# Imagination Coast – Dec. 4, 2009
# Investors View of Sustainability

## Perfect Storm for Sustainability:

| **Market DRIVERS** | **Stakeholder DEMANDS** |
|---|---|
| Climate Change | Curb GHGs |
| Pollution, Toxic Chemicals, Waste, Inefficiency | Precaution, Regulation (eg, REACH in EU; CA GCI – AB 1879 & SB 509 passed 9/09; local regs) |
| Healthcare not Health*scare* | Serious reform, new options, affordability |
| Globalization Backlash | Local Living Economies; Regionalism |
| Energy Price Shocks, Geopolitical Instability. Waste | Tax Carbon, Conservation, Livable Communities |
| Economy doldrums | Job creation, innovation |
| Erosion of Trust<br>Search for Meaning<br>Rebuilding Nest-eggs | Transparency,<br>Corporate Responsibility<br>Lasting performance |

## Assessing & Mitigating Risks


### Three Critical Factors Outweigh the Rest:

1. **Management Team** – Track record of success? Credible & Believable? Shared vision, values and mutual respect?
2. **Economic Fundamentals** – Business case strong? How will the business make money over time? Valuation & exit?
3. **Is Reward Commensurate with Risk?** Risk mitigation strategies (insurance policies)? Do risks outweigh rewards?

| **Seed Stage (R&D or “In-formation” Stage)** | **Start-up: Technical Proof of Concept** | ***Pre*-Commercial Proof of Concept** | **Early Development Stage: Commercial Proof of Concept** | **Later Stage: Expansion & Mezzanine** |
|---|---|---|---|---|
| Business planning and formation; identify goals and team gaps | Working prototypes, samples, beginning operations | Revenue begins flowing; Based on use of funds, where is break even? | Substantial Revenue, often profitable or beginning to yield dividends | Heading toward mainstreaming; Line extension, expanded offerings, M&A |
| Asks: What business are you in? Initial products or services?<br>**Highest risk stage** | How do we focus and market our solution? ID competition | How do we increase sales & alliances to dominate our niche? | Rapidly and profitably grow business systems and revenues … building brand value | Sales volume & revenue breakthroughs … Focus on a transition or exit?<br>**Lowest risk stage** |

**Founders → Angels / Angel Groups → VCs / Corporations → IPOs, LBO or Joint Ventures**

But with greater certainty, there is also less *potential* upside; the probability of earning *something* is higher, but that something – the dividends or gains per share – are typically lower.
In most cases, Expansion and Mezzanine stage capital comes from established funds (pools) based on other people’s money. These institutional investors, like banks, are not supposed to take big risks. A loss would be paramount to failure. A fund manager‘s compensation is keyed off how well investments do.
Because of this, there is great diversity in the angel and VC worlds … some VCs will fund seed stage deals when the scale and profit potential justifies the risk. Often these firms expect > 10x returns, however.