firms. Liquidations were also a small component and were mainly connected to unsuccessful investments in portfolio companies. The 3% “other” category were exits that took the form of debt repayment or refinancing, partial secondary exits, or levered buyouts by management. As the type of exit by impact theme breakdown shows, this distribution of exit type is relatively consistent across impact themes.

While our broad survey data reflects only a portion of all exits from impact-focused firms, our case study sampling and interviews with participating firms provided some insight into the preference towards strategic buyers. Based on anecdotal feedback from ICM members and stakeholders, at the time that most of these exits occurred, financial buyers with an impact lens comprised a comparatively small section of the buyer market. Given the dynamics of the exit process and impact-specific considerations, an exit to a traditional financial buyer may not have been viewed as a favorable outcome. The lack of large financial buyers was especially important for later-stage companies who have high valuations and would not be appealing to early stage or venture impact investors. In the current landscape, with the entrance of large private equity firms into the impact space, including Bain Capital, TPG, and KKR, it will be interesting to see how the landscape for exits to impact-focused financial buyers evolves in the future.

As our interviews revealed, there was often a preference toward exit to strategic buyers who were more able to grasp and place value on the impact and revenue potential of mission-driven companies. Strategic buyers also had the industry-specific tools and partnerships to successfully grow exited portfolio companies. Some, though not all, of fund managers interviewed actually placed preference on strategic buyers during the bidding and exit process in the hopes that a strategic buyer would be able to successfully scale the core business and retain the management team, two factors that relate to protecting the impact at exit.

Chart 4



Based on 230 survey responses

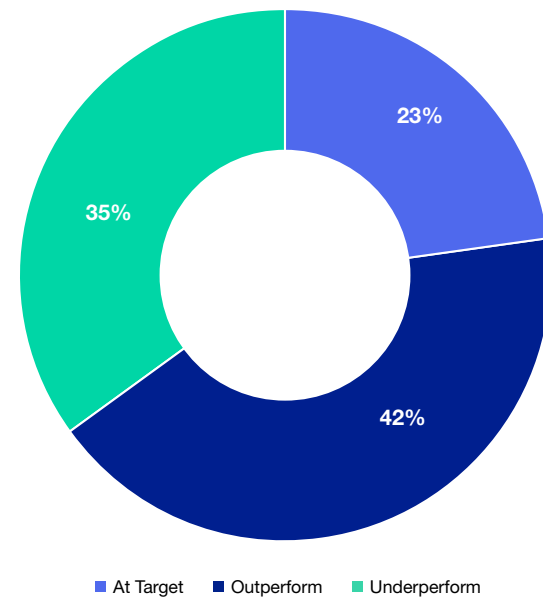
Impact-focused companies, some in the form of PBCs (Public Benefit Corporations), have gained substantial public investor attention during their IPOs, despite IPOs reflecting a relatively small share of exits. We might expect more IPOs with larger, later-stage impact players in the market; however, that expectation is tempered somewhat by the short- to medium-term market outlook as of publication of this report in 2023.



## Financial Performance

Chart 5

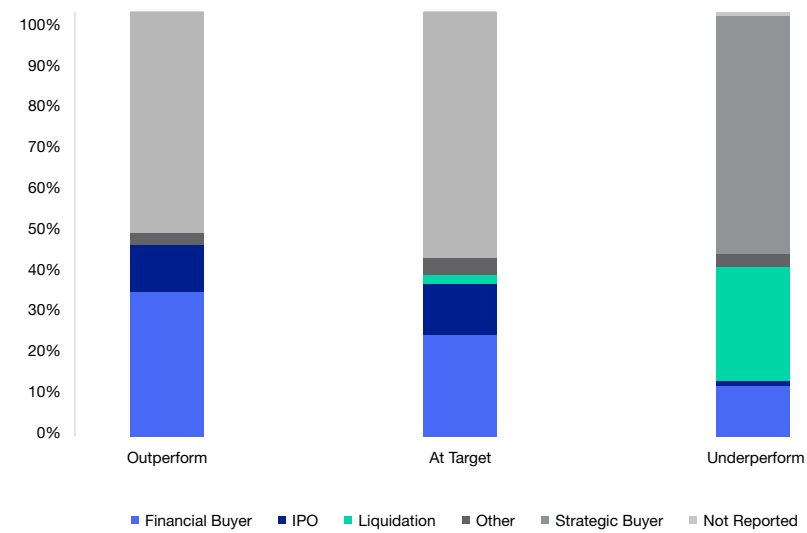
### Financial Performance of Surveyed Exits



Based on 218 survey responses

Chart 6

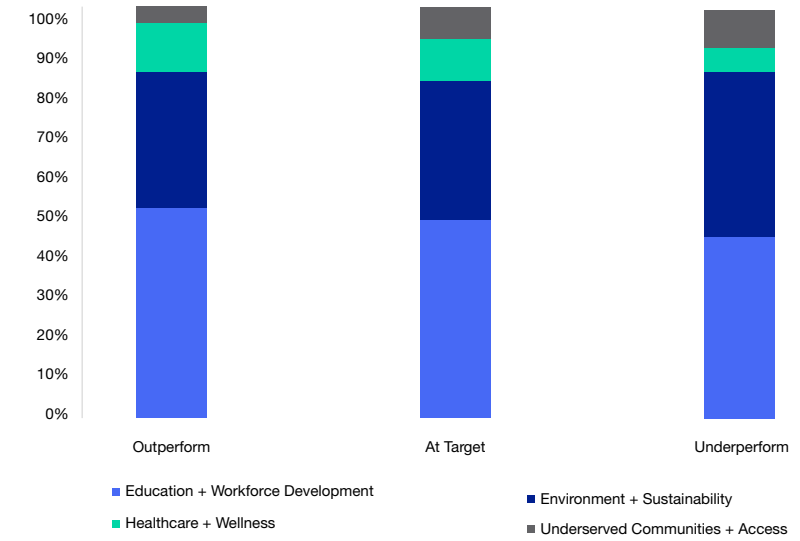
### Financial Performance by Exit Type



Based on 218 survey responses

Chart 7

### Financial Performance by Impact Theme



Based on 218 Survey Responses

When asking firms about the financial performance of their exits, we asked them to label the performance of each exit in terms of performance relative to their target for the investment. Each exit was labeled as either an outperform, at target, or underperform. The reference target could be a company-specific or a firm's set hurdle rate, target IRR, or MOIC. 65% of exits reported by firms were at or above their financial target. As shown by the following two graphs, the difference in financial performance across exit types and impact themes is explained by the overall breakdown of exit type and impact theme (see Charts 1 and 2). As expected, liquidation was a prominent exit type for financial underperformance.

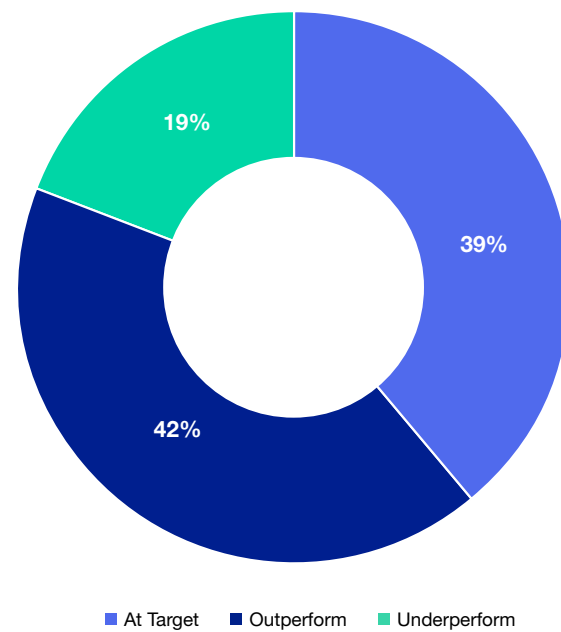




## Impact Performance

Chart 8

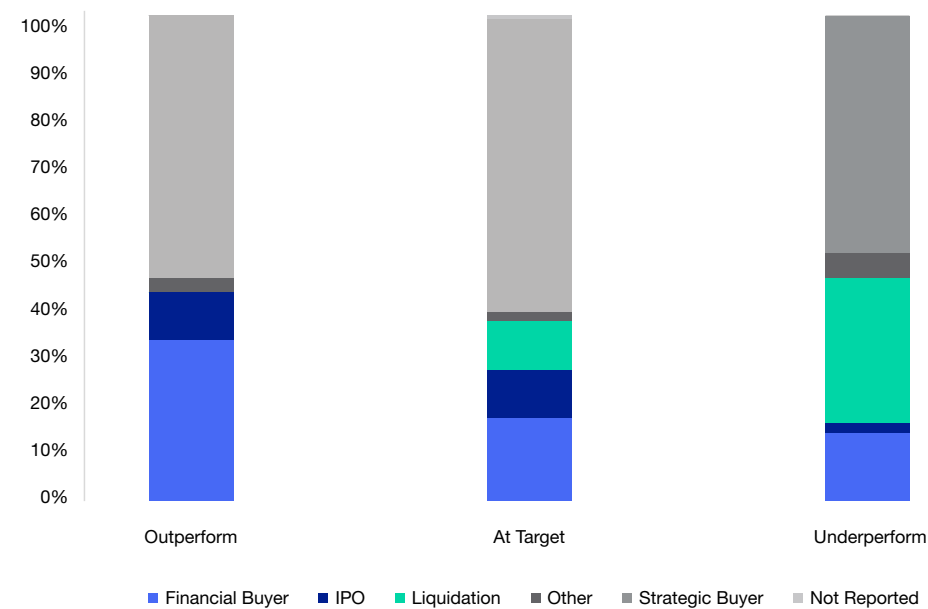
### Impact Performance of Surveyed Exits



Based on 224 survey responses

Chart 9

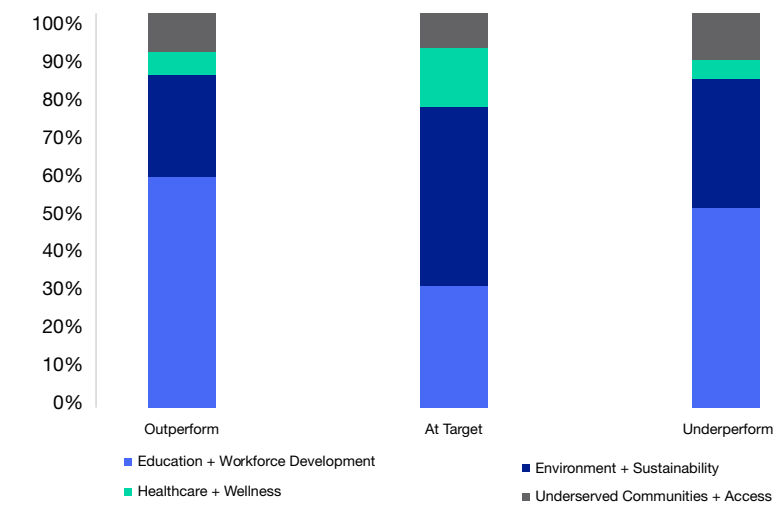
### Impact Performance by Exit Type



Based on 224 survey responses

Chart 10

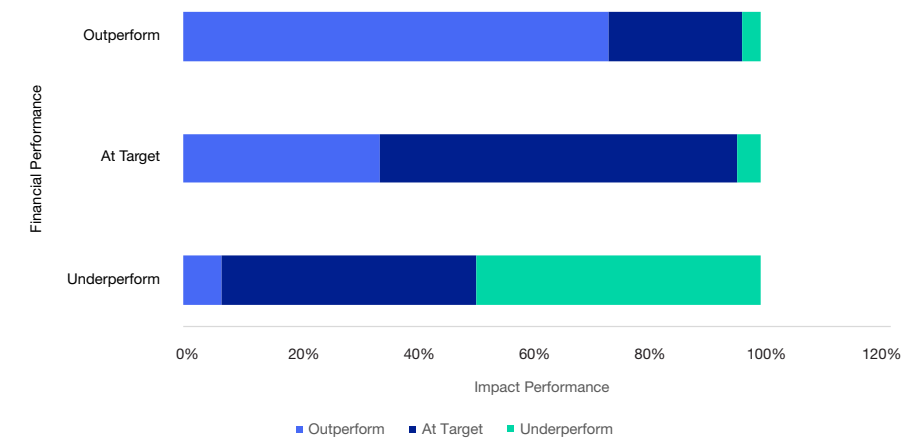
### Impact Performance by Impact Theme



Based on 224 survey responses

Chart 11

### Impact and Financial Performance



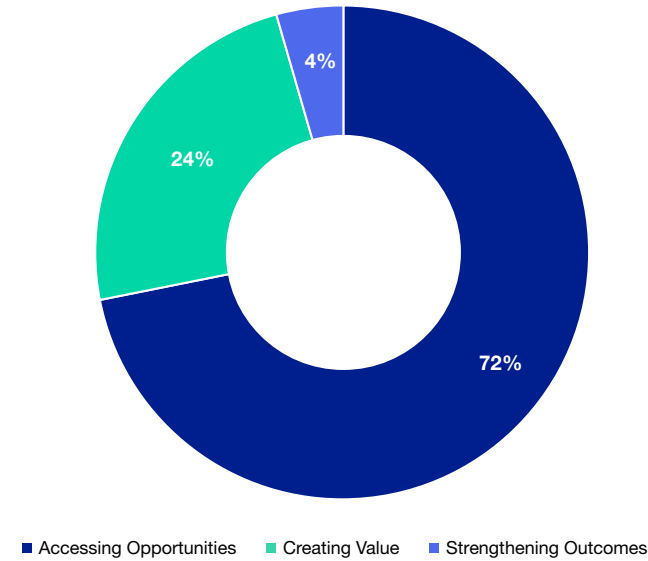
Based on 218 survey responses

Impact performance followed the same methodology. Firms were asked to label exits as outperform, at target, or underperform. Each firm has widely varying levels of impact measurement and reporting, with the target level of impact measured through specific KPIs or impact outcomes or else a more subjective indicator. We see a slightly higher level of performance in impact as compared to financial performance, with 81% of exits being reported as at or above target. For most reported exits, financial outperformance also translated to impact outperformance. However, we see that it is possible for an exit to meet impact targets despite financial underperformance. This could perhaps be an indication of less stringent measurement or hurdles for impact or instances where fund managers were satisfied with the impact achieved during the life of the investment but hoped for a more gainful financial outcome. It is possible that when more rigorous and consistently applied standards are applied to this same self-reported data, different responses would occur in regards to impact performance. Impact performance does not seem to vary meaningfully in relation to exit type and impact theme breakdown.



## Impact Drivers (Based on Previous Alpha in Impact Report)

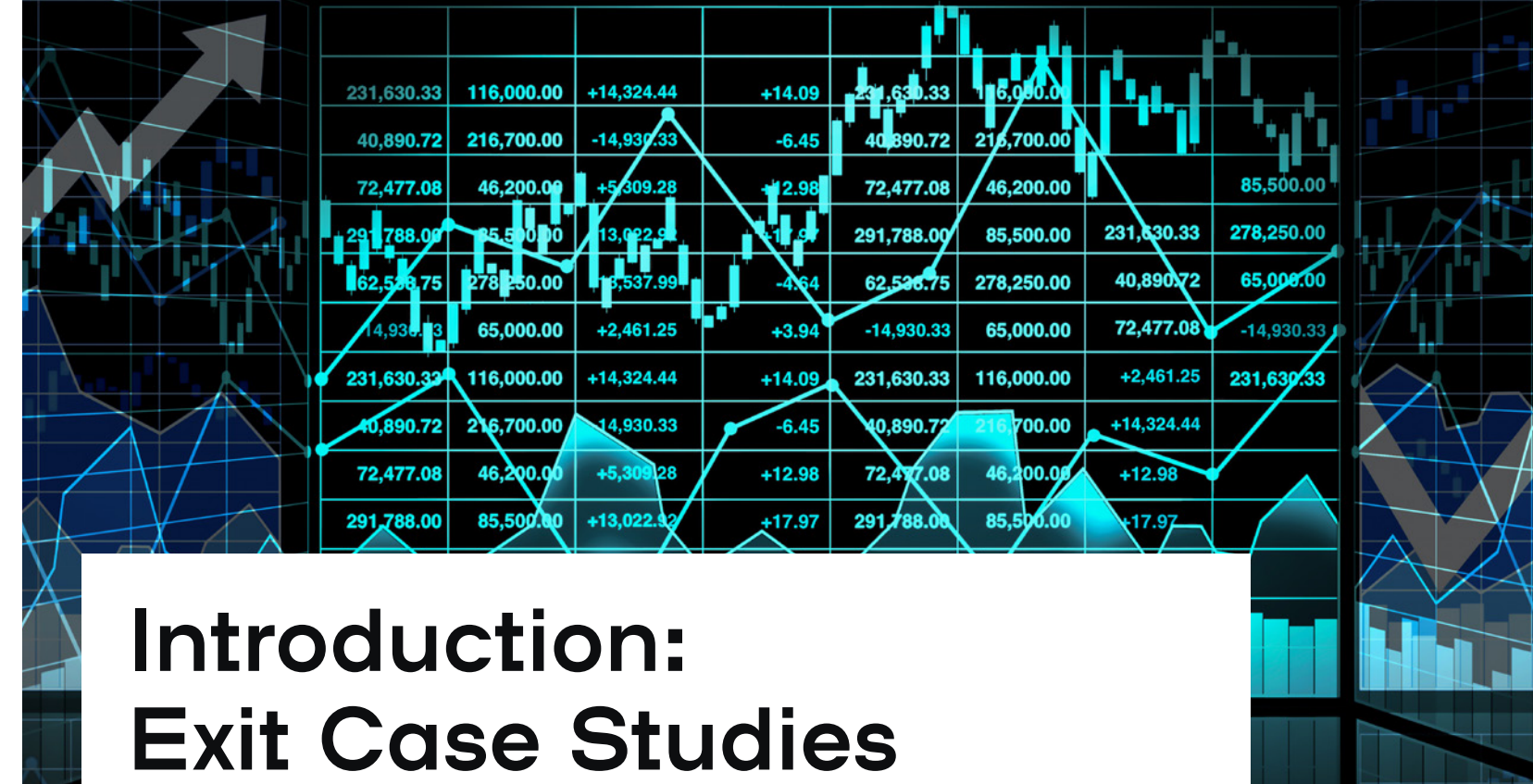
Chart 12  
The Most Important Drivers of Impact and Financial Performance



Based on 210 survey responses

As part of our initial survey, we asked firms to list the most important driver of the 10 listed in the original Alpha in Impact report in determining the outcome of their reported exits. While these are certainly not the only drivers of exit outcome, a meaningful data set was a compelling opportunity to pressure test the relevance of the original 10 drivers. Not all respondents provided this information for all exits, but the aggregate overview of the most important reported drivers presents interesting observations.

Notably, the drivers from the Accessing Investment Opportunities portion of the 10 original drivers (find investment opportunities through mission-aligned networks, uncover investment opportunities through deep market expertise, align values with investees) are the most widely reported as most important driver for 72% of included exits. As compared to the seven listed drivers in the Creating Value and Strengthening Outcomes categories, the first three drivers are focused on activities that occur at the outset of the investment and demonstrate the importance of professional networks and value alignment with the portfolio company. Further research could probe the specific importance of impact networks and incubators to the ultimate outcome of investments. Additionally, as we see the growth of more codified impact reporting and measurement methodologies and the increased use of impact-protecting financial and legal tools, value creation from impact may move further down the investment lifecycle.



# Introduction: Exit Case Studies

While looking at overall exit data is helpful, each portfolio investment and exit process present their own nuances, challenges, and drivers of success. To interrogate the relationship between impact and financial value, we analyzed in-depth transaction data at the exit level. Firms opted into participation and were asked to select an exit where impact was most influential to the outcome on either the upside or downside. Keeping with findings from our broad survey, determinants of exit success spanned the investment cycle. Some cases focus more on value creation early in the life of the investment that led to a certain exit outcome. Others show choices closer to the ultimate exit that made all the difference.

A comprehensive survey preceded an interview, which probed transaction information around our three primary questions. Target selection questions included an understanding of the impact due diligence process, third-party impact assessment, and initial alignment with management. The impact tools portion of the survey covered the use of specific legal impact protection tools used by our report partners, Morrison Foerster, as well as other tools used by firms to create and maintain impact at exit. We also gathered exit-specific financial information, including the exit value of the firm's stake, company valuation at the time of exit, hurdle rates, and deal IRRs.

While our data set was limited, we noticed the heterogeneity across impact investments in terms of size, stage, sector, length and instrument of investments. Points of commonality among case study participants were the use of a specific impact diligence process, alignment with management, and board member roles with the investee.

Exit case studies were constructed with information from an in-depth interview conducted with fund GPs as well as background information taken from the survey and other publicly-available information. Each case study is grounded in the drivers from the original Alpha in Impact report, with the three most important drivers for each exit listed at the end of the study. Financial and impact return summaries are included to demonstrate the magnitude of return beyond qualitative discussion. Information is shown subject to firm specific-disclosure guidelines. In some cases, additional legal disclosures specific to firms or investments are included. Finally, the case studies include any specific legal tools used during the investment and exit process. To learn more about these tools, please see page 45 in the Impact Tools section of this report.

Though self-reported, our case studies span a diverse range of impact themes, firm sizes, and exit types. We believe that, in sum, they provide a unique view into the most salient determinants of outcome at exit for impact investors.





**ICM Manager:** TPG's The Rise Fund  
**Investee:** EverFi  
**Impact Theme:** Education + Workforce Development  
**Investment Date:** April 2017  
**Exit Date:** December 2021  
**Exit Type:** Strategic Buyer  
**Acquirer:** Blackbaud

*The Rise Fund's inaugural investment in EverFi demonstrates the unique capabilities an established capital provider can bring to the impact investing field. Through rigorous impact measurement and scaling the company's collinear business model, the firm played an instrumental role in the company's successful acquisition by a strategic buyer.*

Founded in 2016 by TPG, Jeff Skoll, and Bono, The Rise Fund leverages the institutional resources of TPG to drive measurable social and environmental impact while scaling company performance and creating meaningful financial return. TPG, through The Rise Fund, was one of the first large private equity firms to enter the impact space. The Rise Fund believes in the power of commercial capital to achieve impact in alignment with the UN's Sustainable Development Goals. In 2017, The Rise Fund made its inaugural investment in EverFi. EverFi is a subscription-based education and training content provider to K-12 schools, universities, corporations, and community organizations, covering important topics such as financial literacy, sexual assault prevention, alcohol education, and STEM learning. EverFi is committed to finding innovative, digital solutions to create impact by increasing access and awareness to crucial topics through its Impact-as-a-Service model for organizations.

EverFi was initially identified as a target with high growth potential by another TPG fund. However, as a company deeply committed to impact, EverFi was not seeking capital from traditional private equity firms. A few years later, at a turning point for the company's growth, EverFi began considering partnering with a capital provider to make an acquisition. The Rise Fund had just been launched, and Tom Davidson, CEO of EverFi, reached out to The Rise Fund team. Impressed by EverFi's innovative business model, as well as its impact focus, The Rise Fund made EverFi its inaugural investment with a \$150 million growth equity investment.

Alignment around impact played a key role from the beginning of the investment. Being an impact-driven capital provider allowed The Rise Fund's leadership to quickly build a shared vision with EverFi's management and also enabled them to negotiate a larger initial investment size than the company was originally seeking. The Rise Fund negotiated robust governance rights, enabling it to support EverFi's management to achieve its vision for the company. The Rise Fund was primarily focused on scaling EverFi's operations and helping the business expand into new markets, driving collinear financial and impact performance.

Around the time of The Rise Fund's launch, the main players in the impact capital space were development finance institutions and venture capital firms. The Rise Fund's unique position as a growth equity impact player backed by a major private equity fund was meaningful to the investment from both a financial and impact perspective. Because the company had already passed its early proof-of-concept stage and achieved the capacity to scale, unlocking the company's impact and financial potential with the capital, guidance, and focus appropriate for EverFi's stage of growth was the right next step.

After investing, The Rise Fund aided EverFi's growth in several ways. The firm guided the company's expansion into new areas with potential for impact such as mental health, drug safety, and racial justice. EverFi also made a successful acquisition of EdComs, a UK tech vendor, which allowed them to expand their client base to an international group of large tech companies, sports teams, trusts, and foundations. The acquisition of EdComs transformed EverFi into an international company, now capable of delivering impact across Europe, Asia, and the Middle East.

EverFi achieved amazing scale during The Rise Fund's investment period, reaching 13 million students and holding 2,000 corporate customers and 25,000 schools within its client base.

An important aspect of The Rise Fund's investment philosophy is investing in collinear companies. Maya Chorengel, Co-Managing Partner at The Rise Fund, explains why this is key in spurring impact scale along with revenue growth:



"At Rise we are investing in what I'll call collinear companies, where the core product and service itself is all about generating positive outcomes. I think the important thing with EverFi is everything that the company did was impact-oriented. They were improving financial literacy among low income students. They were delivering classes and training that were expressly oriented towards reducing harassment and reducing alcohol abuse on campus."

Investing in collinear companies, Chorengel argues, also sustains impact at exit. Since impact is at the core of the business model itself, it would be difficult for an investor or acquirer to come in and remove the impact focus of the company.

The Rise Fund also acted as a pioneer in the field of impact diligence, measurement, and reporting. In order to ensure true impact potential of a company before investment, The Rise Fund performs an evidence-based quantitative and qualitative assessment of the products and services the business offers to make sure the level of potential impact meets a certain threshold. This impact threshold proves to be a key element to the outcome of an investment.



"The idea is that there should be a minimum required level of impact on the fund—it wasn't an artificial threshold that we created. It was something that was highly correlated to a minimum level of financial returns and a minimum size of business and check size that would fit into the portfolio construction given the fund size. Those things are all very closely tied together."

Per Chorengel, The Rise Fund measures impact delivered throughout the investment period using the Impact Multiple of Money (IMM) framework stewarded by Y Analytics, TPG's public benefit LLC focused on impact and ESG. Calculating IMM involves quantifying the social benefit a company generates based on the scale of the products or services offered, identifying the impact outcome generated by those products or services, and estimating the economic value of that impact. IMM serves as a decision tool that helps The Rise Fund

assess whether a company will meet its impact threshold pre-investment. It also acts as a method to identify impact KPIs that can be measured and reported during the hold period. It serves as a management tool that helps identify impact drivers and resources that can be brought to a company to accelerate impact delivery.

During the exit process, the clear and quantifiable results EverFi produced brought many potential acquirers to the table. Amongst them was Blackbaud, a cloud computing provider focused on the social good community. EverFi was a natural fit for Blackbaud, given Blackbaud's emphasis on social good and their desire to expand further into the ESG/Corporate Responsibility space. Considerations for the right buyer included financial return and price, deal structure, and retention of the management team and the company's employees. Ultimately, Blackbaud's bid met all conditions as their valuation reflected an understanding of the value of EverFi's work. As an impact-focused strategic buyer, Blackbaud could credibly ascribe EverFi's services an economic value on a financial and an impact basis.

EverFi's impact alignment with The Rise Fund from the beginning of the investment, its use of The Rise Fund's rigorous measurement and reporting tools, and its ultimate sale to an ESG-focused strategic buyer demonstrate the synergies between impact and financial return.

Chorengel summarizes what this means for Rise's future as an impact private equity player,



"There is clear value being ascribed to impact companies because of the fundamental truth that for some companies, impact and business outcomes are collinear. The Rise Fund is well positioned to exit investments at strong valuations when this collinearity is realized."



### Driver #3

Build values alignment with investees

### Driver #9

Establish credibility with impact-driven stakeholders

### Driver #8

Promote discipline and efficiency in operations through impact accountability

#### Financial Return Summary

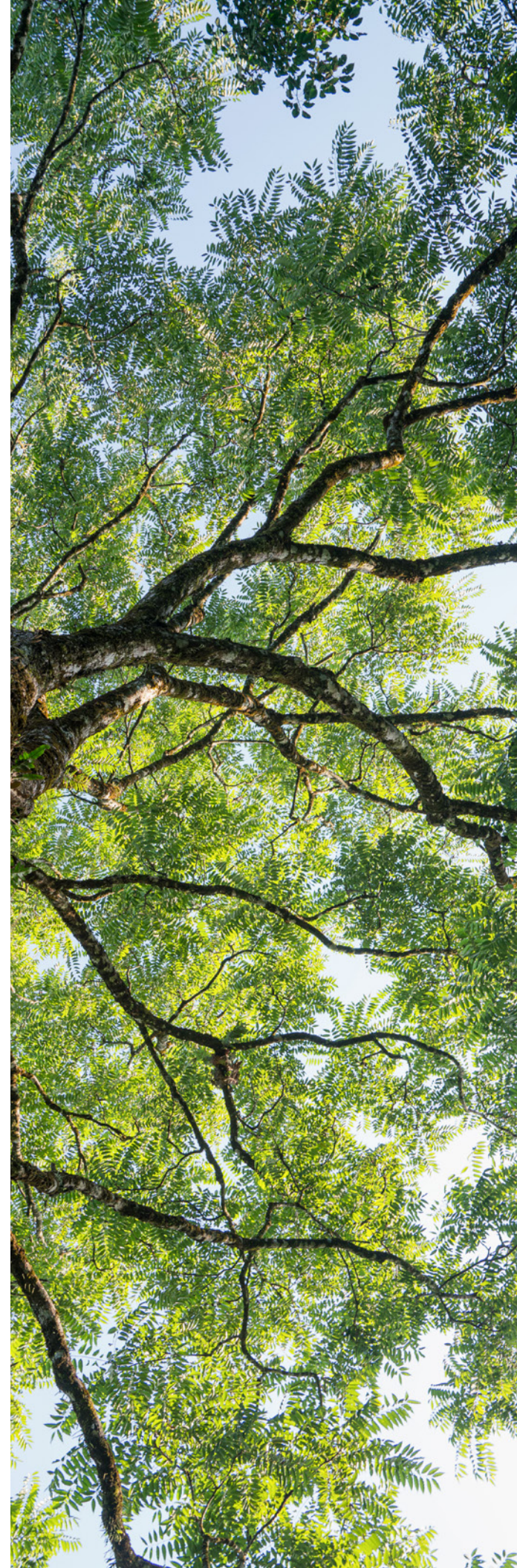
Total Investment Amount	\$150M
Performance	Outperform

#### Impact Return Summary

- 13M students reached across products during investment period
- 4M students reached through responsible alcohol consumption course
- 6M students reached through sexual assault revention course
- 3.5M students reached through financial literacy course
- \$641M estimated Rise impact during investment period
- 8.2x Impact Multiple of Money

#### Impact Tools Used:

- Highlighting Mission in Bid Solicitation
- Oversight
- Reporting
- Compensation



### Important Notice

This Presentation contains various examples or subsets of selected investments, including case studies. When selected investments are shown as examples or subsets demonstrating a particular theme or process, they are not representative of all investments that could be categorized in such a manner or all investments made by TPG Funds. Such selected examples or subsets may in fact represent only a small percentage of existing and historical investments made by TPG Funds. Investments in other companies may have materially different results.

This Presentation does not constitute an offer to sell or a solicitation of an offer to buy any securities and may not be used or relied upon in evaluating the merit of investing in any TPG Fund.

Information throughout the Presentation derived from sources other than TPG, including TPG portfolio companies, has not been independently verified and TPG does not assume any responsibility for the accuracy or validity thereof.

No representation or warranty, express or implied, is made as to the accuracy or completeness of the information contained herein, and nothing shall be relied upon as a promise or representation as to the future performance of any investment. Past performance is not necessarily indicative of future results. Differences between past performance and actual results may be material and adverse. There can be no assurance any unrealized values presented herein will ultimately be realized as indicated.

The Rise Fund, TPG Rise Climate, trademarks referenced herein, and all goodwill associated therewith, are solely owned by Tarrant Capital IP, LLC.

If you believe any content, branding, information, or other material incorporated into this presentation has been included in violation of applicable law, agreement, or other restriction, or that any other portion of these materials is otherwise improper, please notify us at [compliance@TPG.com](mailto:compliance@TPG.com).

### Forward-Looking Statements

All statements in this Presentation (and oral statements made regarding the subjects of this Presentation) other than historical facts are forward-looking statements, which rely on a number of estimates, projections, and assumptions concerning future events. Such statements are also subject to a number of uncertainties and factors outside TPG's control. Such factors include, but are not limited to, uncertainty regarding and changes in global economic or market conditions, including those affecting the industries discussed herein, and changes in U.S. or foreign government policies, laws, regulations, and practices. The market analysis, estimates, and similar information, including all statements of opinion and/or belief, contained herein are subject to inherent uncertainties and qualifications and are based on a number of assumptions. Opinions expressed are current opinions as of the date of this presentation. Should TPG's estimates, projections, and assumptions or these other uncertainties and factors materialize in ways that TPG did not expect, actual results could differ materially from the forward-looking statements in this presentation, including the possibility that investors may lose all or a material portion of the amounts invested. While TPG believes the assumptions underlying these forward-looking statements are reasonable under current circumstances, investors should bear in mind that such assumptions are inherently uncertain and subjective and that past or projected performance is not necessarily indicative of future results. Investors are cautioned not to place undue reliance on such forward-looking statements and should rely on their own assessment of an investment.





**ICM Manager:** Pangea Ventures  
**Investee:** Redlen Technologies  
**Impact Theme:** Healthcare and Wellness  
**Investment Date:** January 2014  
**Exit Date:** September 2021  
**Exit Type:** Strategic Buyer  
**Acquirer:** Canon

*Pangaea Ventures used its hard science and advanced materials expertise to invest in a revolutionary technology in the medical devices space in order to scale the company's impact and guide it to a lucrative exit.*

Pangaea Ventures is a hard-tech venture investor, targeting impact-driven startups in the advanced materials, novel chemistries, and biology industries, driven by the belief that advanced materials have the ability to solve the world's most fundamental challenges. Pangaea is committed to providing much needed capital to hard-tech startups and entrepreneurs around the impact themes of climate change, food and water security, and improving health outcomes. Within the healthcare vertical, the firm is focused on lowering costs, improving patient outcomes, and increasing access.

As an investor focused on advanced materials, Pangaea had been tracking Redlen Technologies for 12 years prior to investment. Redlen Technologies is a manufacturer of cadmium zinc telluride (CZT) semiconductor materials, a difficult-to-produce compound semiconductor. At the time of investment, Redlen focused the bulk of its energy on the solar panel market, but Pangaea saw the potential for higher impact for the material's use in the medical device space. Redlen's CZT materials could be used to produce X-ray imaging semiconductor sensors that measure the energy of X-ray photons and translate the readout into high resolution electrical signals. This technology could give doctors access to higher quality CT images with lower radiation exposure, allowing them to make faster and clearer diagnoses of cancer and other diseases.

In 2012, Redlen faced a moment of reckoning when the solar market collapsed and many of their initial investors walked out. Pangaea stepped in shortly thereafter in 2014, motivated by their understanding of the company's value outside the solar market. While initial investors did not foresee the value of Redlen's technology in CT scanning, Pangaea guided the company towards this business, seeing the potential to revolutionize medical imaging and save countless lives. Pangaea led the initial restructuring round in 2014 and subsequently provided several more rounds of additional financing up to a

Series C in 2021. Pangaea's guidance had profound consequences—not only for the financial growth of the company, but also for its impact journey.

With nearly a third of its investment portfolio focused on healthcare technology, Pangaea had the market expertise to see the potential for impact in the medical device business line through CT scanning. Redlen's technology would allow scans to be performed with 70% less radiation and lead to much more powerful diagnoses due to better images. Pangaea focused their attention on this transformative area, choosing to devote time and investment in that part of the business, rather than the pre-existing focus on solar materials, baggage scanning, and bomb detection.

To complement their expertise, Pangaea brought on a health expert as an observer on the board. The combination of the semiconductor material and health expertise unlocked the impact potential for this investment, driving toward a successful exit.

Impact goals influenced Pangaea's ownership stake of almost 20% for the firm. The desire to guide Redlen successfully to its full potential in CT scanning drove Pangaea to this decision. Growing the health business line required substantial investment and time, as developing suitable yield from the semiconductor material was a challenging task. However, the potential impact of the resulting technology kept both employees and investors focused on the goal. As General Partner Chris Erickson explains,



*"It was absolutely the huge impact that drove people to keep working to make [the health technology] cost effective. It was like climbing Everest. It's hard work. You're not sure if you're going to make it and a lot of people don't. But you see that vision at the top. So if the impact wasn't as big, it probably wouldn't have succeeded."*

Pangaea was able to get Redlen management on board with their vision of growing and investing in what they viewed as the most impactful opportunity. Through a successful partnership and an aligned mission-driven focus, Pangaea and Redlen worked together to lower costs and increase yields, bolstering its presence in the medical device community.

Because Redlen's commercial product was tied to its impact, Pangaea initially measured impact through company revenue—the more products sold, the higher the level of impact to patients. Pangaea began impact specific reporting in 2018, later in the life of the investment. This impact measurement proved to be important in framing the company as it headed towards exit.

Encouraged by the growth and recognition Redlen was receiving in the medical device space, the company created strategic partnerships with leading OEMs in healthcare. Canon served on the board and was a Redlen customer for three years, allowing ample time to engage and understand Redlen's unique value proposition to its medical equipment arm. Pangaea sought to follow the "Magic Box Paradigm,"<sup>6</sup> assisting Redlen by engaging market players early on, walking them up a metaphorical mountain, and showing them their "magic box"—in this case, the capacity for life-changing medical technology.

As the largest shareholder, Pangaea acted as a key steward in the exit process, aided by a close working relationship with Redlen's management. The firm felt strongly that a market player would best understand the impact and value of the technology and was less interested in a financial buyer or IPO. A strategic buyer with prior involvement, Canon was easily convinced of Redlen's impact and growth potential. By honing in on the most impactful business line in medical device technology, Pangaea unlocked Redlen's capacity to be valued to the highest degree, both for its level of impact and financial value.

<sup>6</sup>Based on *Magic Box Paradigm: A Framework for Startup Acquisitions* by Ezra Roizen

## Driver #2

Uncover opportunities through deep market expertise

## Driver #3

Build values alignment with investees

## Driver #5

Enhance investee branding and storytelling

### Financial Return Summary

Acquisition Price	\$335M
Total Investment Amount	\$6.8M
Total Exit Value	\$59M
Return on Weighted Average Investment	9x
Target Return	5x
Performance	Outperform

### Impact Return Summary

- ~850,000 lives impacted through Redlen's technology at the time of exit
- Patients exposed to 70% less radiation vs. traditional X-ray imaging







**ICM Manager:** SJF Ventures  
**Investee:** Vital Farms  
**Impact Theme:** Environment + Sustainability  
**Investment Date:** June 2013  
**Exit Date:** March 2021  
**Exit Type:** IPO

*SJF's meaningful partnership with mission-focused Vital Farms, which completed a successful IPO in 2020, demonstrated the ability to "do well by doing good." SJF promoted ongoing impact reporting as well as B-Lab certification and Public Benefit Corporation status to enhance and display the impact of the company.*

SJF Ventures is a leading venture capital firm focused on high-growth companies that create a healthier, smarter, and cleaner future. The firm's mission is to catalyze the development of successful businesses that drive lasting and positive changes. SJF invests in companies that are tackling issues related to climate, poverty, education, health, and employment.

For SJF, the investment and subsequent IPO of Vital Farms represent examples where both impact and financial returns were taken into consideration in the investment process and were closely intertwined based on Vital Farms' operations. Vital Farms' mission is to bring ethically produced food to the table, aiming to be the catalyst for a consumer movement towards sustainably produced products and away from harmful industry practices. The company is the nation's largest supplier of pasture-raised eggs, which represent the

core product of the business. Vital Farms partners with a collection of family farms for its supply. These farms, which are committed to humane treatment of animals and sustainable agricultural practices, are monitored by Vital Farms for adherence to strict standards. For example, Vital Farms is one of the few egg producers that demands all supplier farms provide at least 108 square feet per hen of grazing land in order to provide a richer diet to hens and promote better animal welfare. Impact has always been at the very core of Vital Farms' business. Since its inception, Vital Farms has practiced Conscious Capitalism, a philosophy that embraces a multi-stakeholder model. This ethos includes a sharp focus on employee benefits and development, trusting and fair partnerships with suppliers, and overall environmental sustainability.

SJF's management team came across the Vital Farms opportunity through impact investment banking firm Big Path Capital and soon thereafter headed to Austin, where the company was based, to begin the diligence process. While initially hesitant to invest in a consumer-branded food company due to industry risks of high capital intensity and short-lived consumer preferences, SJF believed Vital Farms stood out as being different. From the beginning of SJF's diligence process, it was clear that Vital Farms' value proposition incorporated several key impact themes, such as sustainability and animal welfare, that were both important to SJF and increasingly key components of consumers' purchase drivers.

SJF's thesis was confirmed after delving into Vital Farms' data. The company was generating same-store sales growth at a double-digit rate and producing total growth that far surpassed most food companies. SJF also noted that Vital Farms was already generating over \$10 million in annual revenue without taking in meaningful outside capital. The data pointed to robust consumer demand for Vital Farms' ethically produced products, efficient use of capital, and strong management instincts. This evidence,

combined with qualitative analysis of consumer trends, validated the uniqueness of Vital Farms and its business model. SJF recognized that Vital Farms was a collinear company, where scaling impact would also translate to financial growth. As the company expanded, shareholder value increased alongside a greater number of family farms benefiting from better business economics, a larger number of hens being treated more humanely, and a greater amount of land being handled responsibly.

During the investment period, SJF aided Vital Farms in codifying and marketing its impact story through clear impact reporting. Upon investment, SJF began measuring the company's impact through GIIRS (Global Impact Investing Rating System), annually tracking ESG metrics such as employee growth, employee wages, and diversity. In 2015, SJF worked with Vital Farms to achieve B Lab certification. The company also later converted to a Public Benefit Corporation (PBC). The venture firm and its portfolio company saw both of these processes as protecting the mission and purpose-driven focus of Vital Farms. Furthermore, converting to a PBC would ensure that Vital Farms' board and management would continue to heavily weigh the company's high standards for animal welfare, sustainability, and employee treatment.

Approximately 13 years after its founding, the company believed that it was at the right point in its growth trajectory to consider going public. The company had achieved scale and had a broad-based management team and corporate infrastructure. Furthermore, management and the company's investors believed that going public would be an effective way to protect the mission of the company. Alan Kelley, Managing Director at SJF, highlights the reasons for this:



"One of the reasons we went public as opposed to selling to a company is that we thought that Vital Farms had a good culture, a good board, a good management team. It was widely appreciated across the organization that mission boosted the value of the company in a number of ways. And we did not want a sale of the company to risk that an acquirer would come in and change these ingredients. This is a case where impact was very much a consideration in how we exited."

Kelley believes that IPO of Vital Farms, which was one of the first PBCs to go public, reflects the growing consumer demand for products like Vital Farms' and a market premium placed on ESG at the time of the IPO. Sustainability and ESG considerations were placed front and center in Vital Farms' prospectus, demonstrating the mission-driven nature of the company. At a time

when public investors appreciate consumer demand tailwinds afforded by mission-oriented companies, the offering received a lift from its focus. Furthermore, the multi-stakeholder approach can support a more durable business model. The strength of its value proposition and clear management stewardship have continued to support the growth of the company. Net revenue for Vital Farms grew to \$92 million in the third quarter of 2022, a 42.4% increase over the same period a year prior. Trailing 12-month revenue as of the third quarter stood at \$329 million.

Kelley and other similarly minded impact investors continue to believe public markets offer a ripe opportunity for impact companies. At the end of 2022, there were 19 publicly traded PBCs. Despite lower valuations in recent times, investors still place a premium on ESG and sustainability, presenting the chance to raise meaningful capital while preserving the mission and management vision for a company.

### Driver #9

Establish Credibility with impact-driven stakeholders

### Driver #8

Promote discipline and efficiency in operations through impact accountability

### Driver #5

Enhance investee branding and storytelling

### Financial Return Summary

Total Investment Amount	\$4.3M
Exit Value of Stake	\$64M
Target MOIC <sup>7</sup>	4x
Performance	Outperform

### Impact Return Summary

- Total number of family farm suppliers grew from about 20 at initial investment to about 200 at exit
- Historically seen over 50% of employees own stock or stock options in the company
- Upholds the 108 square feet/hen of grazing land

### Impact Tools Used:

- Sustainable Prospectus

<sup>7</sup> Multiple on Invested Capital







**ICM Manager:** New Markets Ventures  
**Investee:** Graduation Alliance  
**Impact Theme:** Education + Workforce Development  
**Investment Date:** July 2011  
**Exit Date:** February 2020  
**Exit Type:** Financial Buyer  
**Acquirer:** KKR & Co. Global Impact

*New Markets leveraged its impact networks and expertise in the education and workforce development space to streamline Graduation Alliance's business model and expand its geographic footprint.*

With a 20+ year track record as an impact investor, New Markets Venture Partners is a growth-stage investing firm that scales transformative technology companies in the education and workforce development space. New Markets came across Graduation Alliance through its network of fellow venture investors and invested substantially in the company during its Series B round.

Graduation Alliance provides versatile pathways to high school graduation through a variety of full-service diploma completion programs offered both in person and online. The programs are complemented by recruiting, coaching and mentoring, social emotional learning assessment and intervention, and a robust suite of support services. Graduation Alliance works in partnership with educational institutions and government agencies to fill a crucial gap in the provision of high-quality education to underserved students.

During the diligence process, New Markets was impressed by Graduation Alliance's high levels of efficacy and the collinearity between impact and financial return in its business model. The firm inspected the efficacy of the core product by examining the number of students the platform engaged, the level of academic performance and job training received during the program, and the graduation and employment outcomes achieved. Graduation Alliance receives payment for each student that completes its program that would have otherwise dropped out. Because the core product of the business is tied directly to the impact outcome, diligence on the expected financial performance of the company also served as diligence from an impact perspective.

Graduation Alliance's business model is unique in that they work directly with school districts to be authorized as an outsourced diploma provider. Rather than receiving a degree from a third-party GED certification program, dropouts who enroll and complete Graduation Alliance's program receive a diploma from their home school. The

company is paid the equivalent amount as a charter school in the district for any student who graduates, sharing profit with the school based on whether the company used any school resources or facilities for classes. This innovative business model reflects a win-win-win for the school district, the graduated student, and the company.

New Markets activated the company's growth in several ways. First, the firm helped disentangle the tradeoff between gross margin and quality of student outcomes that the company faced. Graduation Alliance was focused on providing students with as many resources as possible to succeed, including offering an academic coach, a teacher, a social worker, and a job coach for each enrolled student. At the time of investment, the company also relied heavily on third-party curriculum for its students. Over the course of the investment period, the company improved the curriculum offering and made synergistic acquisitions of other online education providers, increasing the efficacy of the product and its margins. Additionally, New Markets and its co-investors brought in key leaders to the company that were instrumental to its growth. At the time of investment, Graduation Alliance did not have a CEO. New Markets hired a trusted recruiter to bring in a sales-oriented, expansion-focused CEO who worked well with the existing team and was focused on improving the core product and growing its reach. Mark Grovic, Co-Founder and General Partner of New Markets, was board chair at the company for the total time of investment and led four investment rounds with a variety of co-investors.

New Markets also played a pivotal role in expanding Graduation Alliance's geographic impact. Whiteboard Advisors, a social impact consulting group and another New Market portfolio company, performed an analysis for Graduation Alliance of total addressable market size for dropouts and the favorability of education policy environment at the state level. This analysis guided the company's decision to pursue Ohio as a key market. New Markets played a critical role by activating its network in Ohio and brokering relationships with key stakeholders, including superintendents, presidents of colleges and universities, and community leaders. This relationship building work allowed Graduation Alliance to build an active customer base of students in Ohio, provide important services during the course of the program, and ensure that graduates received high-quality jobs and college acceptances after the program. The company replicated the model undertaken in Ohio and expanded successfully into over a dozen states during the nine-year investment period.

While the company was able to increase margins and scale successfully, New Markets, as a longstanding impact investor, was also interested in thoughtful impact measurement and reporting. New Markets reports on the impact of its portfolio companies at two levels: the first is

product level efficacy, and the second is macroeconomic mobility. The first level was relatively easy to measure for Graduation Alliance by tracking the number of enrolled students and the number of graduates from the program. For the second level relating to economic mobility, New Markets examined longitudinal data of program graduates across several metrics, including job placement, job quality, employment length, pregnancy rates, and incarceration rates to understand the long term effects of the program. Impact information was reported annually to LPs and helps maintain the long-term reputation of the firm as a changemaker in the education and workforce development space.

Graduation Alliance achieved impressive financial and impact return over the investment period, with revenue and number of students nearly tripling over a five-year period from 2015 – 2019. Around this time, when the company was ready for the next level of buyer, the company's investors were approached with an unsolicited inbound offer from KKR Global Impact, the impact-focused arm of KKR, who were impressed with the positive cash flow and expansion of the company. New Markets felt comfortable with the sale, given the buying firm's stated commitment to impact and the resources it possessed to continue to scale the company and achieve collinear impact and financial returns. New Markets also had prior experience with the buyer's leadership and board members, lending credibility to their impact rigor.

According to Grovic, the successful exit from Graduation Alliance to an impact focused financial buyer reflects a broader theme in the landscape of impact investing:



"I've been in the impact investing space for 30 years. And I have to say just in the last five years, and largely because of firms like BlackRock, TPG, KKR, Bain who are looking for a pipeline of impact investments—it's the first time in my career that I feel confident that there's an impact premium on valuation. And for so many years it was, can people hold their nose on the impact? And I think we're finally at a premium."

<sup>8</sup> Multiple on Invested Capital

<sup>9</sup> Internal Rate of Return

#### Driver #4

Leverage impact expertise to develop more effective businesses

#### Driver #6

Attract and retain manager and investee talent

#### Driver #9

Establish credibility with impact-driven

#### Financial Return Summary

Total Investment Amount	\$5.5M
MOIC <sup>8</sup>	4.2x
Target Return	40%
Net IRR <sup>9</sup>	48%
Performance	Outperform

#### Impact Return Summary

- Students served increased from ~4,500 to ~15,000 between 2016 and 2020
- Students receiving diplomas from the program increased from ~200 to ~3,000 from 2016 – 2020

#### Impact Tools Used:

- Highlighting Mission in Bid Solicitation
- Impact Diligence
- Reverse Impact Diligence
- Representations and Warranties





**ICM Manager:** Lime Rock New Energy  
**Investee:** Qmerit  
**Impact Theme:** Environment + Sustainability  
**Investment Date:** October 2020  
**Exit Date:** December 2021  
**Exit Type:** Strategic Buyer  
**Acquirer:** Schneider Electric

*Disclaimer: This case study is being provided as a successful example of a partnership between a ICM member fund and a portfolio company in the clean energy sector. It is not intended to be, and should not be construed as, a solicitation to purchase securities of any Lime Rock fund.*

Lime Rock New Energy (LRNE) partnered with electric vehicle (EV) charging station provider and installer Qmerit after identifying the company as an important and fast-growing enabler of faster, easier, and cost-effective EV charger installations for consumers and light commercial customers. LRNE views the services provided by Qmerit as critical to speed widespread adoption of electric vehicles.

Lime Rock New Energy is a growth equity firm that partners with entrepreneurs and management teams from companies providing products and services for the energy transition, including in renewable energy and grid modernization, energy efficiency for industry and the built environment, and the decarbonization of transportation. LRNE identifies investment opportunities for growth capital with companies that have a track record of commercial success and have a clear plan to grow future revenue and market share.

LRNE accessed the Qmerit opportunity through a referral from their professional network. Qmerit is at the forefront of the shift away from fossil-fuel powered systems towards the electrification of everything. Qmerit does this primarily by connecting the key stakeholders across the EV ecosystem, such as EV manufacturers and their dealers and the end consumer, to deliver and install Level Two (L2) charging stations at residences and businesses. Qmerit partners with the leading electric vehicle and electric vehicle supply equipment manufacturers and leverages Qmerit's vast network of company-owned and certified partner electrical service contractors, to provide simple, turnkey electric charging solutions for homes and commercial workplaces. Customers of major EV manufacturers, who will often receive a L2 charger and associated installation as part of the purchase price

of the car, can simply take a picture of their garage and electric panel, send it to Qmerit, and receive a professional EV charger installation within a few days.

At the time of LRNE's introduction to the company, Qmerit was a small investment within Schneider Electric and included a separate, somewhat unrelated ecommerce business. Schneider believed that Qmerit's potential was buried in their corporate structure and was seeking a private equity partner to move the company forward. LRNE vetted Qmerit through an extensive diligence process that started with asking two screening questions: can this company generate net positive environmental impact? And if so, can we measure it? After answering both in the affirmative, LRNE moved forward with an initial quantitative assessment of Qmerit's carbon abatement potential using the CRANE (Carbon Reduction Assessment for New Enterprises) Tool, a free tool provided by Prime Coalition and Rho Impact to estimate climate change impact, which LRNE uses as its baseline assessment tool. As is standard practice at LRNE, the Bridgespan Group was engaged to jointly develop a detailed impact analysis and impact pathways assessment for the Qmerit investment.

The primary impact pathway identified for Qmerit was making the challenge of the selection and installation of EV charging equipment and capabilities in the home or office, which is a key barrier to widespread EV adoption, easy, quick, and safe. By supporting easier and faster EV charger installation, Qmerit would help accelerate the speed at which EVs are adopted. LRNE and Bridgespan developed the impact pathway framework and employed third-party research and others to provide the tool to measure and quantify the CO2 abatement impact from Qmerit's services based on the actual and expected number of chargers installed by Qmerit. More subjectively, the analysis was also used to validate the importance of easier, faster availability of convenient charging capabilities as a key enabler of EV adoption and the resulting decarbonization impacts from increased EV penetration.

Qmerit had ambitious growth targets to build a strong nationwide network of electric service contractors and generate more partnerships with major EV OEMs. LRNE developed a close partnership with the company and was heavily involved with helping Qmerit achieve these targets. Over LRNE's 14-month ownership period, Qmerit saw substantial growth. First, LRNE assisted Qmerit in closing six acquisitions aimed at building the company's network of Qmerit branded local installation providers in high-growth EV markets. By the time of LRNE's exit, Qmerit had gone from having partnerships with four or five EV OEMs to almost every EV manufacturer in North America, boosting its brand recognition as a trusted third-party service provider. Qmerit also made substantial

headway in growing its share of the commercial/multi residential property market. This was a significant goal for the company, as it would enable higher and faster levels of EV adoption.

Qmerit grew very quickly in a short amount of time through a combination of both organic and inorganic growth and, critically, via strong and effective stewardship by its management team. LRNE saw the impact potential of Qmerit's business and felt strongly that the management team had the experience and expertise to create a category leader. As a growth investor who values working with management teams, LRNE ensured that it was well placed to help Qmerit both grow its business, but also meet LRNE's ESG objectives for its investments. LRNE will not make an investment without a board seat, whether a minority investor or not. Further, LRNE always includes language in its term sheets discussing their commitment to impact and ESG and its expectations for portfolio companies to continuously work towards improving ESG practices, as well as providing ongoing access to impact-related data so that progress on this front can be quantitatively measured.

Happy with their successful partnership with Qmerit and impressed by its growth, LRNE was not looking to exit the investment when it was approached by Schneider Electric to acquire Qmerit. While LRNE was not interested in selling Qmerit so early into its investment period, Schneider made it clear that it was very interested in the business and indicated a willingness to acquire the business at a price that was sufficiently attractive to LRNE to part with Qmerit. LRNE ultimately moved forward with the sale for two reasons. Firstly, given the attractive financial return promised by the sale, LRNE had a fiduciary duty to its investors to seriously consider the offer. Second, LRNE felt comforted in the knowledge that Schneider has demonstrated strong leadership in sustainability across its entire business, appreciated Qmerit's impact potential, and would be focused on maintaining and growing the impact delivered by Qmerit as one of its stated corporate goals. Since the sale, Qmerit has accelerated its impressive growth and further penetrated the EV marketplace.

For Qmerit, a strategic buyer with prior knowledge of the company, a complementary corporate strategy, and the ability to accelerate its growth created an ideal home for the business. LRNE Managing Director Mark Lewis believes that Qmerit serves as an instructive example of how the combination of innovative business models and growth capital can result in financial success for investors and contribute to the fight against climate change.



"The passage of the Inflation Reduction Act is a landmark moment and the IRA's market incentives are still playing out in various interesting ways, with more upside expected. We're continuing to put capital out the door; our outlook continues to be bullish."

### Driver #1

Source investments through mission-aligned networks

### Driver #3

Build values alignment with investees

### Driver #9

Establish credibility with impact-driven stakeholders

### Financial Return Summary

Total Investment Amount	\$43M
Performance vs. Underwriting Case	Outperform





**ICM Manager:** Achieve Partners  
**Investee:** Credly  
**Impact Theme:** Education & Workforce Development  
**Investment Date:** March 2016  
**Exit Date:** January 2022  
**Exit Type:** Strategic Buyer  
**Acquirer:** Pearson

*Achieve Partner's investment in Credly was driven by a belief in the power of microcredentials as the future of education and workforce development and succeeded due to smart market positioning and acquisitions.*

Achieve Partners (formerly University Ventures) is a private equity firm engineering the future of learning and earning. Achieve Partners aims to solve the mismatch between our system of education and employer workforce needs, increasing opportunity for all Americans.

Ryan Craig, Managing Director at Achieve Partners, has been focused on education and workforce issues throughout his career and has written extensively on the topic.<sup>10</sup> In his work, Craig has focused on a specific dilemma within education: the lack of employable skills gained from a traditional college degree, specifically technical and digital skills. As Craig describes, traditional degrees are effectively “macro-credentials.” For previous generations, macro-credentials signified a general basket of skills and capabilities that were valued for “good” jobs.

However, in recent decades, the exponential rise in tuition costs coupled with digital transformation has led to a significant rise in underemployment for new college graduates. One reason for this was the increased prevalence of specific technical and digital skills in job descriptions – skills colleges and universities are not providing.

Craig viewed this dilemma as a key driver of broader higher education challenges receiving media attention, e.g., \$1.7 trillion of student loan debt, the Free College movement, student loan forgiveness, and social and political turmoil from structural inequality. He identified that four years of college was often an unrealistic expectation for disadvantaged Americans. For these Americans, what was needed was a faster + cheaper pathway to good first jobs, increasingly digital jobs. This would require a move away from the macro-credential and towards micro credentials, i.e., credentials signifying specific skills geared towards employer needs.

Driven by this thesis, Craig and the team at Achieve Partners identified Credly as a promising investment

opportunity. At the time Craig met Credly founder Jonathan Finkelstein at a U.S. Department of Education event in Washington D.C. in 2015, Credly was the leader in micro- (or digital-) credential infrastructure, operating a network that helped customers verify the knowledge, skills, and abilities of their employees. Founded in 2012, the company offered tools to distribute digital credentials and badges across thousands of skills, recognize achievement, and address skills gaps through the provision of micro-credentials.

After several months of relationship building, Craig and his team were able to convince Finkelstein to allow Achieve (then UV) to organize the Company's Series seed round of \$2 million, which closed in March 2016. At the time, UV contributed only its max seed allocation of \$250,000. But due to its role in putting the deal together, the firm agreed to take a board seat for the first time on a seed investment.

Credly's management, led by Finkelstein, developed a value-aligned relationship with Achieve, tied closely by the understanding of the importance of Credly's product in addressing the kind of structural issues Craig had written about. This alignment around impact and purpose would eventually lead to a constructive outcome in the company's direction and exit.

Achieve Partners was keen to bring other impact-minded coinvestors to the deal, which encouraged Credly's participation. Lumina Foundation, a UV limited partner, came on as a valuable partner in the higher education space, able to facilitate introductions to important organizations such as the American Council on Education. Achieve also invited New Markets Venture Partners, another ICM member, and New Markets also took a board seat. The investment benefited from having a group of co-investors who all believed in the company as a pivotal actor in the education revolution.

Initially, Achieve Partners hoped to direct digital credentialing towards colleges and universities. However, it was understood that realignment of the labor market might in fact happen outside of higher education.

After leading a successful seed round, Achieve Partners co-led Credly's Series A with New Markets. At this point, Credly shifted tack and focused on large companies, particularly leading technology vendors like Microsoft and Amazon. These companies not only valued digital credentials to track and acknowledge the unique skill sets acquired by their workforce, but also wanted to provide customers and users with portable and secure credentials. Furthermore, these large companies brought credibility to Credly, creating a reinforcing cycle of credibility and use of digital credentialing.

Craig believes the shift of focus from secondary education institutions might have been more aligned with Credly's mission.



“I think it's part and parcel of the same trend, which is that colleges and universities aren't changing nearly quickly enough and the labor market is just kind of moving on and building their own pathways and credentials that will better align the labor force and available talent pool with what companies are seeking.”

Given Credly's business model, where each credential issued signified a portable and verified skill that the potential to transform an individual's career trajectory, impact was measured through credentials issued. As of 2022, Credly has issued over 60 million badges. Credential issuance also ties directly to revenue, meaning that impact scaled directly with business growth.

In 2018, Credly acquired Acclaim, the number two player in digital credentialing. Acquiring Acclaim from Pearson, which was in the process of shedding non-core, sub-scale assets, was an element of Achieve's original investment thesis. This acquisition greatly strengthened Credly's position as the market leader in digital credentialing.

A few years later, after a change in leadership and a newfound focus on workforce, Pearson would emerge as a natural partner during the exit process because Credly's investors felt most comfortable with a sale to a strategic buyer within the education and training industry who would understand Credly's inherent value and continue the work underway to transform education and work.

Due to Achieve Partner's thesis-driven approach to education and workforce investing, Craig and his team were able to tap into a fast-growing space with Credly. Digital credentialing continues to expand its footprint, especially in the post-pandemic era. This trend positioned Credly as a lucrative buying opportunity for a valuable strategic partner.

### Driver #2

Uncover opportunities through deep market expertise

### Driver #3

Align values with investees

### Driver #9

Establish credit with impact-driven stakeholders

### Financial Return Summary

Total Investment Amount	\$3.5M
Target Return	10%
Performance	Outperform

### Impact Return Summary

- 60 million+ credentials earned and managed on Credly
- 650 thousand+ digital credentials shared every month

<sup>10</sup> Multiple Craig has published several books, including *College Disrupted: The Great Unbundling of Higher Education* (2015), *A New U: Faster + Cheaper Alternatives to College* (2018), *Apprentice Nation: How the "Earn and Learn" Alternative to Higher Education Will Create a Stronger and Fairer America* (forthcoming).







RENOVA

**ICM Manager:** Energy & Environment Investment, Inc.  
**Investee:** RENOVA, Inc.  
**Impact Theme:** Environmental & Sustainability  
**Investment Date:** March 2008  
**Exit Date:** December 2018  
**Exit Type:** IPO

*Energy & Environment Investment (EEI) leveraged its renewable energy expertise to partner with a company poised to take advantage of regulatory changes and become a leader in the new energy system.*

Energy & Environment Investment (EEI) Inc. is a venture capital firm focused on investing in energy and environment related start-ups in Japan. A leader in the space, EEI leverages its expansive networks in the energy industry in Japan to nurture innovative startups that contribute to sustainability.

Because of EEI's focus in the energy space, RENOVA came across its radar early on. At the time of investment, RENOVA was a renewables company mainly in the recycling business. With EEI's guidance, RENOVA now develops and operates multiple renewable energy power sources in Japan and Asia, including solar, wind, biomass, geothermal, and hydro.

EEI identified RENOVA as a potential leader in the nascent utility scale solar field space. The development of utility scale solar plants, installations that produce one megawatt (enough energy to support ~400 – 900 homes) or above of energy each year, was a new concept in 2012. Japanese government policies supported these developments, and in 2012, formally introduced the Feed-in-Tariff (FIT) program. FIT was a policy mechanism meant to support renewable energy producers by providing long-term contracts.

EEI sought to be an early mover in the utility scale solar space given what they saw as a supportive regulatory environment. An investment in RENOVA would also have an advantage given the low existing competition and potential for market expansion. EEI's insight on the utility scale solar and renewable energy space in Japan proved correct. Shortly after RENOVA's expansion from a recycling to a full renewable energy business, the market exploded with new startups funded by VC firms similar to EEI. The firm's brand as a leader in this space helped RENOVA gain credibility as a pioneer in renewable energy. EEI's initial investment acted as a signal to other energy-focused capital providers of RENOVA's potential, given the necessary due diligence that precedes EEI's investment.

EEI formed a strong partnership with management early on as the CEO of RENOVA was mission driven and focused on environmental impact first and foremost. When the company transitioned to developing solar systems, he instituted procedures to ensure as much of the material used to build the plants was recyclable as possible. Management adopted a shared vision around how to make the company more eco-friendly from all perspectives. The company aims to become Asia's renewable energy leader.

RENOVA hopes to fulfill this vision not only by expanding the use of green energy through its operations, but also through the sustainability of the business itself.

Since entering the utility scale solar space in 2012, RENOVA has been able to successfully capture growth in this market, helped by the favorable regulatory environment. However, given the size of the island, Japan has shifted towards smaller-sized solar plants as a more sustainable option. EEI has also shifted focus accordingly in line with these smaller players. In a few instances, EEI has introduced smaller companies to RENOVA to form a partnership. RENOVA is able to assist these smaller plants, given their expertise in solar panel production. In this way, RENOVA is contributing to the broader goal of decarbonization by assisting other players in the field.

Due to the nature of Japanese financial markets, exit through IPO was considered as a viable option early in the investment process. Unlike the U.S. market, Japan has always been receptive to smaller-scale IPOs. For EEI and its investees, having an IPO as a default assumption as an exit is quite common. Another structural element to the Japanese IPO market is the high degree of credibility afforded to companies that choose to go public. In general, an IPO eases the process for Japanese companies to obtain loans, additional capital, and talent. RENOVA's management viewed an IPO as an appropriate vehicle to continue their growth while holding majority ownership of the company and gaining the benefits of credibility in society.

Because of the implied government push towards renewables (confirmed by the 2020 announcement from the Japanese government of carbon neutrality by 2050), RENOVA was able to attract substantial public investment through the IPO. While it is difficult to know how much of this capital was impact-driven, EEI leadership believes that RENOVA's leadership in the renewable space allowed them to capture a premium as they would be an instrumental organization in the government's decarbonization efforts. Driven by the success of RENOVA and other investments like it, EEI is committed to furthering the renewable energy industry, as they believe it is an existential need. According to Itaru Shiraiishi, Head of Global Business Development at EEI,



“From our perspective, in the climate change segment, the price has gone down enough from the hardware perspective in solar technology I think we now have a fundamental basis to create new businesses on top of it and we think this is going to create a lot of opportunities. If we want to actually survive as a species, I think we need to fundamentally modify the whole energy system in the world. And in order to achieve that within the next 30 years, there's a huge amount of investment changes needed.”

### Driver #2

Uncover opportunities through deep market expertise

### Driver #4

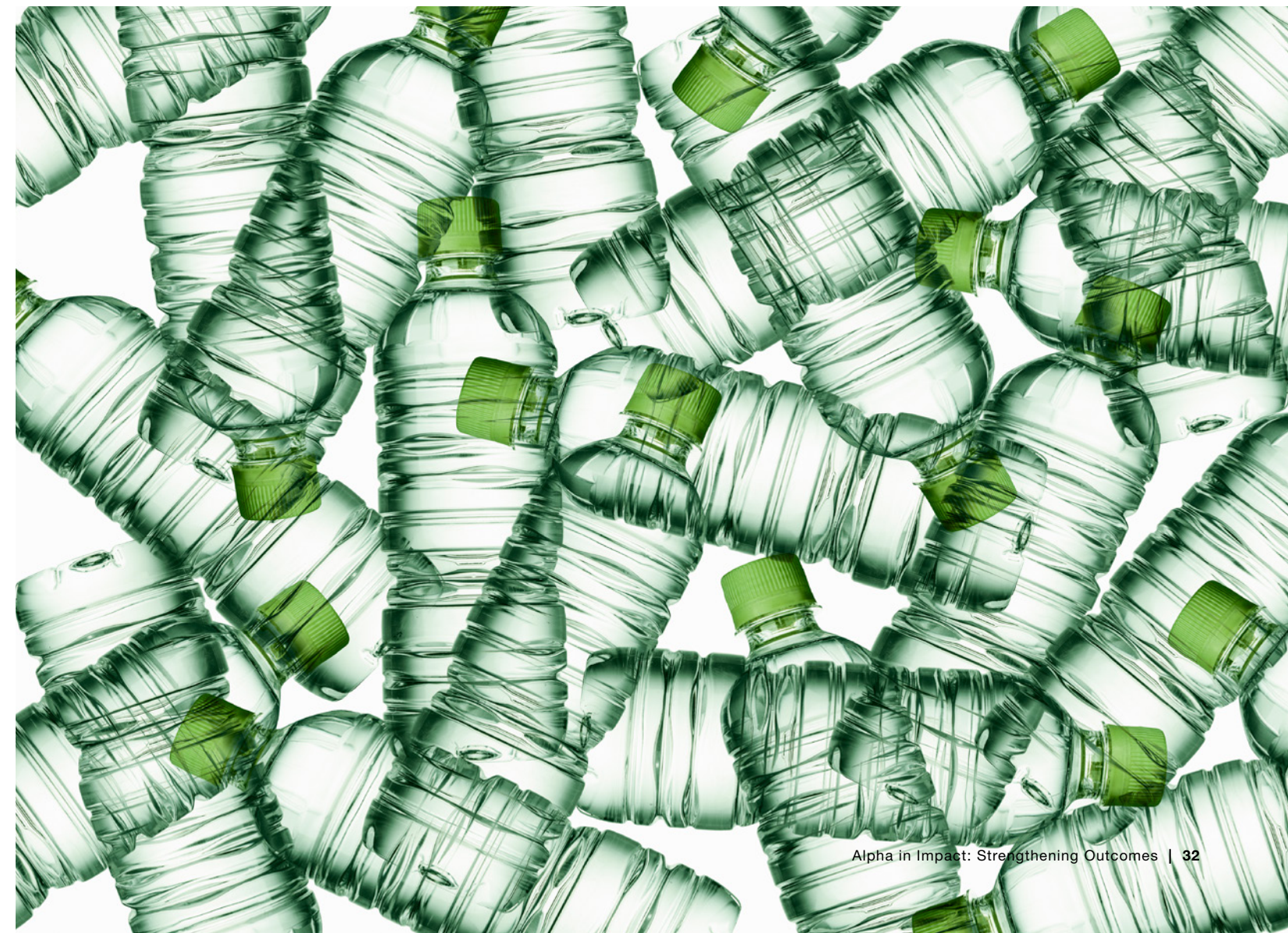
Leverage impact expertise to develop more effective businesses

### Driver #9

Establish credibility with impact-driven stakeholders

### Financial Return Summary

Total Investment Amount	\$1.4M
Target Return	20%
Performance	Outperform







**ICM Manager:** HCAP Partners  
**Investee:** AMFM Healthcare  
**Impact Theme:** Healthcare + Wellness  
**Investment Date:** October 2019  
**Exit Date:** May 2022  
**Exit Type:** Financial Buyer, Growth Equity  
**Acquiring Firm:** New Heritage Capital

*By focusing on creating sustainable quality jobs in a critical and underserved healthcare niche, HCAP Partners demonstrated that a focused impact approach can unlock unforeseen business growth and lead to successful financial outcomes.*

HCAP Partners was founded as an impact driven capital provider for underserved businesses. Focused on increasing economic opportunities and health and wellness outcomes at lower middle market companies in underserved communities, HCAP enhances performance at portfolio companies specifically through creating and maintaining quality jobs. HCAP's most recent funds are SBIC (Small Business Investment Company) funds, serving low- and moderate-income (LMI) communities by offering flexible mezzanine debt and equity structures.

HCAP uses its proprietary Gainful Jobs Approach™ as its core method of contributing to impact, working with company leadership to create sustainable, long-term improvement in job quality in underserved businesses and industries. The pandemic and Great Resignation have highlighted universal issues of job quality and underscored the need for quality jobs, especially in the healthcare services sector.

HCAP's Gainful Jobs Approach™ tackles job quality in two parts. First, HCAP works with management teams to quantitatively assess job quality at the time of investment and develop a strategic roadmap to improve job quality standards during the investment period. These improvements include increasing wages to meet living wage standards, providing broad-based participation in wealth creation, cultivating career paths and advancement opportunities, and improving health and wellness outcomes through paid time off and company-wide wellness initiatives.



Figure: HCAP's Quality Jobs Framework



*“Investing in human capital is critical for business success. That’s the thesis. We see a real need for this type of work from an operational value creation standpoint, especially at the lower end of the middle market, which is where we invest.”*

To ensure that these improved standards become entrenched in company practices, HCAP engages companies around a job quality lens, requiring job quality metrics to be reported on a quarterly basis as part of board meetings so that they become part of the company ethos. HCAP leadership summarizes the impact thesis behind the Gainful Jobs Approach™.

Because of HCAP's reputation as a growth partner in the healthcare services sector, they were approached by A Mission for Michael (AMFM) in 2019 when the company was looking for non-dilutive, mezzanine capital.

Founded in 2010, AMFM serves the mental health needs of its clients through immersive 24/7 treatment, outpatient, and telehealth services. AMFM hosts in-patient high acuity, dual diagnosis mental health patients in houses across California, Washington, and Virginia, staffed by trained mental health professionals and caregiving staff.

During the diligence process, HCAP realized the usefulness its Gainful Jobs Approach™ might have on a business whose growth was driven by the quality of its staff. HCAP quickly built alignment with AMFM's management around the Gainful Jobs Approach™ and worked with the team to gain access to a detailed and anonymized employee-level data set, which provided a clear picture of the existing job quality level, along with wage and demographic data.

Once the Baseline Assessment was shared with the management team, HCAP worked to put in place a strategic roadmap to improve job quality over five years. The five-year timeline for the roadmap aligns with the time frame for the investment that HCAP provided to the company. While the roadmap was seen as a living document, its implementation is a condition to close for any of HCAP's investments. HCAP also made available ongoing support and company job quality data and results as part of the terms of the debt offering, ensuring that companies have the information and assistance needed to continue to make job quality a priority.

Over the course of the investment period, the Gainful Jobs Approach™ yielded several important results critical for business success. Opportunities for advancement were created by designing supervisory-level positions for caregiving staff, which also served as an additional governance and feedback mechanism and created career pathways for caregiving staff. Starting pay was increased for all caregiving staff, and a formal and standardized performance review and salary increase model was implemented. Paid self-care days were instituted, along with the provision of additional training on wellness and crisis prevention. AMFM also developed a robust diversity, equity, and inclusion initiative and cultural competency framework, which is now a required part of all staff onboarding.

These investments produced measurable results. From the time of investment in October 2019 to December 2021, AMFM went from 150 employees to 365 trained staff members. Average wages increased by \$2/hour across all levels of staff, reflecting an ~8% increase. COVID-19 posed significant challenges to all healthcare staff and added stress to the already high-intensity jobs of AMFM's caregiving staff. Despite this, the concerted effort between AMFM's management and HCAP to create quality jobs paid off. AMFM saw increased retention and employee satisfaction throughout the pandemic and has seen a stronger pool of applicants for caregiving positions.

The focus on job quality supercharged AMFM's growth, given that healthcare, especially healthcare services businesses, are highly dependent on skilled and engaged staff. Caregivers' jobs cannot

be offshored or outsourced. Ensuring a positive work experience for the caregiving staff at AMFM's in patient houses was the engine to business growth. AMFM grew within its home state of California and expanded into other geographies. They also instituted a successful nationwide business development referral system, which drove client base expansion. This quality job fueled growth led to a successful outcome at exit.



*“A lot of the growth that AMFM realized was because of being able to recruit and retain good quality talent around the table which is what made it an attractive platform to all of these buyers.”*

As AMFM achieved growth and scale, it received attention from several large private equity firms and financial buyers. AMFM sought a larger growth equity partner that could provide the level of funding required for its next phase of growth. Even though HCAP was a debt capital provider without governance control, the firm had a significant hand in the ultimate exit of the company due to the strong, trusted, and collaborative relationship it had built with the management team. New Heritage Capital emerged as a productive buyer for both the company and its investors. New Heritage was able to structure a deal to suit AMFM's needs, buying out HCAP's existing debt and warrant position and offering additional growth capital through a minority equity investment.

HCAP's belief in the need for universal job quality and its strict adherence to its Gainful Jobs Approach™ led to significant value creation for AMFM, from both an impact and financial perspective.

**Driver #4**

Leverage impact expertise to develop more effective businesses

**Driver #8**

Promote discipline and efficiency and operations through impact

**Driver #6**

Attract and retain manager and investee talent

Financial Return Summary	
Total Investment Amount	\$8M
Target Return	14%
Performance	Outperform

Impact Return Summary	
■ 265 jobs improved	
■ 200+ jobs created	
■ Average hourly wage increase from \$23.82 to \$25.77	





# Employee Ownership: Impact Tools Spotlight

## Introduction to Employee Ownership

As the previous case studies have illustrated, impact firms employ a variety of tools throughout the investment lifecycle to create and protect for impact. The introduction of broad-based employee ownership programs at portfolio companies is a tool increasingly used by firms to align incentives and address the question of impact and equity at the root level. These programs are designed to be scaled broadly across companies through the development of stock plans that allow for employees at all levels to gain a stake in the company. Plans give employees a share of distributions from investors, including a portion of proceeds in the event of an exit. Broad-based, equity-focused employee ownership programs differ from typical employee ownership plans in traditional private equity and venture investments by widening the range of employees who have access to equity grants beyond the normal scope of senior management and early employees at startups. They also generally expand the overall share of the company that is owned by non-management employees from ~5 – 10% to ~20 – 30%.

Employee ownership has the potential to produce several key benefits, including increased employee engagement and motivation, improved productivity and company profitability, higher retention rates, and potential tax benefits. As impact investors, ICM member firms often view employee ownership as a means of increasing

social equity more broadly and ensuring that those who contributed to the success of the company are able to participate meaningfully in its financial upside.

However, implementing these programs can come with challenges, including convincing existing investors in the company and fund limited partners to increase ownership share to employees. Making sure employees have access to adequate financial literacy and ensuring that the employee engagement remains high are also necessary for program success. Additionally, there are often structural factors within a firm and an industry that influence the probability of success. For example, industries with traditionally unstable or cyclical workforces (such as some retail businesses) may not reap the full benefits of the program. Companies with a highly distributed workforce may also face challenges in designing a successful program.

Supporters of broad-based ownership programs acknowledge that they do not succeed in a vacuum. Ownership Works<sup>12</sup> is a non-profit organization that partners with private capital investors and independent company leaders to help them implement broad-based equity ownership. The organization was founded with the goal to provide meaningful wealth-building opportunities for low- and middle-income families and promote responsible business practices. Ownership Works provides company-customized tools to structure and implement equity plans and create financial education

and cultural programming. The organization also works to combat the misconception that employees will not understand the value of equity. Per the organization, engagement and education are a necessary part of the work.



*“In our experience, the extent to which employees understand and value equity is highly dependent on a company’s leadership team. Effectively deploying shared ownership requires education, training, communication, and, above all else, time and effort. When the leadership team is fully committed, broad-based ownership can underpin a powerful employee engagement program.”<sup>11</sup>*

Employee ownership has concrete implications during the exit process. Firms who implement employee ownership programs successfully accelerate company growth and ultimately influence financial performance at exit. Companies with meaningful employee engagement foster an inclusive and productive culture and also develop a resilient workforce and business model. These qualities make them attractive to a variety of buyers during any market conditions.

From an impact perspective, firm and company leaders can be concerned with retaining this positive, ownership-based culture post-exit. Employee ownership could be seen as a way to incorporate impact into a company at the root level, paying dividends beyond the equity payout. When employees hold a fair share of the company pre-acquisition, successful exits have the ability to meaningfully transform lives, not just for high-level senior management, but for low- to middle-income employees throughout the company.

The following examples highlight the financial and impact value at exit for portfolio companies where ICM member firms have implemented broad-based employee ownership programs.

<sup>11</sup>“Common Objections – Ownership Works.” 2021. Ownership Works. October 19, 2021. <https://ownershipworks.org/common-objections>





**ICM Manager:** KKR  
**Investee:** C.H.I. Overhead Doors  
**Investment Date:** June 2015  
**Exit Date:** June 2022  
**Exit Type:** Strategic Buyer  
**Acquirer:** Nucor

As one of the largest global investment firms in the world, KKR invests across a range of investment themes and industry verticals. While KKR Global Impact is an ICM member and an explicitly impact-focused fund, KKR's non-impact focused funds hold some of the best illustrative examples of employee ownership programs. The firm's overall growing focus on themes such as employee equity signify a positive direction for the field of impact investing.

KKR spearheaded its employee ownership efforts in the manufacturing vertical. This vertical benefits particularly from ownership programs for a few reasons. Following the general guidelines for employee ownership success, the industry heavily relies on the direct inputs and contributions from rank-and-file laborers at the factory. Through their direct labor, these employees play an important role in quality control, customer satisfaction, and timely deliver—all of which are important determinants of a company's financial success. Yet, despite their critical contributions to company performance, these workers are typically given little voice or agency within their companies, predisposing them to low levels of engagement and high degrees of turnover. Historically, this has generated suboptimal outcomes for both employees and employers.

In an attempt to address this systemic issue, KKR pioneered an employee ownership model within its manufacturing vertical. After achieving notable success across several manufacturing businesses (including companies like Ingersoll Rand) KKR has now rolled out this initiative at ~30 different investments across a wide array of industries and operating models over the course of a decade.

One of the most recent examples of benefits of employee ownership was KKR's investment in C.H.I. Overhead Doors ("CHI"). Based in Illinois, C.H.I. Overhead Doors manufactures steel garage doors for commercial and residential use. The company offers a range of damage-free overhead garage doors to professional door installers and distributors. At the time of KKR's investment in 2015, the company had already been

bought and sold by several other private equity firms and held a poor safety track record with three times the OSHA benchmark for total recorded incident rates.

After assessing operational performance at CHI, KKR brought in a new leadership team to focus on safety and employee engagement issues. When selecting the next CEO and management, KKR leadership placed emphasis on personality traits as a key recruiting criteria. The firm looked for candidates that demonstrated empathy and concern for employees, hoping to find leaders that truly cared for the safety and economic security of low-income workers and were willing to take accountability for these issues. Pete Stavros, co-head of Global Private Equity at KKR and the Founder and Chairman of Ownership Works, has led KKR's employee ownership efforts across the firm (including for CHI) and strongly emphasizes that having the correct leadership is critical in successful employee ownership outcomes.



**"Everything starts and stops with leadership. We could give the wrong leader all the best tools and the equity programs and communication templates and how-to, and it's not going to be effective. The leadership team is an enormous part of making something like this work."**

At the time of acquisition, only 18 executives at CHI held equity stakes. By the end of KKR's seven-and-a-half-year ownership period, all 800+ employees shared in the benefits of equity ownership at the company. Equity was provided to employees as a free incremental benefit, with no trade-offs with wages or 401k matches. The initial provision of ownership was used mainly as a retentive method and a way to get employees to start thinking as owners. Firm leadership hoped that this mindset would cause employees to have different expectations from their employers. Having an ownership mindset allowed employees to see management as partners and motivated them to seek information about financial performance, including operational targets, which they could individually contribute towards on a daily basis. As equity holders, employees now experienced upside directly tied to the company's performance and their contributions towards this success. While the ownership program proved to have many cultural and operational benefits for the company, a crucial aspect of its efficacy was its combination with employee engagement tools. The firm worked to increase worker voice within CHI's facility, acting on feedback from employees on how to improve the workplace and what operational changes (including safety measures) would be both effective and practically feasible to make.

Measurement of employee engagement also became a focus area. KKR uses an enhanced version of the Gallup Q12 engagement survey with 10 additional questions developed by Ownership Works as its central measurement tool. Using the augmented survey, KKR assessed how well employees understood the ownership program, the clarity of communication from leadership, and how they felt their input and ideas were being received. The firm tracked the quit or voluntary turnover rate over time to make sure conditions were improving. KKR also worked to ensure that levels of financial education and literacy around the ownership program were high, and that management communication was clear and timely.

While LP pushback can be a concern for implementing employee ownership programs in private equity deals, Stavros and team believed its benefits can be easily defended. They saw overinvesting at the top (C-suite) levels and underinvesting in people deeper in the organization as a chronic problem. Private equity firms usually allocate 10 – 15% of deal equity to senior management. To implement broad-based equity ownership programs, KKR typically has a pool on the higher end of this spectrum and allocates 2 – 5% of the options from this pool to non-management employees. While this theoretically comes at the expense of the ultimate proceeds delivered to the fund at exit, an increase in EBITDA of even one percent at the end of a five-year period would be enough for the program to pay for itself in most instances. To that end, the impacts to employee engagement and motivation created by linking job performance to equity appreciation can make the program more than self-funding.

While conclusive research on the effect of ownership on private companies is still underway, there is evidence to indicate that employee ownership may have a positive correlation with financial return. Research on public companies such as those represented in the UK Employee Ownership Index (which includes listed companies with >10% ownership by non-management employees) show that over the last 15 years, shares in employee-owned businesses have outperformed the broader UK market.<sup>13</sup> Anecdotal evidence from KKR's own portfolio demonstrates that there is no tradeoff between return and higher employee equity. KKR's North American funds, which have implemented employee ownership and alignment programs, have experienced high returns, with both the 2012 and 2017 vintage Americas fund delivering a 20+% net rate of return and 2x gross multiple as of June 2022.<sup>14</sup>

Because KKR's program works through equity options to employees, it offers a natural hedge to LPs and senior management. Senior management and LPs only experience equity dilution to the extent there is good performance and the company meets its growth targets.

Offering equity options to employees has a variable cost, in contrast to more traditional forms of compensation, which are more of a fixed cost. In the case of KKR, having a leveraged capital structure also provides significant upside in the case of outperformance.

At CHI, employee ownership had unprecedented benefits for the company. Consistent with Stavros' forecast, having empathetic and tenacious leadership, combined with material employee engagement, proved to be critical determinants of success for the firm's employee ownership program. The company experienced lower turnover, higher engagement, and improved productivity. Operational improvements included reduced scrap rates, more efficient inventory management, improved safety metrics, and improved sales performance. In combination, these improvements helped take EBITDA margins from 20 to 35%, which had significant effects on the company's bottom line.

The culture and growth of the company attracted strategic buyers, including NuCor, a large-scale steel producer. When NuCor indicated they were serious about a potential bid following a multi year dialogue with KKR, Stavros knew that the company's vastly improved safety record and history of treating employees well would be a great cultural fit. NuCor acquired CHI for \$3 billion in 2022, generating KKR's highest return on invested capital in ~30 years. And due to the employee ownership model, this was not just a great outcome for KKR, but all 800 employees of CHI. As part of the sale, employees collectively received a payout of \$360 million. This payout resulted in hourly employees taking home between \$20,000 and \$800,000 before taxes.

When Stavros and his team shared the news of the acquisition with company employees on the factory floor, they were told that, through their equity ownership in the company, they had just made up to 6.5x their annual income due to the sale. The reaction on the floor was a mix of shock, excitement, and overwhelming emotion. In a town in which the average home price is ~\$130,000, and for an employee base that included many individuals in personal debt, this payout was truly life-changing.

KKR arrived at the announcement prepared to guide employees through the process with free financial counseling and accounting services. They also communicated repeatedly to employees that they had earned this payout as a result of their hard work and contribution to the company.

Stavros, whose father was a construction worker who fought for profit sharing and rights for blue collar workers, believes that this model can be replicated across industries and could be a standard for the private equity industry going forward. It is this conviction which led Stavros to found Ownership Works, which aims to fight against the prevailing notion of a winner take-all



economy and the misconception that blue collar workers lack the ability to understand equity and ownership. The organization is hopeful that increasing employee ownership could help address the issue of national wealth inequality and drive the economy by putting more money in the hands of people who will spend it (i.e. low- and middle-income workers). However, Stavros highlights that employee ownership and engagement is a daily effort at the company level that requires active participation and feedback for firms.

Examples such as CHI demonstrate that companies who implement these programs successfully can achieve a uniquely productive culture. This has the tangible benefit of reducing quit rates and increasing productivity levels, which can in turn increase the valuation of a company. For example, at Ingersoll Rand, the quit rate decreased by ~90%. On a practical level, the lower quit rate meant the company had to hire 3,000 fewer employees a year, implying lower costs associated with hiring and training employees and higher overall productivity levels. As a public company, investors are attracted to the stock not only because of the higher profitability due to lower operational costs, but also because of its notable culture.

For private companies, the cultural and intangible benefits of employee ownership attract the right kind of buyers who place value on employee engagement. Beyond financial return, employee ownership can provide resiliency to a company by ensuring a stable workforce and continual productivity. The sale of CHI returned ~10x for investors and represents a significant example of the power of employees. Though historically underutilized by private equity firms, employee ownership holds significant promise for addressing inequality in ways that are directly compatible with high investor returns.

<sup>12</sup> Please see section introduction for more information.

<sup>13</sup> Source: "Employee Ownership Programmes: How Do They Affect Returns for Lps?," Carmela Mendoza, Private Equity International, October 3, 2022.

<sup>14</sup> Same source as above.







**ICM Manager:** SJF Ventures  
**Investee:** Community Energy  
**Impact Themes:** Environment + Sustainability  
**Investment Date:** October 2010  
**Exit Date:** December 2021  
**Exit Type:** Strategic Buyer  
**Acquirer:** AES

Community Energy Solar (“Community Energy”) developed utility-scale solar projects across the United States, with a focus on opening new markets. SJF Ventures led the company’s Series A in 2010 and acted as a meaningful partner to management and a supporter of the company’s vision, culminating in a successful exit to AES in December 2021.

SJF invested in the company at a crucial time in its growth, when Community Energy was transitioning from a focus on wind energy to the growing solar sector. SJF supported the company during this phase through their existing knowledge of renewable energy through prior investments and ventures. The firm also helped Community Energy by recruiting solar and climate executives on their board who helped the company as it grew its solar business in the first few years. SJF worked with the three co-founders to help build a high-performing team that would help steward the company. Brent Beerley, one of Community Energy’s co-founders who served on the leadership team from 2010 to 2022, most recently as CEO, highlights a key benefit to working with an impact-focused investor: patience and creativity around the exit process to maximize impacts and returns.



“I think if we had a traditional investor, we may have been pushed to sell sooner and potentially to a different buyer, but the culture might not have aligned and our team would have likely left within a year. And now contrast that with AES where 15 months in, retention is over 90%. SJF allowed us the freedom and the space to find the right partner that was going to work for our people and our business. And now after the sale, it’s been clear how important it is to SJF that the team is comfortable and happy at AES. I don’t think that’s typical.”

Another fundamental value-add of SJF’s investment was their support of a company-wide employee ownership program rolled out in 2018. Beerley believed strongly that an aggressive ownership program was critical to build and retain an industry-leading development team. SJF board members helped Beerley and his team assure other investors of the vision. Beerley knew that convincing existing investors to forgo nearly 20% of the ownership would be a tough sell, but he saw that the small but powerful team of 60 at Community Energy were extremely passionate about its mission, worked tirelessly to support it, and should be able to meaningfully participate in the company’s upside. The implemented plan gave ~19% of the ownership of the company to employees through synthetic financial instruments, given the LLC structure. Employees received two grants, one that provided a share of ongoing capital distributions to team members and investors, and the second that provided employees a fairly priced stock option to receive their share of the proceeds in the event of a sale. Beerley notes that not only did the ownership program align incentives, but it also noticeably boosted morale. Company growth accelerated quickly, with the pipeline for solar projects doubling over a two-year period. Community Energy provided grants in successive rounds over a three-year period, which allowed the ownership program to be used as an effective recruitment tool.

When AES, a global leader in clean energy, approached the company as a potential buyer in 2021, Beerley and board leadership recognized that this might be the ideal partner to expand the company’s impact. Community Energy had worked with AES on multiple projects over several years. Company leadership had gotten to know them personally and saw a strong values fit, which was a very important selling point. AES also boasted an impressive balance sheet of capital and equipment needed for solar energy projects, which would be crucial to building out Community Energy’s pipeline. Lastly, AES had positioned itself as an industry-leading innovator in the clean energy and decarbonization space globally, which energized the Community Energy team.

Because of the ownership program, every team member of Community Energy was able to receive a six figure or larger dollar payout from the sale. Company staff at all levels were able to provide financial security to their families and fulfill lifelong dreams. By using the tool of employee ownership, Community Energy and its investors ensured that a successful exit was not only a pivotal moment for investors and company leadership, but for every member of the team.

Beyond financial return, Community Energy also had a massive climate impact, delivering three gigawatts (GW) of utility scale and community solar projects in 15 states, while building a pipeline for 10 GW of projects across 29 states. The company opened the market in seven states where there had been no prior utility-scale solar projects, including building a 180-megawatt (MW) Amazon Solar Farm in Virginia, 120 MW Comanche Solar in Colorado, 100 MW North Star Solar in Minnesota, and 103 MW Butler Solar in Georgia. The team effectively navigated operational complexities to show how to “go big” in solar and consistently delivered clean power at lower prices than coal or gas plants.







**ICM Manager:** St. Cloud Capital  
**Investee:** Pipeworks  
**Impact Themes:** Education + Workforce Development  
**Investment Date:** February 2018  
**Exit Date:** December 2021  
**Exit Type:** Strategic Buyer  
**Acquirer:** Sumo Digital

St. Cloud Capital is a Small Business Investment Company (SBIC) licensed investor, aiming to provide capital to small- to medium-sized U.S. businesses generating over \$10 million in revenue. St. Cloud is generally the first institutional capital to their investees. The firm partners with entrepreneurs and owners, providing debt and equity structured capital that addresses the wealth gap through employee ownership in underserved communities of the United States (e.g., SBA HubZones and Low-to-Moderate Income areas). St. Cloud targets companies who commit to giving their employees the opportunity to gain an equity stake.

Founded in 1999, Pipeworks is an independent video game developer based in Eugene, Oregon that creates single and multiplayer video games for recreational and educational purposes. Pipeworks designs cutting-edge video games for clients, including military and government organizations. St. Cloud Capital invested in Pipeworks in 2018 through a co-investment with Northern Pacific Group, sponsoring a management buyout of the company.

The conditions in the firm's standard financing documents include the requirement of a creation of an employee stock option plan that is mutually acceptable to all parties. The firm's impact is measured through their ability to create quality jobs in underserved areas and is specifically benchmarked around the goal of enabling companies to provide cash compensation to employees over the median income level in the areas in which they are located.

St. Cloud put a robust employee ownership plan in place at Pipeworks for all employees in the company through a combination of cash and stock equity. St. Cloud doubled the size of a typical employee stock option plan and set aside terms to float the opportunity for management to invest into the round. St. Cloud struck to buy out the studio from the previous owners and then covered the cost of the ownership program for over a year, allowing employees to offset their equity purchase costs from their bonuses. The total allocation of stock to management and employees was approximately 29%.

This plan also allowed Pipeworks' management team to pivot away from being a captive studio, where they were only able to produce games for the parent publisher, to an independent studio with its own growing roster of clients.

The program was accompanied by a financial literacy push so every employee understood the stock option plan, how it was valued, and the tax implications. St. Cloud works with management teams and co-investors at each of their portfolio companies to create customized ownership plans based on the needs of the company. Despite the individual customization, the broader goal of the firm remains the same. Matt Smith, Managing Director at St. Cloud, explains:



*"It's all about alignment of incentives between the entrepreneur-owners, managers and employees with the investors towards the ultimate execution of the business plan that creates enterprise value together. St. Cloud is acting as more than just an investor because the portfolio company is getting the benefits of an experienced board member while the managers, employees and founders that built the business get the benefit of controlling a large slice of the investment outcome. If we didn't set aside a stock option plan and just took all the equity because we're the ones that had the money, we wouldn't be aligning our interests with the people that are executing against the plan daily. As a firm, we steer clear from situations where incentives are misaligned such as cases where the investors benefit 100% of the upside while the employees are getting zero. Without alignment of incentives [through employee ownership] you create obvious conflicts as an investor."*

The employee ownership program was particularly meaningful to a business like Pipeworks, where talent and quality of code matters to the efficacy of the product. As a small business, Pipeworks competes with larger tech companies for creative and competent engineers who can produce high-quality video games. Having a high employee retention rate and providing competitive benefits proved to be the company's secret weapon in growing its book of business. The team at St. Cloud also saw Pipeworks as an engine for job creation in Eugene, Oregon with the ability to offer high-quality jobs and career development opportunities in an underserved community. As a SBIC program investor, this was an important impact target. The morale boost from the ownership program, along with the growth capital provided by St. Cloud and its

co-investors, spurred a period of high growth for the company, with EBITDA nearly tripling from \$2 million to \$6 million since the time of investment and headcount increasing from 70 people to over 200.

As the company hit its stride, it was approached by interested strategic buyers including Sumo Digital, a fellow independent video game developer. Sumo stood out as a potential buyer due to its industry alignment and its broader presence in North America. St. Cloud, its co-investors, and Pipeworks' leadership worked with Sumo to keep the stock option plan in place for employees after the acquisition, with Sumo assuming it as a liability.

Because Sumo is a publicly traded company, ownership of Pipeworks' equity converted from private to public stock ownership. The price of the public stock ultimately provided a total cash-on-cash return for employees of over 10x. St. Cloud's work to build employee ownership at a company where employee alignment and retention was necessary for business growth enabled an outcome where financial return was high for both employees and investors. From an impact perspective, the firm successfully met its targets as a SBIC investor focused on improving opportunities in underserved communities.





# Legal Tools to Protect Impact on Exit

As indicated by the case studies discussed in this report, a growing number of impact investors are utilizing legal provisions and tools to maintain mission and impact in connection with exit events. Outlined below are examples of such legal provisions and tools that are being incorporated into deal documentation. Based on the case studies and survey results, the use of these provisions vary among companies and impact investors depending on a variety of factors, including, but not limited to, the level of co-linearity between a company's impact and financials, familiarity with such tools, and an investor's leverage. Some tools, such as impact diligence and highlighted mission in sale prospectuses, are becoming quite common. Other tools, such as tying earn-out payments to achievement of impact metrics post-closing, are less often used, if at all, among those surveyed.

Whether or not a particular impact provision should be included in definitive legal documentation is something that must be decided on a deal-by-deal basis. However, similar to how including protective provisions related to economic and governance rights are common and can maximize an investor's financial return from a company, including protective provisions related to impact can improve both the financial and impact performance of a company. In scenarios where a mission-aligned investor retains a minority stake in a company after a liquidity event, consent rights related to deviations from the mission or use of a benefit corporation can prevent mission drift. Even if an impact investor completely exits a company, provisions related to post-closing payment of proceeds or restrictive covenants can be tied to impact, incentivizing the new owners to maintain impact. As with non-impact legal provisions, the goal of these provisions and tools is to align incentives among relevant stakeholders in a manner that clearly and precisely allocates risk and responsibility for maintaining impact.

## Tools Used Preparing for a Transaction

Maintaining mission and impact can start with pre-transaction actions, including the following examples:

- **Highlighting Mission in Bid Solicitation.** Sellers use an information memo to emphasize the mission of a company in order to filter for buyers who are mission aligned.
- **Impact Diligence.** Buyer's diligence includes ESG issues including, but not limited to: (i) increased emphasis on benchmarking objectives (i.e., is the company tracking ESG metrics and setting benchmark goals); (ii) focus on supply chain activities, including analysis of what is being monitored and reported and use of third-party verification; and (iii) climate risk scenarios.
- **Reverse Impact Diligence.** Sellers conduct reverse due diligence on potential buyers, for example, diligencing their ESG practices, prior acquisitions, and gathering information about the quantitative impact metrics used by buyers.
- **Impact Corporate Form.** Multiple states now offer new corporate forms to address balancing social

mission against the pursuit of profitability that embed a company's mission into its governing documents (e.g., the Delaware public benefit corporation ("PBC") and the California benefit corporation). A prior ICM report, "Legal Innovations for Impact Investing," discusses these alternative corporate forms in more depth.<sup>15</sup>

- **Licensed IP.** Valuable IP is held by a mission-aligned founder or affiliated entity (e.g., for-profit, non-profit, or trust) and licensed back to the company with mission lock covenants. Holding IP outside of the company may have a negative impact on valuation and can be very difficult to reverse if the IP is held by a non-profit. However, if IP is held by a founder, there is more flexibility to change the impact covenants (and reduce the risk of impact on valuation) than if IP is held by a public charity. Royalties can be paid on a sliding scale to incentivize mission alignment – if a company adheres to the impact covenants, royalty payments are lower, but if they deviate from the mission, they are increased.
- **Sustainable Prospectus.** Sellers can pursue a sustainable public equity offering.

## Tools Used in Terms of Sale Documents

Definitive transaction documents can also include impact and mission-related tools and provisions:

- **Representations and Warranties.** ESG representations and warranties on behalf of the company (e.g., good governance practices, human capital treatment, energy and sustainability, etc.). Sellers can also require a buyer to make representations and warranties regarding their past impact and ESG practices.
- **Earn-out Payments.** Contingent payments to sellers based on achievement of impact metrics post-closing.
- **Penalty Payments.** Reverse earn-out payments, release of escrowed proceeds, vesting acceleration for founders, or other penalties if the company materially deviates from mission within certain timeframe after closing.
- **Covenants.** Ongoing-third party evaluation and/or certification for a certain timeframe after closing. For companies that have sustainability or impact advisory boards, it may also require the buyer to maintain the board after closing, or such a board could be formed as part of the exit.
- **Termination of Restrictive Covenants.** Sellers are released from restrictive covenants in the event of a deviation from mission.

## Tools Used for Governance

Certain governance provisions can be implemented in order to protect and maintain impact during an investment period:

- **Consent Rights:** Mission-oriented equityholders can have a consent right over actions that affect the Company's mission orientation, such as (i) converting from a public benefit corporation to a standard corporation; (ii) amending a PBC's public benefit set forth in their charter; (iii) materially modifying agreed-upon impact goals and targets; or (iv) taking other actions that may indicate mission-drift, such as entering into new lines of business or failing to achieve stated impact goals.
- **Golden Shares:** A company can incorporate "mission equity" in the form of a single share or separate class of shares with certain protected veto/voting rights related to impact built into a company's charter ("Golden Share(s)"). The Golden Share(s) can be held by various third parties, including (i) individuals, (ii) a Delaware Public Benefit Limited Liability Company, (iii) a Delaware perpetual purpose trust; (v) a non-profit, or (v) a cooperative. The Golden

Shares generally do not weigh in on daily operations, but will have rights over certain corporate actions, including veto rights on a limited or broad set of key actions (e.g., changing the public benefit or mission or converting out of a PBC (if applicable), amending organizational documents, board composition, approval of share transfers or liquidation, etc.). In general, the broader the approval rights, the greater potential impact on valuation.

- **Exit Rights.** Mission-oriented equityholders can have exit rights in connection with a failure to meet certain impact-based targets or maintain mission-driven structures, such as a redemption or put right if the company has not achieved carbon-neutrality after a certain number of years, or if a PBC ever converts into a standard corporation. Such rights allow mission-based investors to exit an investment that no longer aligns with their investment goals, while also (depending on the price/terms set for such exit right) carrying a heavy stick in enforcing mission-lock of the company.
- **Oversight.** A board can form an "Impact" committee to oversee impact and reporting, which committee has certain veto rights in order to ensure mission is being considered in relevant decision-making. Mission-oriented equityholders can have the right to have their director designee be appointed to this committee.
- **Reporting.** Requirement of third-party evaluation and/or certification, and reporting to investors/equityholders on the company's impact performance (note that PBC's are required to provide biannual public benefit reports to their stockholders).
- **Compensation.** The go-forward compensation of key executives and management is tied to the achievement of mission-based targets, including in connection with annual bonuses or the vesting of equity.

<sup>15</sup> <https://www.impactcapitalmanagers.com/research>





# Conclusion

## Mixed Market Signals

Sixteen years after the term “impact investing” was first coined in 2007, the industry has reached a long-sought after inflection point. The first wave of fund managers seeking superior returns now have track records that can be examined more objectively and in aggregate, in turn creating expectations for companies, competitors, emerging managers, and limited partners regarding the range of financial outcomes that can be achieved by investing with an impact lens. The early evidence from this and prior studies suggests that the upper end of that range puts impact private capital on a competitive footing vis-à-vis traditional investing.

Is past performance a predictor of future success? The picture is somewhat complicated by the uncertain market as of the publication of this report in Spring 2023. After a decade of seemingly endless expansion in private equity and venture capital, expectations have cooled and capital flows have slowed. According to Pitchbook, venture capital firms in the United States raised an amount in Q1 2023 that is only slightly more than they raised at the same time in 2017 – and a 73% drop compared to the first quarter of 2022. On the other hand, company valuations are also showing signs of rationalization, presenting an opportunity for impact funds with significant “dry powder” to deploy capital on more attractive terms.

That said, other market forces such as increasing climate-related financial risks, growing consumer demand for environmentally conscious or socially responsible products and services, and government incentives like the landmark Inflation Reduction Act may all work to further support strong impact investor returns. The landscape for private markets over the next ten years will clearly look different than the unprecedented growth of the last decade. But whether this is a net positive or negative for strong outcomes in impact investing remains to be seen.

## Exits Evolution

Even in the midst of mixed market signals, we can generate some informed hypotheses based on the analysis in this study. Over the timeframe of the exits analyzed in this report, financial buyers (vs. strategics) with an impact lens comprised a comparatively small section of the market. Today there is an influx of large private equity firms moving into the impact investing space. For this reason – and because the pace of IPOs is unlikely to pick up during economic uncertainty – it’s reasonable to predict more exits to impact-focused financial buyers in the next five years. Assuming these “impact sleeves” hold themselves to high impact standards, this could be an auspicious development for the sustainability of positive environmental and social outcomes over time.

## Impact Implications

While this research suggests a strong relationship between impact and financial performance at exit, it also suggests that it is possible for an exit to meet impact targets despite financial underperformance. This could be an indication of less stringent measurement or hurdles for impact, instances where fund managers were satisfied with the impact achieved during the life of an investment but hoped for a more gainful financial outcome, or problems accurately predicting the expected impact over the lifetime of an investment. For additional context, this study was limited to an analysis of ICM member funds, all of which measure and manage their impact according to the membership association’s “Fundamentals.” The Fundamentals are four core practices that all members – regardless of AUM, investing stage, sector, or asset class – commit to demonstrating to ICM staff and fellow members within two years of joining the network. These are process-oriented practices; they are intentionally not prescriptive in terms of what is measured or how a fund manager should weight one impact KPI over another. To be meaningful, these should be informed by each underlying business.

But the fact that even for these investors, some investments met (or exceeded) impact expectations while underperforming financially underscores the more pernicious challenges with impact measurement and management. An investor who moves the impact goalposts or doesn’t acknowledge the context in which the company is operating can too easily make a substandard impact story come across as a home-run. On the other hand, foisting unrealistic expectations on impact investors and companies may also perversely incentivize companies to busy themselves counting things that don’t matter – sometimes referred to as “performative” analytics. Furthermore, focusing on impact metrics that are decoupled from the core business may mean the company does not scale as quickly or effectively. Less scale can in turn translate into less net positive impact over time. In the rush to standardize, we must acknowledge there will always be some inherent subjectivity as different individuals weight or value different kinds of impact, differently – even within a single company’s leadership team. And sometimes a change in the macro context (like a pandemic or an overdue recognition of structural racism) necessitates a pivot or re-weighting.

Cognizant of these tensions, progress can still be made on impact management in ways that reinforce strong outcomes at exit. From our vantage point:

1. Companies and investors must collect data in a more objective, consistent, and accurate way, with an eye toward what is both truly meaningful for decision-making, but also what is feasible to implement.
2. What impact data is collected, and how, should be informed by a broad set of stakeholders including workers, customers, and communities affected by company’s operations and the products or services it sells.
3. Legal tools should be used by both impact sellers and buyers, and in IPOs, to ensure continuity of impact during and after exit, and to ensure compliance.

Several organizations are playing a lead role in engendering this progress. Impact Frontiers is on the vanguard of helping private capital investors establish and weight impact factors and integrate financial and impact considerations on the company and portfolio level. The Impact Principles – which align strongly with ICM’s own Fundamentals, and which many in the network are signatories to – specifically call out the need for managers to conduct exits considering the effect on sustained impact, consistent with fiduciary concerns.<sup>16</sup> Another growing practice with implications for stronger exits is independent verification of impact. BlueMark is the leading provider in the market offering third-party verification. At the time of publication, 34% of ICM members are using independent verification to objectively gauge their impact process or outcomes.

## What’s Next

This report adds to the growing body of evidence demonstrating that impact-focused strategies can meaningfully contribute to financial returns, and that those returns are competitive with traditional investing strategies. It also points to a wider variety of legal tools being used by both fund managers seeking mission aligned exit options, and limited partners who seek confidence that impact obligations – not just financial returns expectations – are being met.

Ideally future studies will include a larger set of funds and exits for analysis, with greater diversity in geography, asset class, thematic focus, exit type, and assets under management. Research is also warranted to better understand value creation during the holding period, cited by investors as the most important determining factor in 24% of the exits analyzed here. As we see the growth of more codified impact reporting and measurement methodologies and the increased use of impact-protecting financial and legal tools, value creation from impact may move further down the investment lifecycle.

<sup>16</sup> <https://www.impactprinciples.org/9-principles>



Appendix: Summary Literature Review (eight-year horizon)

Author	Title	Topics	Key Points	Year
International Finance Corporation	The Case for Emerging Market Private Equity	Fund-level net returns EM PE	EM exposure provides diversification and higher returns.  Risk in EM is lower than commonly perceived.	2013
Cambridge Associates	PE/VC Impact Benchmarks	Fund-level net returns	As of the Q1 2020 report, net fund returns in impact PE underperform conventional global PE (5.34% at 15-year vs. 12.37%, albeit with a smaller sample).	2015 – present
Wharton Social Impact Initiative	Great Expectations: Mission Preservation and Financial Performance in Impact Investing	Fund-level gross returns  Mission/impact preservation  Tradeoffs between impact and returns	Impact PE funds perform on par with public markets equities.  Most GPs use pre-selection and diligence to ensure impact is embedded.  Most exits have no contractual statement to ensure mission preservation, but GPs nonetheless expect the mission would persist in 95% of exits.	2015
The Global Impact Investing Network	The Business Value of Impact Measurement	Value derived from measuring impact	Five main drivers of value are revenue growth, operational efficiency, investment decisions, marketing, and strategic alignment/risk mitigation.	2016
McKinsey & Company	Impact Investing: Purpose-driven finance finds its place in India	II growth trends in India  Deal-level PE returns in India	Median gross returns were 10% for exits over five years.  Best returns were seen in financial inclusion.	2017

Author	Title	Topics	Key Points	Year
The Global Impact Investing Network	Evidence on the Financial Performance of Impact Investments	Review of available research to date on fund-level financial performance	Impact investors seeking market-rate returns can achieve them.  Returns vary significantly by fund manager with a range that mirrors conventional investing.  Many investors use a portfolio approach since risk and returns vary by asset class.	2017
The Global Impact Investing Network	Lasting Impact: The Need for Responsible Exits	Preserving impact at and after exit	Investors use various methods to embed and protect impact throughout the investment cycle.  Contractual terms are rare.	2018
Impact Capital Managers and Tideline	The Alpha in Impact	Drivers of value from using an impact lens	Operating with an impact objective can contribute financial value for fund managers and their investors.  There are 10 drivers of value across three areas: accessing investment opportunities, creating value in the portfolio, and strengthening outcomes.	2018
The Global Impact Investing Network	Evaluating Impact Performance (Clean Energy and Housing) and Understanding Impact Performance (Financial Inclusion and Agriculture)	Aggregate and comparable impact achieved by investors by sector	It is possible to standardize, aggregate, and compare the quantitative impact achieved by impact investments in a given thematic area.  Analyzing impact per dollar achieved helps with this comparison.  Impact investments contribute meaningfully to global goals for social and environmental progress.	2019 – 2020
Efficient Impact Frontiers Collaborative / SSIR	How Investors Can Integrate Social Impact with Financial Performance to Improve Both	Approaches to integrating financial and impact performance	Investors in the collaboration each developed an impact rating to plot against a valuation metric and analyze the relationship between impact and returns at the deal and portfolio levels.  Doing so helps refine goals and manage toward them.  Integrating financial and impact management also helps efficiently direct capital.	2020

ICM Members

- 1st Course Capital
- 3x5 Partners
- Achieve Partners
- Aegon Asset Management
- AiiM Partners
- Aligned Climate Capital
- Altura Capital
- American Family Insurance Institute for Corporate and Social Impact
- Amplify Capital
- Apis & Heritage
- Apollo Impact Mission Fund
- Arborview Capital
- Arctaris Impact Investors
- Autism Impact Fund
- Avesta Fund
- Bain Capital Double Impact
- Better Ventures
- Blackhorn Ventures
- Blue Highway Capital
- Braemar Energy Ventures
- Brazen Impact
- Bridges Fund Management
- Bronze VC
- Citi Impact Fund
- City Light Capital
- Clean Energy Ventures
- Clear Current Capital
- Clear Vision Impact Fund
- Climate Innovation Capital
- Closed Loop Partners
- Community Investment Management
- Concord Health Partners
- Congruent Ventures
- Core Innovation Capital
- Crescent Ridge
- DBL Partners
- Deliberate Capital
- Ecosystem Integrity Fund
- Energy & Environment Investment, Inc.
- Energy Foundry
- Equilibrium Capital
- Fifth Wall Climate
- For Purpose Investment Partners
- GEF Capital
- Generation Investment Management LLP
- Gratitude Railroad
- Green Canopy NODE Capital
- Greenhouse Capital Partners
- Green Street Capital
- Grounded Capital Partners
- H/L Ventures
- HCAP Partners
- Impact America Fund
- IMPACT Community Capital
- Impact Engine
- InvestEco
- J.P. Morgan Sustainable Growth Equity
- Jonathan Rose Companies
- Juvo Ventures
- KKR Global Impact Fund
- LearnLaunch Fund + Accelerator
- Leeds Illuminate
- Lime Rock New Energy
- Lumos Capital Group
- Maycomb Capital
- Meliorate Partners
- Mission Driven Finance
- New Market Funds
- New Markets Venture Partners
- Nuveen Global Impact Fund
- Overture Ventures
- Pangaea Ventures Ltd.
- Raven Indigenous Capital Partners
- Reach Capital
- Regeneration VC
- Renewal Funds
- Renovus Capital Partners
- Rethink Capital Partners
- Rethink Community
- Rethink Education
- Rethink Food
- Rethink Healthcare Real Estate
- Rethink Impact
- S2G Ventures
- Salesforce Ventures Impact Fund
- Second Horizon Capital
- SEMCO Global
- Shift Capital
- SJF Ventures
- Social Impact Capital
- Spring Lane Management, LLC
- Springbank Collective
- St. Cloud Capital
- SustainVC
- TELUS Pollinator Fund for Good
- Tenacious Ventures
- TFX Capital Management
- The Builders Fund
- The Engine
- The Social Entrepreneurs Fund
- Third Sphere
- TPG - The Rise Fund
- Trailhead Capital
- Turner Impact Capital
- Two Sigma Impact
- Uprising
- Valo Ventures
- Vermilion Group Inc.
- Wave Equity Partners
- WindSail Capital Group
- Wireframe Ventures
- Zeal Capital Partners

ICM does not conduct diligence on, or vet, investments or fund managers, or any information or materials disclosed or made available by any member, portfolio company, or other third party with respect to any fund, investment or portfolio company in connection with any ICM forum, event, email, website, or other medium (collectively, "third party information"). ICM makes no representations or warranties with respect to any third party information and cannot vouch for the accuracy or completeness of any such third party information. ICM's membership process relies on self-reported third party information.

ICM is not an investment adviser, broker, or dealer and does not offer interests or securities in any member, fund, portfolio company, or affiliate or any other person. None of the third party information is to be construed as a solicitation, recommendation, endorsement, or offer to buy or sell any security or other financial product or instrument in any jurisdiction. To the extent any member or other participant in any ICM forum, meeting, or other event uses third party information for any purpose or makes an investment in any member or portfolio company, any affiliate thereof, or any other person, such use or investment is at the sole risk of such member or participant.





**HORRISON  
FOERSTER**