

EXECUTIVE SUMMARY EVALUATION DOEN EQUITY

The DOEN Foundation supports organisations using various instruments, including subsidies, loans, and equity investments. When deciding on an appropriate instrument for support, DOEN applies the general rule to subsidise where necessary and invest where possible. Steward Redqueen was commissioned to conduct an evaluation of DOEN's equity activities.

About the evaluation

DOEN's equity activities concern 22 direct investments into companies and 11 commitments to investment funds for a total invested amount of € 112.7 million.¹ The invested companies vary from innovative green mobility catalysts such as the New Motion or Taxi Electric to solar energy applications as Bboxx and social enterprises as De Prael. The intermediary funds include Netherlands-based funds such as Start Green or Aqua Spark as well as funds in developing countries, such as social ventures investor Grey Ghost.

The evaluation focused on six key focus areas: the intervention logic of DOEN's equity investments, its investment selection, DOEN's value adding role beyond the capital, the financial performance, the green and social performance of invested companies and challenges. Findings are based on an extensive document review, data analysis, three online surveys (with staff, invested companies and fund managers) and 15 in-depth interviews.

Key conclusions

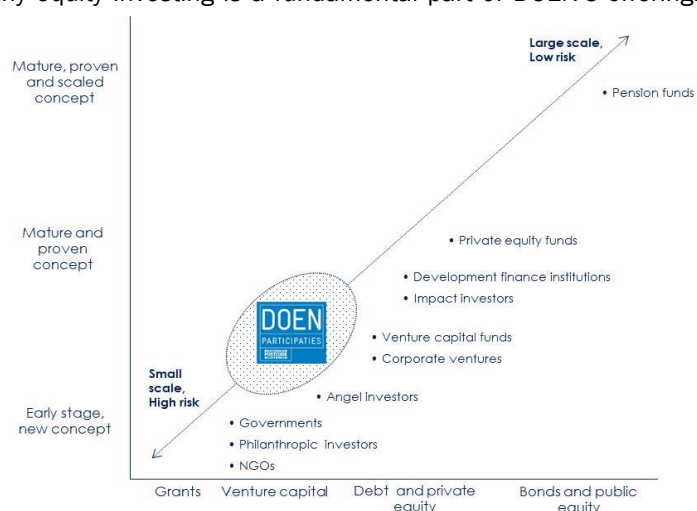
The evaluation shows that:

- Investing through equity is a fundamental tool for DOEN to realise its mission of green and social economic transition;
- The selection of DOEN's equity investments is in line with its investment focus and mission;
- DOEN's support and advice beyond the capital is appreciated and adds tangible value to companies;
- Taken together the equity investments currently have a positive aggregate cost multiple of 1.53x;
- DOEN does not yet have a coherent and structured impact measurement system in place for equity activities, although there is ample anecdotal evidence of social and environmental impacts as well as broader catalytic effects by companies;
- To maintain and strengthen its position, DOEN needs to focus on some key challenges which include its fragmented market focus, the changing impact investment scene and management of reputation risks.

The evaluation identified a number of concrete recommendations around the evaluation's key focus areas.

Why DOEN invests through equity

Investing through equity is a fundamental tool for DOEN to realise its mission of green and social economic transition. There are several valid reasons why equity investing is a fundamental part of DOEN's offering. Equity investments suit early stage companies well, as these companies often have outgrown the need for grants but cannot yet obtain commercial bank loans. The equity stake provides a 'stamp of approval' that can catalyse new external capital. Moreover, through an equity stake DOEN signals its willingness to formalise a long-term, engaged relationship with a company. It can use the shareholding as a platform for additional support, while it may also use its leverage to protect the green or social mission of the company.



¹ Includes all equity investments since 1998 but excludes companies that have been exited.

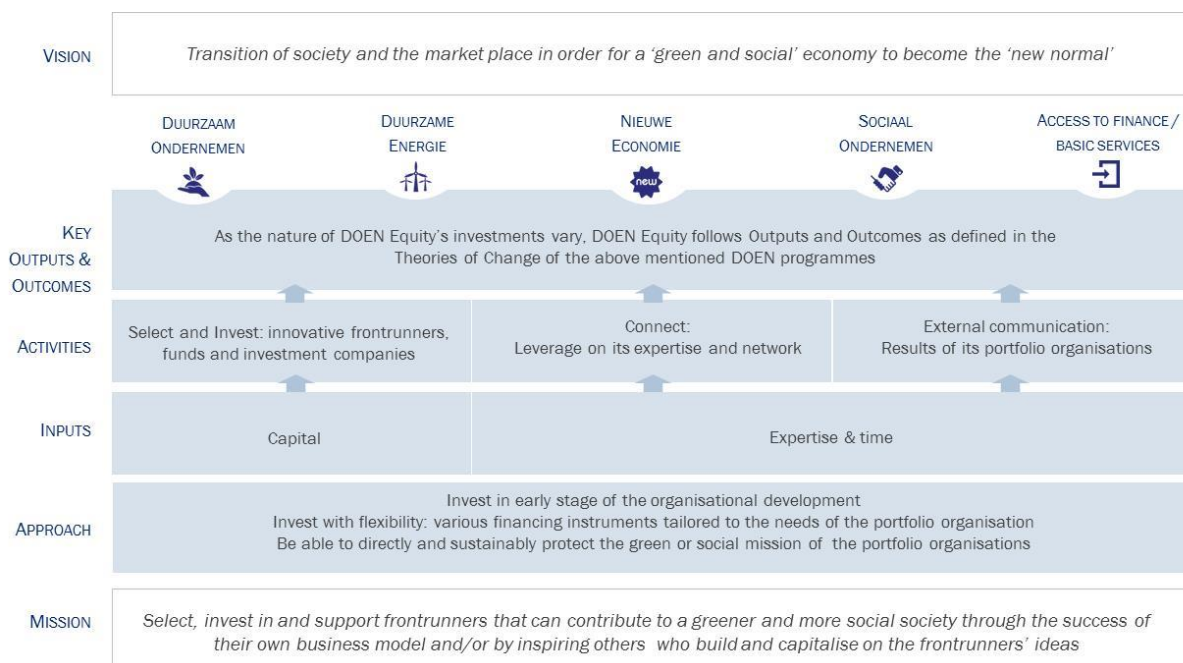
Investment strategy and additionality

DOEN's equity investments are primarily focused on early stage, innovative frontrunners that contribute to DOEN's objectives and have the potential to transform or catalyse change in a sector. DOEN aims to help these companies in developing and scaling up their new concepts (see figure on previous page).

DOEN has almost two decades of track record investing in innovative green and social enterprises, and is a well-recognised actor in the world of early stage impact investing. It has a unique, additional role in the market, which can be summarised through three distinguishing factors:

1. *Investment thesis:* as DOEN has the mandate to take high risks while being able to offer patient capital, it can be a long-term partners for innovative frontrunners that otherwise might not be able to grow;
2. *Non-financial value add:* DOEN is able to offer support beyond the invested financial capital, mainly through informal advice, by using its network (e.g. for peer learning or raising additional capital), and by offering communication and marketing opportunities to companies (e.g. conferences, tv programmes);
3. *Execution approach:* DOEN has an approach of providing hands-on support to businesses, but leaving the entrepreneur sufficient room to manoeuvre.

The rationale for DOEN's equity investments, its investment focus, activities and objectives can be summarised in a Theory of Change for the equity activities provided in the figure below.



Investment selection

DOEN's equity investments are in line with its investment focus and mission. As intended, four out of five investments are made in start-ups or early stage companies. DOEN generally has robust minority stakes (average shareholding is 15.6%), enabling it to effectively influence the company, without taking the driver's seat. The current average holding period is approximately six years (in a relatively young group of companies), which is longer than the average private equity investor.

The majority of individual investments are made in The Netherlands, although this represents just over a quarter (€ 30.7 million) of capital. This is due to the fact that a relatively large part of the capital is invested in one company (emerging markets SME financier ProCredit) and that there are several large individual commitments to investment funds in developing countries.

As a result of the broad green and social mission, DOEN's capital is allocated to a large number of different focus areas and activities, ranging from SME finance in developing countries, to specific green themes such as solar or biofuels as well as social enterprises involved in hospitality and food production. The figure on the right provides an overview of all companies and funds where DOEN invested through equity, structured along the lines of the four DOEN programmes (access to finance & basic services is not an official DOEN programme, but a traditional focus area of DOEN supported funds).



Value adding role

DOEN's support and advice beyond the capital is appreciated and adds tangible value to companies. The timing of DOEN investments has been consistent with the investment strategy, as DOEN was the first or among the first (external) investors for all investment funds and 75% of the companies. DOEN was highly additional, as 68% of companies and 50% of funds state that they probably would not have been able to attract the capital from another source. Moreover, 44% of companies and 33% of fund indicated that without DOEN they would have had severe challenges to grow their company.

DOEN also provided active advice in various forms. Over three quarters of investees received regular informal advice, while about two thirds of companies were able to communicate about their company through DOEN or gain new business contacts through DOEN's network. DOEN investment staff also actively helped in raising additional financing for 44% of companies and 33% of investment funds (overall the 33 investees raised a total of almost € 850 million in growth capital after DOEN invested²).

The effects of DOEN's value adding role become clear when companies are asked about the connection between DOEN's support and improvements at their company: 100% of companies think DOEN's investment and advice has improved their ability to raise capital, while about two thirds see a direct link between DOEN and improved governance and impact measurement at their company. And ultimately, 93% of companies feel their overall financial performance was positively influenced by DOEN.

Financial performance

Although DOEN does not have a specific target on its financial return, it fully recognises , a company cannot generate long-term positive impact without a sustainable financial performance. In addition, a good financial performance of companies leads to returns for DOEN that can be reinvested so that DOEN's capital can have an impact multiple times .

When all of DOEN's equity investments are taken together, there is an aggregate positive cost multiple³ of 1.53x.⁴ This is a satisfactory overall performance, particularly taking into account the high risk appetite of DOEN's investment strategy. Due to the early stage and innovative nature of the companies, individual return profiles are more volatile: as per 31 December 2016 there are 9 investments that are valued above cost (27%), 11 at cost (33%) and 13 below cost (39%).

² Although € 602 million of this financing (71%) was raised by ProCredit, the emerging markets SME finance holding company that is DOEN's biggest investment and the company that has been longest in portfolio (since 1998).

³ Current valuation + realised proceeds / invested amount.

⁴ It should be noted that this is to a large extent due to the successful financial performance of ProCredit, although without ProCredit the cost multiple still is positive at 1.15x.

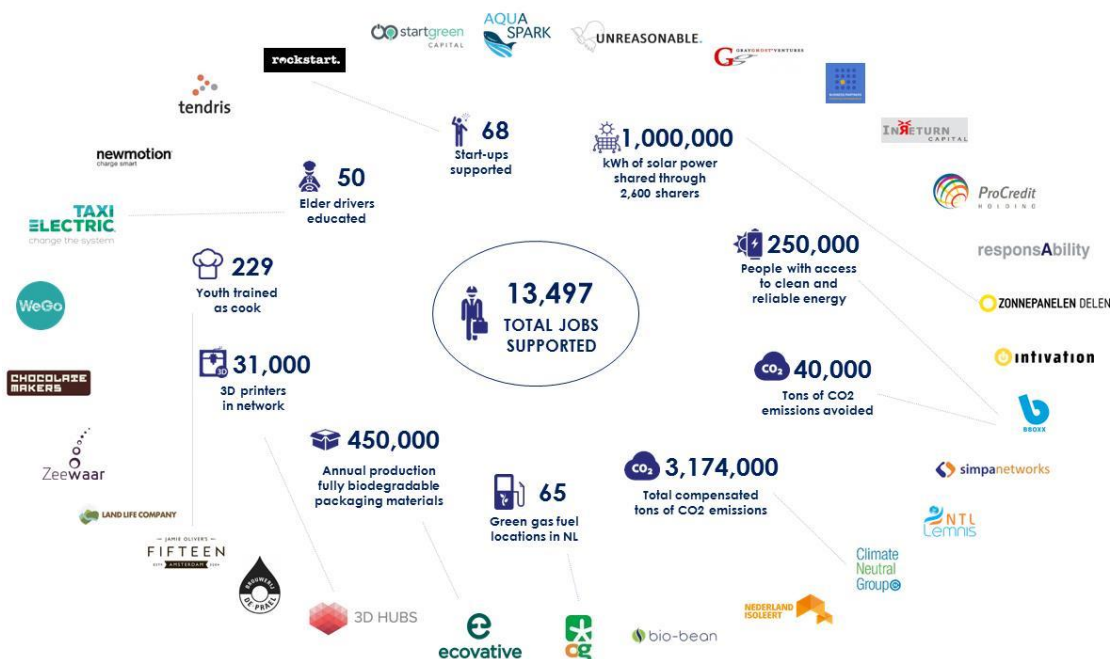
The individual operational and financial performance of companies over the holding period (i.e. since DOEN invested) can be divided into three groups⁵:

1. *Sustainable growers*: 10 companies (45%) managed to combine turnover and profitability growth. Of all companies DOEN invested in, 36% is currently writing black figures;
2. *Growers*: 9 companies (41%) increased sales but did not yet manage to combine it with increased profitability;
3. *Problem cases*: 2 companies in the current portfolio can be considered write-offs.

During the evaluation two points of improvement around the financial performance surfaced. The first is that there is an insufficiently clear overall approach to exits. Although this is to some extent understandable, as DOEN wants to be a flexible investor, trying to formulate a basic policy answer to the question of how patient DOEN wants its capital to be would create more clarity for its investment strategy, and in turn its investment staff and other stakeholders. Secondly, there is an opportunity to improve structural performance analysis both at portfolio and individual company level. This would help DOEN identifying relevant questions and opportunities for support, recognise patterns and create more overview.

Green and social performance

Establishing the exact positive environmental and social impact of all DOEN's equity investments is challenging, as DOEN did not agree on impact indicators and monitoring with some invested companies, and does not track specific indicators per programme or sector. Nevertheless, on an individual company level specific impacts can be traced. The graph below provides an overview of some of the key impacts generated companies that received an equity investment from DOEN.



Additionally, a significant part of the impact of the companies is not only in their direct impact, but in their demonstration and catalytic effect within a sector. For example, several other restaurants were inspired by the social hospitality and production concepts of Fifteen and De Prael, while Taxi Electric's efforts contributed to Schiphol's decision to tender for electric taxi services.

Challenges

To maintain its role as a leading actor in the early stage impact investment field, while also further strengthening its catalysing effect, DOEN will have to actively address a number of challenges. In the evaluation, three challenges appeared as the most pressing ones:

⁵ It should be noted that these concern companies in various development stages.

1. *Fragmented focus*: while DOEN wants to remain open to all types of business activities, too much fragmentation in combination with a growing portfolio increasingly constrains the ability of investment staff to deepen their market knowledge, select the right frontrunners and be of added value in the relationship with investees;
2. *Changing market*: the number of Anglo-Saxon investors on the financial-first side of the impact investment spectrum appears to be growing quickly. Their rise might bog down the demonstration effect DOEN wants to have in the field. To inspire others to step in the capital-constrained early stage investing segment, DOEN needs to better explain its role, mission and results;
3. *Reputation risk*: although this has been the case throughout DOEN's history, the high level of scrutiny from external stakeholders (general public, media) causes DOEN to be more in the spotlight compared to other impact investors. This requires a continued strong focus on the alignment of equity investments with DOEN's mission, and good communication on realised results and impacts.

Recommendations

Taking into account all evaluation findings (broader than the summary outlined above), a number of concrete recommendations were identified around the key focus areas of the evaluation.

Investment strategy

- *Focus*: consider structuring investments along a more limited number of investment themes;
- *Exits*: more specifically formulate approach to exits by determining when DOEN's equity has fulfilled its mission.

Governance

- *Governance*: separate investment decision-making and supervisory role by creating an Investment Committee that includes independent experts.

Investment selection

- *Strengthen market knowledge*: invest in market knowledge to identify potential frontrunners and provide better advice.
- *Value chain approach*: map value chains in focus sectors to identify gaps, and select companies that may jointly realise change and transformation;

Value adding role

- *Expert pools*: set up a business development network (network of coaches) and reactivate board member pool;
- *Focus in assistance*: focus informal advice and structural assistance more on traditional weak spots of young companies such as financial accounting, human resources, and legal issues.

Financial performance

- *Performance analysis*: more actively track, analyse and discuss performance both at portfolio and individual company level;

Green and social performance

- *Structured measurement*: Set up a coherent and structured impact measurement system with impact objectives and indicators per investee (and potentially per 'impact cluster') and more active monitoring;
- *Catalytic effect*: explore ways to structurally capture the transformative or catalytic effect companies have as frontrunner in their sector and how much capital DOEN and/or investees have catalysed for this purpose.

Demonstration effect

- *External communication*: communicate more actively on the results realised, challenges faced and lessons learned to inspire other early stage impact investors;
- *Catalytic effect*: further leverage DOEN's capital by sharing pipeline (and portfolio) with partners.