

Financing Sustainability

Partway There and Growing

inLCA/LCM 2007:

Portland State University

October 3, 2007

Stephanie L. McGillivray, CFA

Complexity Management ,LLC

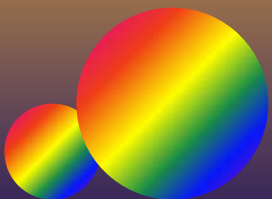
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14358 N. Frank Lloyd Wright Blvd., Suite 8, Scottsdale, AZ 85260

(480) 477-7767 Phone • (480) 718-8118 eFax • smcgilliv@aol.com



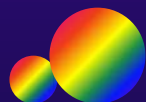
Unlock
Financing
Choices



Social Investment is Large and Growing

- ◆ There is almost \$1 billion invested in the U.S. and over \$12 billion invested globally already in “multiple bottom line” designated venture capital, using both debt and equity.
- ◆ Growth is rapid, with this amount almost tripling between 2000 and 2007.
- ◆ Large mainstream investors are entering the field, and more would like to if there were a conduit for their investment.
- ◆ Lenders have invested much more.

These investors overtly seek other bottom lines in addition to an appropriate financial rate of return.



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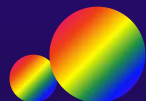
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Traditional “Socially-Good” Investment is Large and Growing

- ◆ There is much more (many billions of dollars) in traditional sector-specific equity funds/ lending focused on “socially good” industries
- ◆ Hot areas include:
 - Clean energy and energy conservation
 - Environmental
 - Life sciences
 - Organic food, bottled water, health food retailing
 - Nutraceuticals (vitamins & supplements)

These investors seek only financial returns overtly, but believe that their investment in these areas leads to greater good.

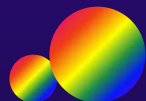


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Sector Social Investment Growth: Some Examples

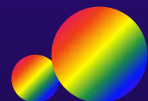
- ◆ Energy venture investment up 2..5 x in one year to \$2.4 billion in 2006.
 - Energy tech moved from 4.2% of VC in 2005, to 9.4% of VC in 2006.
- ◆ There was also \$2.2 Billion projected invested in 2007 in the fast-growing “clean tech” sector of alternative power, up 35%.
 - Revenues grew 39% in 2006 to \$55 billion.
 - Revenue is predicted to quadruple over next 10 years.
- ◆ Organic food market had revenue of \$3.6 billion in 2006, more than doubling in the last five years.
- ◆ Bottled water sales were estimated at roughly \$75 billion in 2006.





Sector Social Investment Growth: Some Examples (cont'd.)

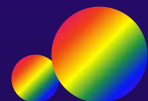
- ◆ The nutraceutical and cosmeceutical market revenues are \$85 billion, with 7.5% annual growth.
- ◆ 50% or more of people in the U.S. have tried alternative health, and use is growing. Health care represents about 15% of the U.S. GDP.
- ◆ Microfinanciers are funding green retailing.
- ◆ Consumers are projected to spend \$500 billion on green products and services in 2008.





Multiple Bottom Line Investment

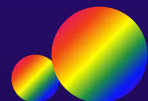
- ◆ Community Development Venture Capital
- ◆ Community Development Financial Institutions (CDFIs)
- ◆ Venture philanthropy
- ◆ Social enterprise
- ◆ Social entrepreneurship
- ◆ Blended value
- ◆ Industry sector-focused funds/lending in “socially good” industries






Banks Into the Game

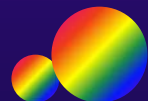
- ◆ Major banks have announced clean energy/global warming initiatives:
 - Citi – pledged \$50 billion over 10 years
 - Bank of America – pledged \$20 billion over 10 years
- ◆ Sustainable banking
 - Leaders in the sustainable and community development arena are growing their commitment
 - Ex. Shorebank
 - New sustainable banks are starting
 - New Resource Bank (JV of over 20 banks)





Socially Responsible Investment is Large and Growing

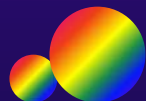
- ◆ Socially-responsible investment in publicly-traded investment assets was \$2.3 trillion in 2005, up 2.5 times from 1995.
- ◆ Typically, SRI funds earn a premium over traditional investments
 - often 2% - 3% higher absolute investment return
 - about 20% more return than in traditional stock investment
- ◆ SRI uses negative screens (no “bad”) much more often than positive ones (doing “good”)



The Good News!

There is Plenty of Money Available

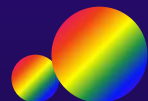
- ◆ There is more money looking for good investments, than there are good investments looking for money.
- ◆ This why a flood of money flows around the globe looking for good places to invest.
- ◆ Money is a fluid, following opportunity.
- ◆ Fast flows into or out of countries show us this.
- ◆ “Hot” venture capital and mutual fund trends illustrate this.





What Investors Are Looking For

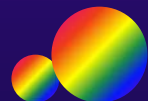
- ◆ Investors want to earn strong financial return on investment, in excess of what they expect for the risk they are taking.
- ◆ They are looking for fast-growing, profitable opportunities.
 - New technologies
 - New regions
 - New markets
 - A “difference” that matters
- ◆ They want “businesses of the future”.



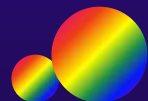
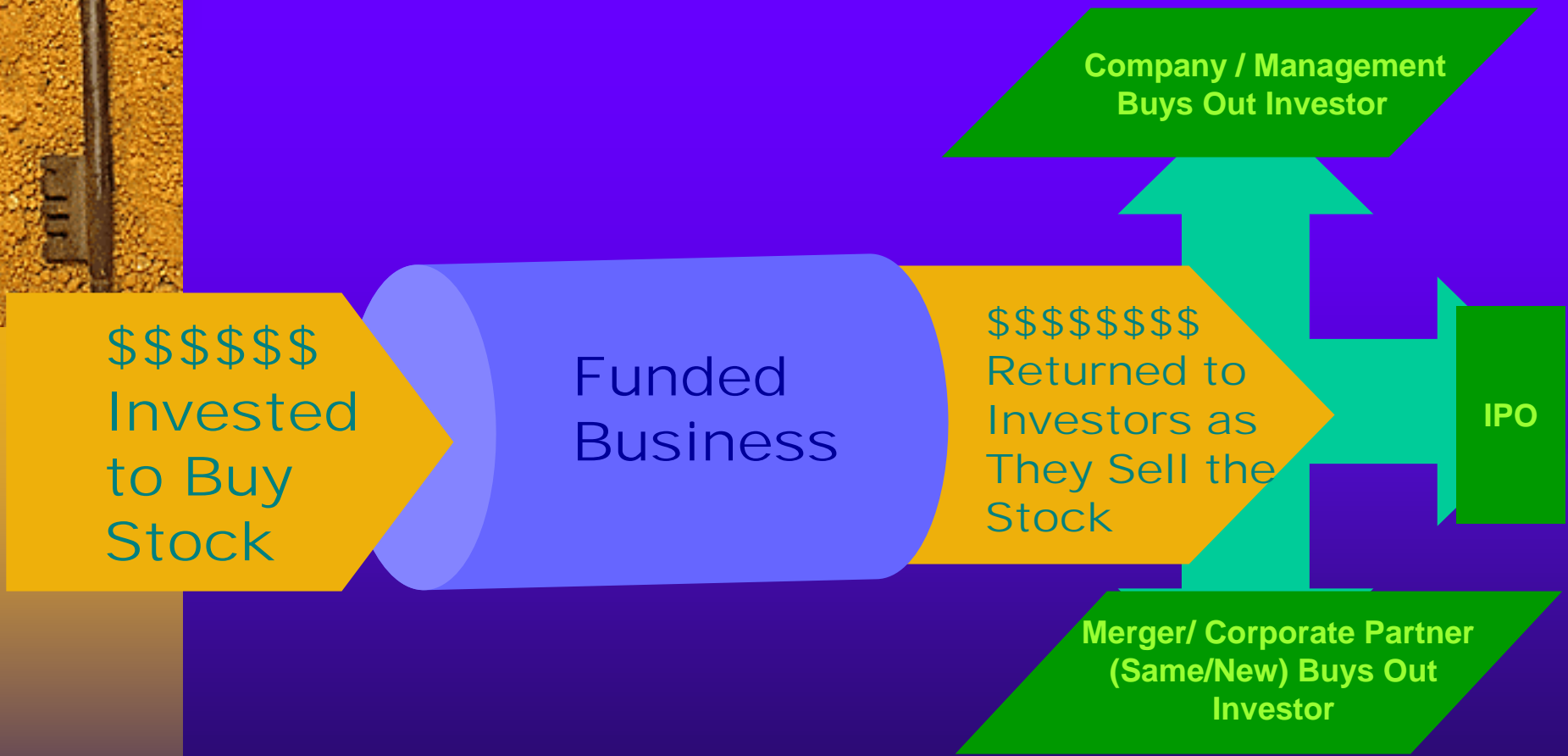


What is Equity (Stock)?

- ◆ Stock represents ownership in a company.
- ◆ Stock is often called “*equity*” because it is divided into *equal* portions called shares.
- ◆ Each share of stock allows the owner to vote and receive a portion of profits.
 - This may be paid out in a dividend.
 - Or, the profits may be reinvested in the business for further growth.
- ◆ There are no regular, required payments.
 - This makes equity good for startups.



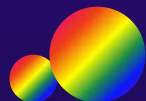
How Equity Funding Works





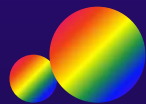
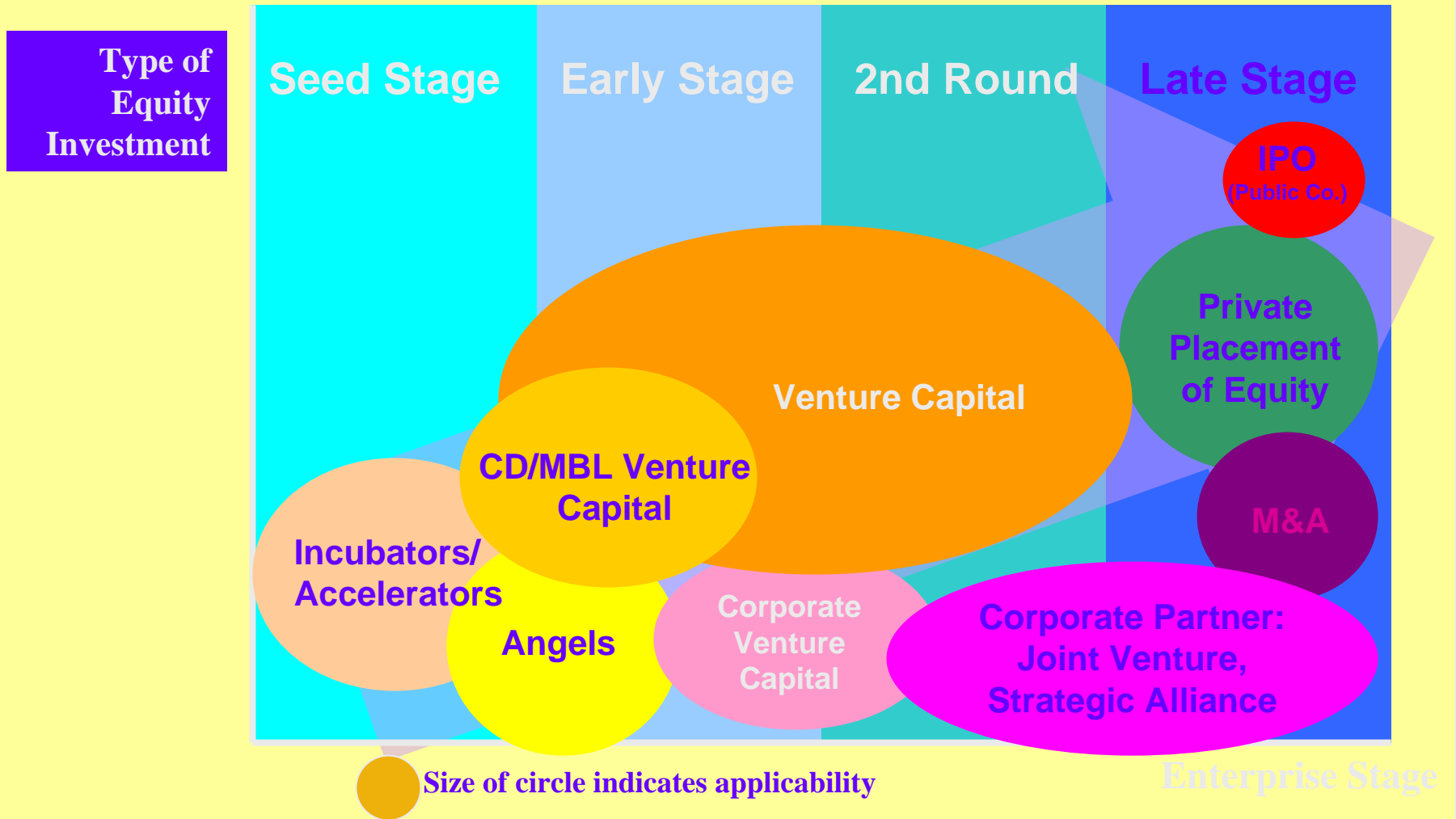
Debt/Loans Characteristics

- ◆ Qualify based on credit rating, cash flow available to pay interest and principal (“service debt”), and collateral.
- ◆ Lenders always need “two ways home”.
 - Cash flow
 - Collateral to seize if borrower does not pay
- ◆ Borrower pays interest periodically (usually monthly) and principal according to term.
 - Short-term revolving lines of credit
 - Medium- to Long-term fixed term loans
 - May repay over time, or in balloon payment at end
 - Interest rate is determined by overall borrower’s risk to the lender.
- ◆ Debt is best for expansion of existing business. Lenders will not usually fund startups.



Equity Landscape – MBL Funding

Your business stage determines likely financing type



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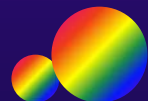
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Source: CDFI Fund Native American Lending Study, Equity Research and Roundtable Report, 2014



What Do You Show Potential Investors?

- ◆ A summary or term sheet
- ◆ A 30 pg. business plan containing:
 - ◆ Executive Summary
 - ◆ Mission/Goals
 - ◆ Business Description
 - ◆ Management Team
 - ◆ Product/Service Description
 - ◆ Market Analysis
 - ◆ Competitive Analysis
 - ◆ Competitive Strategy
 - ◆ Strategic Positioning
 - ◆ Add'l Growth Opportunities
 - ◆ Operations Plan
 - ◆ Capital Investment: Expansion
 - ◆ People/Training: Expansion
 - ◆ Financial Statements/Ratios
 - ◆ Financial Projections (w/ Assumptions)
 - ◆ Scenarios/Sensitivity/Risks
 - ◆ Sources & Uses/Deal Diagram
 - ◆ Projected ROI/Valuation
 - ◆ Other





Measuring Multiple Bottom Line Value

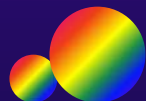
What Can Be Captured in the
Current Investment Structure

Value of Social Issues

“Shining Light on the Vapor”

- ◆ Often mistakenly assumed that social issues impose a cost rather than adding value.
- ◆ The advance is in correctly seeing value:
 - “Externalities” just have not been quantified and internalized
 - People’s skill and knowledge are assets and add value
 - Redesign for good can lead to business profits
 - Social, cultural, educational, nonprofit, and government sectors add value, not just business
 - Targeting value achieves society’s goals
- ◆ Linking social measures to business impact can be used to quantify “soft and fuzzy” social issues in terms the most hard-nosed CFO or investor can understand.
- ◆ The link is between social/scientific metrics and value drivers, which then link to Economic Profit.

Key to
Value



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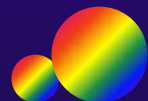
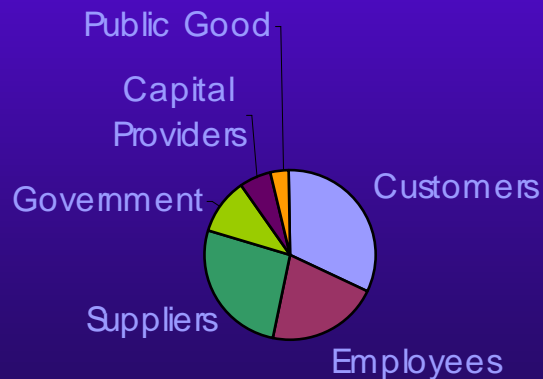
What is Value?

Value to Whom?

- ◆ Voting with your feet, putting money where your mouth is – what you will spend money for, spend time on, fight to protect
- ◆ Value created goes to many participants

The Value Pie

Many Participants Receive Value



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Capturing LCA/Social Benefits

Being Done

Not Being Done Yet

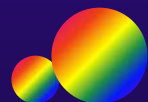


Now

With Sustainability Measures / CSR

Leading Financiers, Credit Programs, Government Programs

With Intergenerational Finance (IGF)



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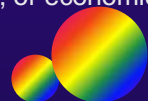
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True “Economic Profit” = Value

- ◆ True profit considers the full economics of a business and is called Economic Profit
- ◆ Economic Profit (EP)* is the profit of a business after all costs are considered
 - Includes the cost of the capital invested to buy or start the business, whether equity or debt
 - Includes the capital carrying cost to run the business – inventory, physical facilities, etc.
 - Includes risk and the cost of risk
 - Converts on-paper accounting to true economics of the business
 - Measures all types of businesses comparably
- ◆ Everything monetary is in there.

Note: EP is also known as EVA, or economic value added. EVA is a copyright of Stern Stewart & Co.



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Comprehensive Value Measure: Economic Profit (EP)

Economic Profit Formulas

Accounting
Earnings

Quality
Earnings

Revenue

- Operating Expenses
- Cash Operating Taxes

= Net Operating Profit (NOPAT)

- Capital Charge =

Economic Profit (EP)

$$(R - C) \times \text{Capital} = \text{Economic Profit (EP)}$$

Return on Capital

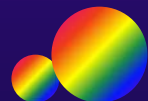
Cost of Capital

Size of
Investment,
Growth

Annual Value Creation:
Value Added if Rising * * If

EP grows, raises expectations, stock price
will rise, MVA will rise

True Profitability



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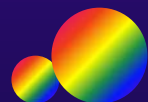
Key to
Value



Social/Environmental Measures: Counting “Externalities”

- ◆ Balanced scorecard
- ◆ Environmental reporting (by company)
- ◆ CSR and reporting to consumers
- ◆ Social return quantification
 - CDVCA Return project (www.cdvca.org)
 - Redfish social return model
 - Other groups examining this

- ◆ LCA/LCM
- ◆ Various credit programs
- ◆ Tax incentives
- ◆ Government guarantees with performance measures (ex. CDFI Fund measurement)





Contact Info

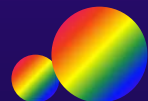
Stephanie L McGillivray, CFA
President

Complexity Management, LLC
Scottsdale, AZ

(480) 477-7767 Phone

smcgilliv@aol.com

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