

Sustainability: A Strategy for Enhancing Value

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Agenda

- 1) Introduction
 - Sustainability defined
 - Why bother?
 - Implementing
- 2) CCVI sustainability strategy and practice
- 3) SJF Ventures sustainability strategy and practice
- 4) Q&A

The Triple Bottom Line

Sustainability in context of 3E/3P investing

Equity/People: Social justice:

- **Company selection:** Investing in companies that address social inequity based on
 - **People:** Financing underserved populations—e.g. women, minorities, low income individuals
 - **Products:** social justice built into the product/service (Eziba, Citysoft)
 - **Location:** distressed/underserved communities (NMVC, CDVCs)
- **Company practices:**
 - **Compensation systems:** Living wages, benefits; broad employee ownership
 - **Decision-making:** representation by company and community stakeholders in advisory/board roles

Economy/Profits

- **Financial return:**

Environmental/Planet

- **Company selection:** Investing in companies that address environmental/sustainability issues:
 - **Products/Services:** alternative energy deals (solar, wind, hydro, fuel cells)
- **Company practices:** Working with companies to advance progressive environmental and sustainability practices
 - **Office/behavior:** reduction, reuse/recycle, use of non-toxic cleaning products;
 - **Production/process:** redesign for waste minimization/elimination; raw materials review;
 - **Supplier/customer relationships:**

Why do it?

ECONOMIC ARGUMENTS

Increases company value

- **Increase Revenue:**
 - Stewardship and sustainability is being used to market—Home Depot (FSC wood), Kinkos (recycled paper), etc
- **Increase Market value:**

Public company studies indicate market values stakeholder-centric companies
- **Decrease costs:**
 - **Office:** reuse and behavioral changes reduces costs of supplies
 - **Redesign can increase efficiency, reduces cost:**
 - **Workforce morale:**
 - Higher productivity: more progressive and healthy working environment;
 - Lower turnover = lower recruiting/training costs

Funder support

- Non-profits
- Environmentally progressive institutions
- Individuals

Why do it? (continued)

- **Helps create a better world for you, your children, the community, etc**

“Get them while they are small and you won’t have to fix them when they are big”

Evidence

- **Increased company value**
 - Towers Perrin study of publicly traded “shareholder superstars*” outperformed S&P 500 shareholder return by 2X over 15 yr period
- **Increased revenue, profits**
 - Performance Group study of environmentally progressive companies (Europe) demonstrated:
 - **Revenue increase:** increased contract wins and accelerated investment approval in emerging markets
 - **Profit increase:** Increased profitability and earnings per share
- **Reduced cost**
 - Dow Chemical invested \$3.1M to reduce toxic chemicals in production, saving \$5.4M per year
 - Baxter International estimated savings of \$65M in 2002 in cost savings, compliance avoidance, etc from environmental program
 - Dupont’s “zero waste” initiative demonstrated decreased costs and improved energy efficiency

•Study looked at 25 companies that excelled at managing relationships with 5 types of stakeholders: investors, customers, employees, suppliers, and the communities in which the companies operate

CDVCA 2004 Annual Meeting

Evidence (cont'd)

- ANN ARBOR, Mich., FEBRUARY 5, 2004 – Cleantech Venture Network, a grouping of investors managing over \$1 billion in cleantech venture assets, today responded to the February 3rd announcement by California State Treasurer, Phil Angelides, regarding the launch of the State's "Green Wave" Environmental Investment Initiative. The four-pronged initiative calls on the State's two large public pension funds – the California Public Employees' Retirement System (CalPERS) and the California State Teachers' Retirement System (CalSTRS) – **to commit \$1.5 billion to investments in cutting-edge clean technologies and environmentally responsible companies.**

Summary

- Sustainability is good for business
 - Revenue increase
 - Cost decrease
 - Staff motivation, retention, productivity
- Sustainability is important in its own right
 - **The right thing:** Environmental stewardship is no less important than social justice

What does this mean for CDVCs?

- **Use our leverage:** VC equity is unique among financing types
 - Company selection: proactive, selective
 - Influence/leverage of capital
 - Pre-investment: Another feature of the Term Sheet
 - Post-investment: Board role
- **Implementation:**
 - Difficulty of finding time to research/implement new efforts
 - Challenges of layering additional burdens/deliverables on company

Sourcing and Diligence

- **Proactively seek and favor** companies with environmental/sustainable products/services
- **Use screens** during diligence
 - Compliance
 - Design/mfg process:
 - Building
 - Work environment/practices

Negotiation and Governance

- **Leverage work** done by major sustainability groups (BSR, SVN, etc) as starting point
- **Gain company commitment** to general principles and specific deliverables **in writing**
- **Use role** on Board of Directors to keep company's eye on the prize;
- **Monitor and track progress** (contracts won, costs reduced; efficiencies gained)

Track, Educate and Promote

- Track and report initiatives in sustainability
- Educate to existing and prospective funders/investors
- Promote your companies and your practices where and when possible
 - Helps your companies
 - Helps your fund
 - Helps your community and the world

CEI Community Ventures Program

- Sourcing and Diligence
 - Alternative energy, “green” products/services;
 - Screening process as part of diligence
- Company/sector specific commitments
 - Written commitments (general)
 - MoU based on CERES principles
 - Base level office practices: recycling, electronic vs print
 - Verbal, best efforts commitment
- Tracking and monitoring
 - Partnership with non-profit parent to track and monitor
 - Board role

CCVI Examples

- **Juno: women's outdoor apparel**
 - Signed MoU
 - Office practices: recycling, electronic vs. print
 - Discussion of supplier relationships
- **Eziba: handcrafted third world product marketing**
 - Signed MoU
 - Review of practices: catalog paper, mailings, electronic vs. direct commerce, packaging
- **Other (prospects)**
 - Paper mill
 - Green chemistry
 - LEED certified building
 - Alternative energy (wood fired boiler, steam recapture/reuse)
 - Recycled feedstock (fiber)
 - Sustainable wood products mini-mill concept
 - FSC certified feedstock