



**Impact Investing: a new paradigma for the practitioner.
Ten years of experience-based research**

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Why does the financial community talk so frequently about impact investing?

Why Impact Investing has become so important for any investment decision and strategy for all major Portfolio Managers?

The answer may be very simple, but still dramatically important.

Because, after more than 50 years, of Investment Bankers looking for real assets not duly monetized, where they could extract an amazing amount of value doing very little (naming tapping into Private equity funding or Stock Market), now this type of approach is becoming increasingly difficult to apply.

So, now we are going back to the basics, focusing on creating real value at 360 degrees: the pressure is higher and higher, like it has never been before.

For decades (both the 1980s and the 1990s), it was enough for investment bankers to find a company that was not on the capital market and, by bringing it to the Capital Market, it was fairly easy and straightforward to create value for all stakeholders.

But why things have become more and more complicated?

As a matter of fact, the above described strategy has now been active for several decades.

And, moreover, environmental and social inequality issues have become recurrent both in the newspapers and in the economic-financial literature, with a drop-by-drop communication strategy that we have never been exposed to before.

So managers, investors, consumers and institutions etc ... can no longer turn their attention on something else.

So real Impact Investing is becoming a daily activity, therefore, it has to be for-profit: it is for-profit, but at its best.

- It is a type of economic activity that sees profit not only in the very short term at the expense of environmental and / or social effects.

Those who embrace the paradigm of impact investing understand that:

- Economic sustainability is fundamental both in the short term and in the medium term;
- Profit in the medium term can be pursued by being on the market with a value proposition that is attractive to all stakeholders - consumers, employees, managers, entrepreneurs, investors.
- Consumers shifting from “1.0” to “4.0”: As an example, customers are increasingly now sensitive to the amount of plastics we find on the beaches, to the quality of the air we breathe, to the quality of the water we drink, to the quality of life we have when we stuck on the highways (sigh!). Even if “*being impact*” often implies that you can't be low cost immediately and certainly not now: however, what you can count on is an increasing amount of consumer that are willing to pay a premium for your products. ...
- Employees: today, in the battle for talent and therefore, ultimately, in the battle to remain competitive, we must know how to present ourselves as a company that knows how to do good: good to its customers / consumers, good for its employees, good to the local community. Talents are no longer willing to work for companies that make our cities less livable, our seas more polluted, etc ... *talents*, those who can choose what to do, choose activities with a high social and environmental impact.

So, what does an Impact investor have to do according to the new vision?

Impact investing is NOT non-profit, it is not a third sector, but It is investing and giving returns, even above average, in healthy companies that work in a healthy way, for a healthy environment: acting in impact investing, ultimately , means investing in healthcare companies, in healthcare devices, in agriculture, in increasing recycled products, in companies that reduce "useless" logistics by bringing down CO2 consumption, in companies that change cities and make them smart-cities, ...

Impact Investing is NOT just CSR (Corporate Social Responsibility), it is not just communicating that you are good, but it is acting on your business model or on the value chain or on products to make them high impact.

This is the real paradigm of Impact Investing: healthy innovation.

The review of the paradigm stems from fieldwork with approx. 1,500 start-ups reviewed and analyzed, with investments (with our financial resources) in 30 start-ups.

However, being a player in Impact Investing is hard work, on a daily basis.

It requires technical skills, soft skills, a strong network, platforms, International outreach and marketing (both digital and non-digital) capabilities.

Technical skills:

- Ability to understand the market and megatrends, as well as, the local ones
- Financial ability in order to understand financial sustainability of the company
- Financial ability in order to navigate options to finance the start-up and the scale-up (equity, debt or quasi-equity in all their different forms in Italy – we work closely with Invitalia)

Soft Skills

- Ability to support young and less-young entrepreneurs making sure to choose people that never give up, for real;
- Support them when things get tough;
- Ability to choose a team and not an idea or a project;

Strong network

- Ability to build our own credibility and trust among all the players in the innovation arena, including other accelerators, investors, business angels, family or home offices, banks, institutions
- International affiliations that work

Platform

- To be an incubator, you need to run a deal platform flow and be enable to manage, closely with potential investors, every single step (we use one of the most important ones at international level)

International Outreach

- ImpactHub has more than 60 office in the world and more than 16.000 people connected in our community;
- Through this community (or any other, large enough, international community) you are in a better position to understand the uniqueness of any of your selected start-ups

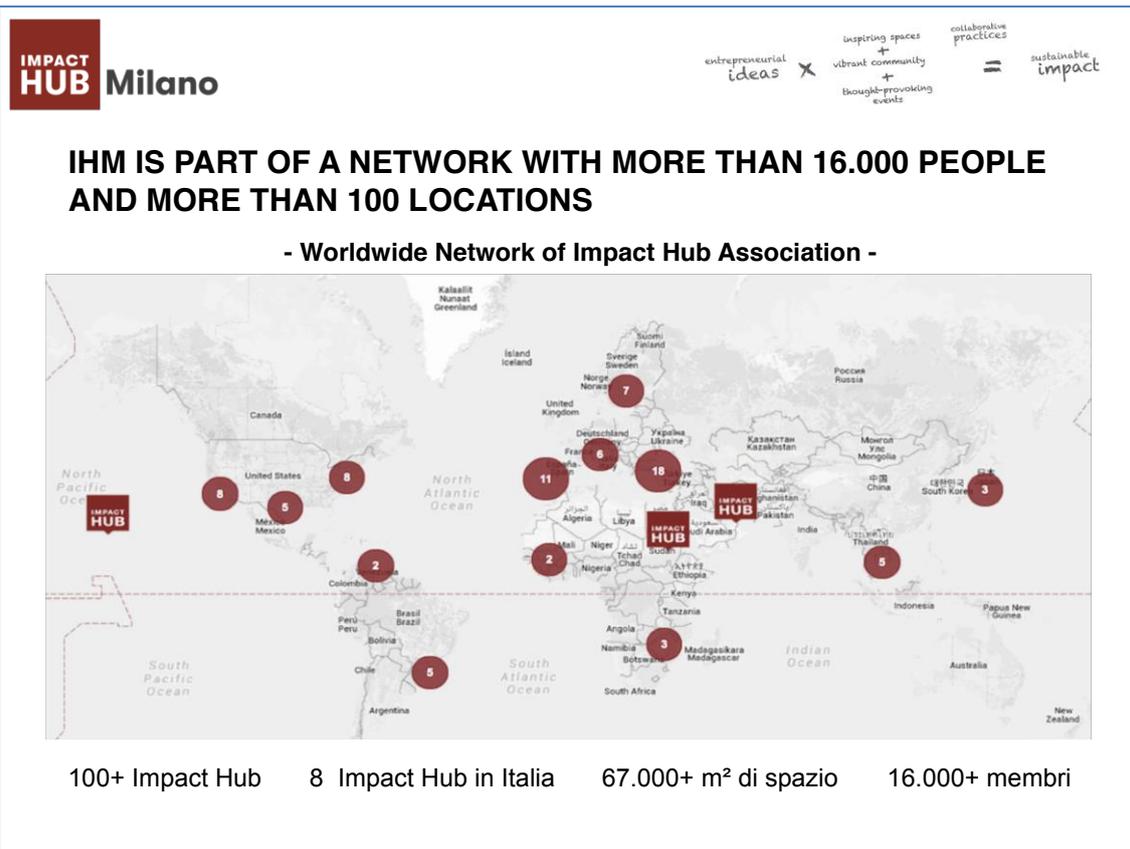


Figura: ImpactHub International Network

Marketing Skill

- Digital – ability to be on the screen of all possible investors
- Non digital – ability to be in any event, industry-focus and non-industry-focused, to promote visibility and learning of your selected start-ups

What is an incubation program and how it runs?

IHM has developed its eco-system to run Call4startups and Incubation programs.

There is always a need for investing coming both from Corporates and Family Offices or Business Angels.

We gather their needs on a rolling basis and we launch an acceleration program once a year.

The call4startups is marketed through the normal digital channels (our website, facebook, LinkedIn,) and non digital tools (events, posters,....).

It is mainly marketed toward startups (as they are the main target of the overall activity) and it is also marketed through the family offices and our informal network, which represents a precious source of new idea, projects and startups.

Once, the call4startups is closed, we run the selection process:

1. We count the start-ups and we look into the reference industry;
2. We review each and every single application, screening out the once that are clearly incomplete or have nothing to present but an idea;
3. We then go through the better ones in terms of ideas, And here we start to have a feeling of the quality of the entrepreneurs behind it;
4. Once we identified the top 30, we need to meet each and all of them: this part of the job is extremely time consuming, but it is the real value added to the overall exercise;

5. Often, we take our risk into the selected company and have them in the acceleration program
6. Through the acceleration program, we organize events where they can start: (i) being exposed to the financial community; (ii) gathering consensus on their business model; (iii) get the funding.

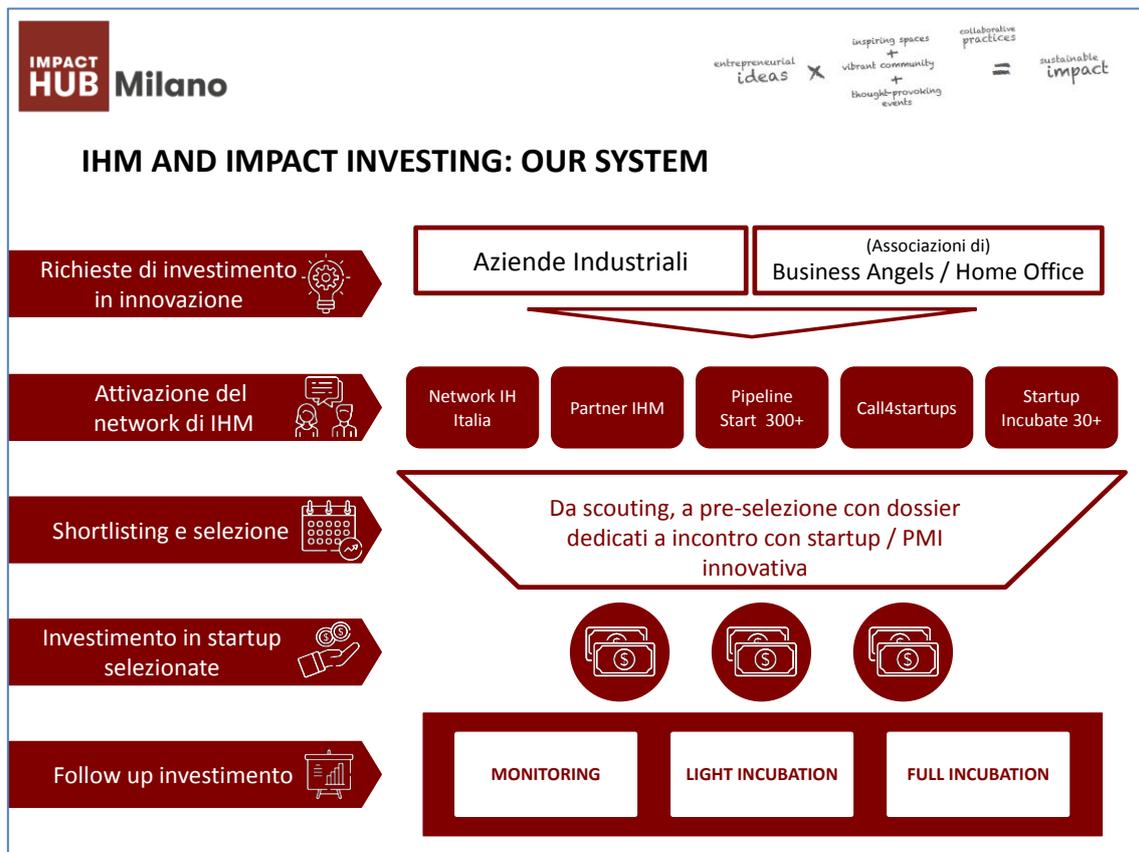


Figura: IHM ecosystem

Once we selected the company to be accelerated, then we run our Incubation Programs, which, depending on the intensity of the Incubation (paid by the startup or its investors), can be:

- Monitoring, which includes the following activities:
 - Periodic meetings with IHM team
 - Share strategic choices
 - Assess the progress of the work
 - Highlight the critical issues
 - Membership Connect at Impact Hub Milan, support activities in business connections and inclusion of the startup at IHM-inspired events
- Light Incubation, which includes Monitoring, and the following additional activities:
 - Minimum two meetings a month with the Senior team of IHM
 - Review and redefine, if necessary, strategic decisions
 - Redefine and re-direct activities based on decisions
 - Review critical deadlines
 - Training and consulting: training sessions dedicated to the most critical issues for the selected projects
- Full Incubation, which includes Light Incubation, and the following additional activities:
 - Training and consulting meetings
 - Support of a dedicated Mentor from the IHM network and with over 20 years of experience
 - Coworking desk for team members (up to a maximum of 4) in IH Milan

How do you build this set of activities and capabilities over the years?

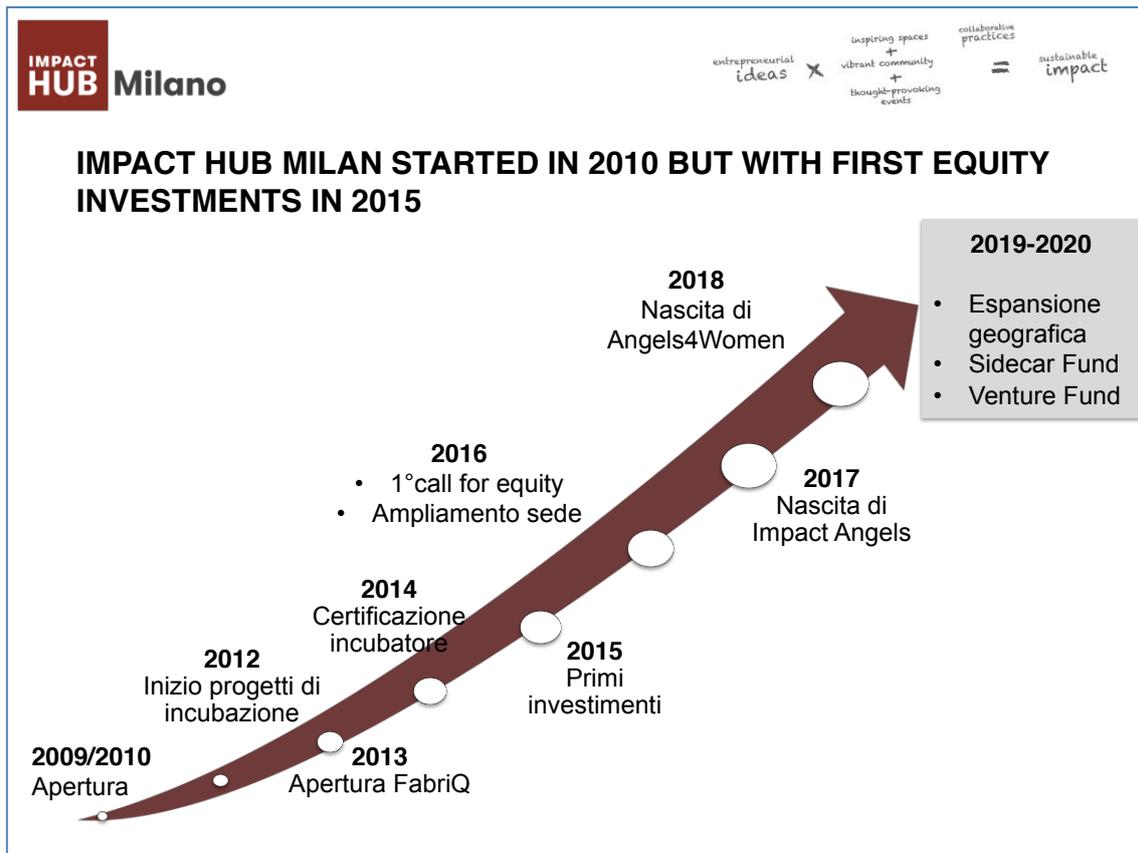


Figure: IHM growth over the last ten years

IHM was founded in 2010, as a basic ImpactHub business model.

IH are co-working spaces where the local community can rent a desk and develop programs to improve the quality of life of local communities.

Over time, IHM has developed global programs, such as Fellowship (Prize dedicated to the best Social Impact Program in the IH System) and has learnt to share best practices across office.

- IHM was then acquired in 2012 by Marco Fabio Nannini, that immediately made it an Innovation Hub regularly certified.
- In 2013, IHM, with the City of Milan, opened its second location in Quarto Oggiaro.
- The first investments in Social Impact Start-ups were done in 2015, and grew significantly in 2016 and 2017.
- In 2017, IHM created the Impact Angels, which a group of Business Angels that invest primarily in Social Impact Start-ups.
- In 2018, Marco decided to embrace the diversity issue and founded, in collaboration with Axa, Angels4Women, which is a group of “Women that invest on Women”.

This is history, but what are the results?

Even if you do all this and you built a company with more than 1.0 M€ in revenues and it is above breakeven,

Even if you do all this, the result will take 10 years to come.

In the six years, we have:

- Reviewed 1.402 applications to our Incubation Program
- Accepted in our spaces as “incubated” 172 companies;
- Invested in 30 companies
- We expected to find 1-2 “good” companies that will grow to the “tens-of-millions” size

We experienced a strong growth in the number of Applicants over time: this is due to the fact we are recognized in the marketplace as the Social Impact Incubation Program of reference and we represent the partner of choice (for the Social Impact) in many other Incubation programs, such as (to name few):

- B-heroes
- Premio Marzotto
- Global Social Venture Competition
- Get-it (Fondazione Cariplo)

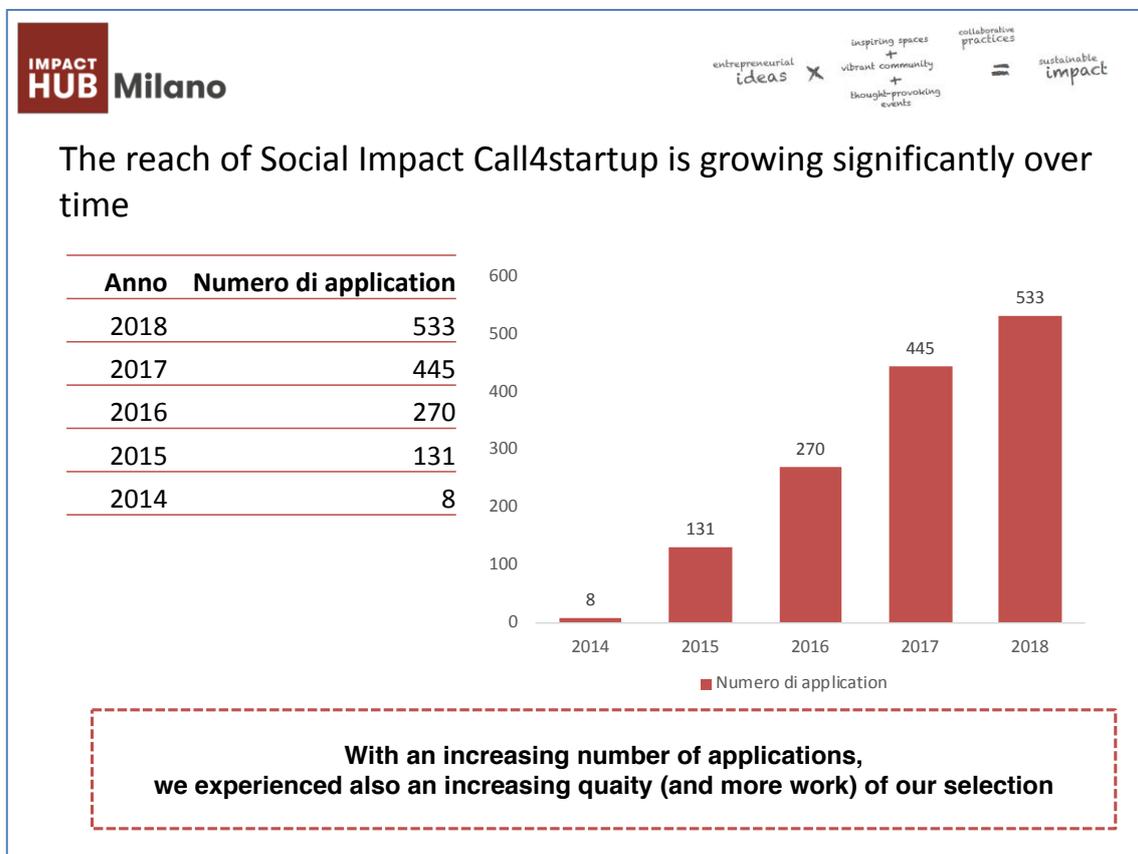


Figure: Growth in number of Applicants from 2014 until 2018

The number of Applicants went from 8 in 2014 to 533 in 2018 (growing 17% YoY in 2018)

The growing number of Applicants gave the possibility to choose better and better ones in order to have them in our Incubation Program.

Along with the growing number of Applicants, we experienced that, over the last few years, Social Entrepreneurs were increasingly:

- Ready to prepare a Sales Pitch
- More and more sensitive to the financial as well as social sustainability
- Ready to learn about new business model

- Willing to approach the financial issue
- Looking for active support on all non-social issues
- Looking for strong advice on how making a new company fully socially impactful on a very large scale

Impact Investing, for IHM, implied investing in Social Sector, but also in other industries to make them as socially impactful as possible: our job is often to review the business model from zero.

We, therefore, looked in many other Industries such Healthcare, Food, ICT, Smart Cities and Intelligent Cities (with strong impact on Environment) and Travel.

Healthcare represented for us a reference and we focused on developing devices, drugs, business model that took care of the less fortunate (the poor, the handicap people, the blind/deaf, elderly,...).

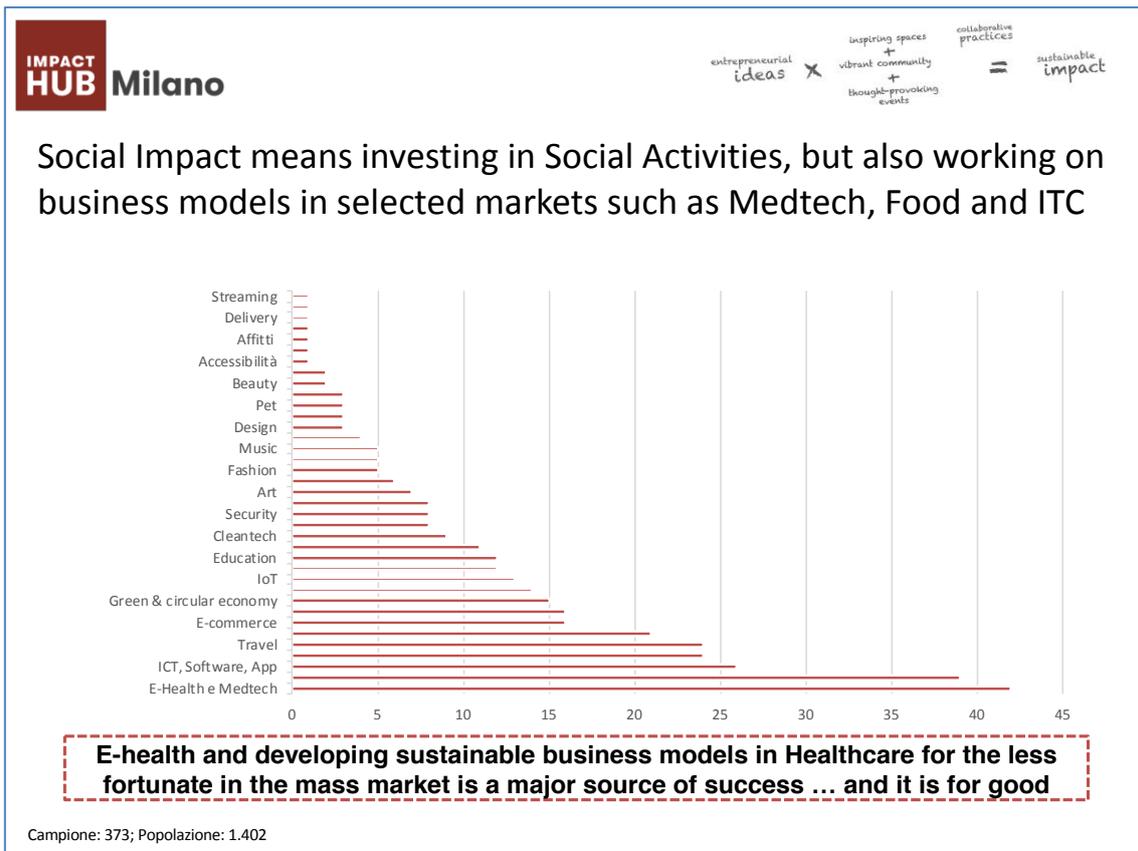


Figure: Applicants 2014-2018 by Industry

Both in the number of Applicants and selected start-ups, this represented a significant proportion of our efforts.

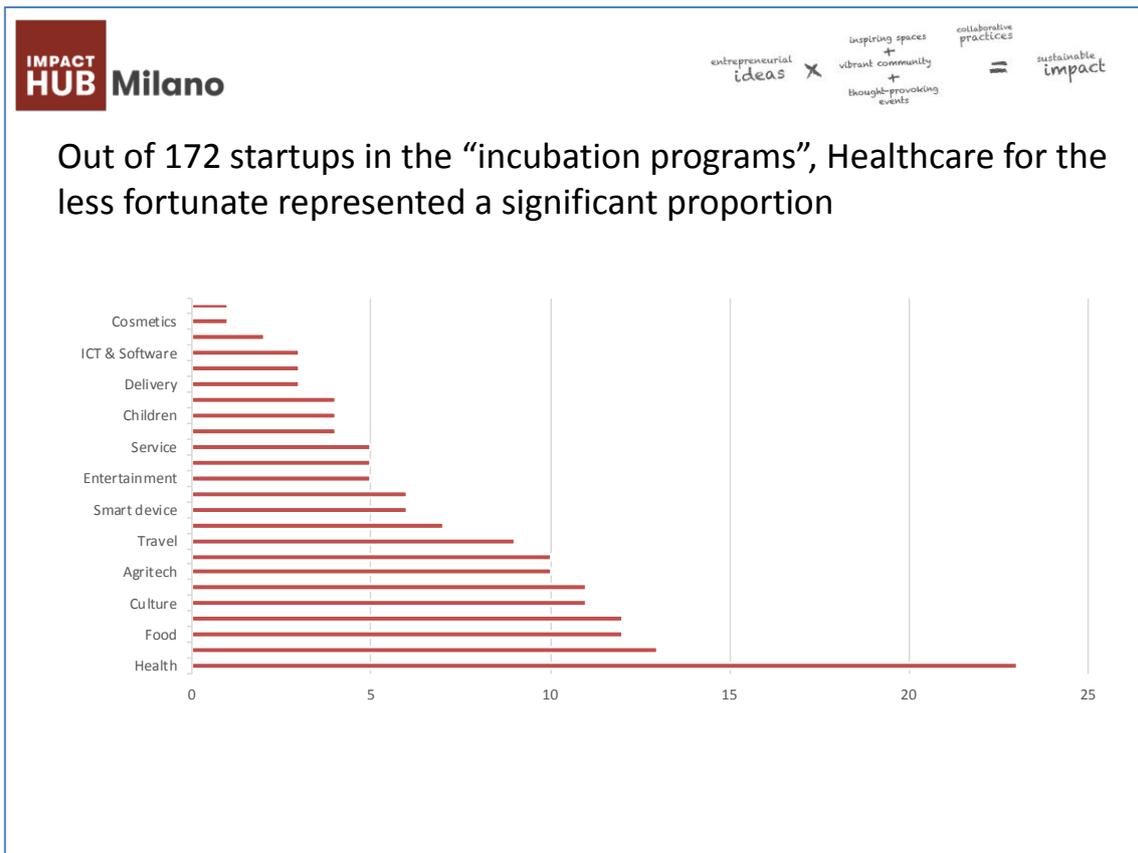


Figure: Startups in acceleration 2014-2018 by Industry

We have now

- 30 start-ups in our portfolio;
- 7 years of experience in Social Impact
- 2-3 years of impacting investing (we started to take equity directly in 2016)

We take 7% equity in order to start them up in our Acceleration program and the 100% Equity Value of our portfolio, at investment day, was 715.000 Euro.

- Now, the value is estimated to be above 1.5 M€

The real issue is our community is to create the possibility to exit the good ones (consequently, write off the less good ones) and start again aggressively the scouting.

WHAT'S NEXT (FOR OUR INSTITUTIONS) IN ORDER TO TRASFORM A BUBBLE IN ONGOING SUPERIOR GROWTH

"The real issue is our community is to create the possibility to exit the good ones (consequently, write off the less good ones) and start again aggressively the scouting."

MARCO FABIO NANNINI, CEO IMPACTHUB

The obstacles to make this real are the following:

- Few, if any, Funds are focused on start-ups, taking the proper risk a large start-ups portfolio;
- The cost of building a new fund is often outrageously high;
- The cost of running a new fund is often high compared to opportunities outside Italy;
- The lead time to open a new fund is at least two times longer than doing abroad.

Figure: the next challenge

Non-secondary obstacles to make this real are the following:

- Few, if any, Funds are focused on start-ups, taking the proper risk a large start-ups portfolio;
- The cost of building a new fund is often outrageously high;
- The cost of running a new fund is often high compared to opportunities outside Italy;

The lead time to open a new fund is at least two times longer than doing abroad.

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