EUROPEAN
VENTURE
PHILANTHROPY
ASSOCIATION

A SHORT GUIDE TO EXIT
Planning and Executing an Impactful Exit

THE FIVE STEPS

EXIT STRATEGY
Action plan to determine when a Venture Philanthropy Organisation or Social Investor (VPO/SI) can no longer add value to the investee, and to end the relationship while maintaining/amplifying the social impact, or minimising the potential loss of social impact.

STEP 1: Determining Key Considerations

- Context in which the VPO/SI operates
- Type of investee *(NGO, social enterprise, etc.)*
- Type of funding *(grant/debt/equity)*
- Social and financial return goals of the VPO/SI
- Co-investing
- Relationship with investors/donors/trustees

STEP 2: Develop an Exit Plan

ELEMENTS OF THE EXIT PLAN

- Goals and milestones – *how is success defined?*

SPO:
- Social Impact
- Financial Sustainability
- Organisational Resilience

VPO/SI:
- Social Return
- Financial Return

- Timing of the exit (Step 3)
- Mode of exit (Step 4)
- Resources
- Exit market scenarios

STEP 3: Determine Exit Readiness

MONITOR THE INVESTMENT TARGETS

based on milestones

DETERMINE EXIT READINESS

↙ for the SPO

↘ for the VPO/SI

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EXIT CAN BE PERFORMED ONLY IF

- **The SPO is exit ready** –i.e. the (social impact, financial sustainability and organisational resilience) goals have been achieved
- **The SPO is investment ready** –i.e. follow-on investors (including the SPO itself) are ready to take over the investment
- The VPO/SI feels it **can no longer add value** to the SPO

STEP 4: Execute the Exit

HOW

Mode of exit depends on:
- the financial instrument used
- the context
- the stage of development of the SPO

TO WHOM

- New investor
- The SPO itself
- No market (failure)

STEP 5: Post-Investment Follow-up

EVALUATION

VPO/SI:
Financial Return vs. Social Impact

SPO:
3 dimensions:
- Social Impact
- Financial Sustainability
- Organisational Resilience

FOLLOW-UP OF THE SPOs

Activities that the VPO/SI puts in place to keep a link with the SPO after exit (optional)

EXIT STRATEGY JOURNEY

TYPE OF FUNDING | **STEP 1:** Determine Key Exit Considerations | **STEP 2:** Develop an Exit Plan | **STEP 3:** Determine Exit Readiness | **STEP 4:** Execute an Exit | **STEP 5:** Post-Investment Follow-up

CASE 1: GRANT

NESsT invested start-up capital and capacity building in **Alaturi de Voi (ADV)**'s first social enterprise: **Util Deco**, a sheltered workshop that provides business support services and creates and sells quality hand-made gift products.

Social purpose of the SPO: offering training to youth affected with HIV/AIDS

STEP 1: Determine Key Exit Considerations

Context	Emerging markets in Europe and Latin America.
Social & financial return goals	Develop sustainable SPOs that solve critical problems and support low-income communities. *→ Prioritise social impact goals over financial return.*
Type of investee	Charities and social enterprises at different stages of development. *→ Goals to be reached at a specific stage must be defined to know when the SPO is exit-ready.*
Type of funding	Mostly based on grant with heavy capacity building.

STEP 2: Develop an Exit Plan

NESsT HAS A THREE-STEP PROCESS:

planning → incubation → scaling

The exit can happen at any stage, depending on the SPO's business plan idea – *is it socially and financially viable?*

For ADV, the goals in the first two-three years focused on turning Util Deco into a self-sustaining social enterprise (incubation).

NESsT had no financial return expectations, but put in place a system to monitor the SPO's use of the grant.

STEP 3: Determine Exit Readiness

One year later

NESsT's **Performance Management Tool** (PMT) to measure ADV's enterprise performance, social impact, institutional development, and financial sustainability

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Revision of all targets and indicators

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NESsT's investment committee decision

↙ ↘

Continued incubation | Exit

After three years, ADV was self-sustaining and both parties agreed to exit.

STEP 4: Execute an Exit

ADV needed significant additional funding, so NESsT **facilitated** a deal between ADV and a specialised lender in Poland that provides loans for social enterprises.

ADV successfully **repaid the loan** and could expand its activities.

As part of its exit plan, NESsT thus ensured that the SPO could maintain its **impact** in the long term.

STEP 5: Post-Investment Follow-up

EVALUATION

Successful investment: most of the goals were met. ADV is now a **strong and sustainable organisation** with many social enterprises under its umbrella and it provides employment and training to an increasing number of beneficiaries.

FOLLOW-UP

- Interviews and use of a simplified PMT for two years after exit;
- Like most of NESsT's investees, ADV is invited to activities organised by NESsT and is still offered NFS.

CASE 2: DEBT

BonVenture invested, with three co-investors, in **KKB** a hybrid organisation building care centres for children and providing flexible child care. The purpose of BonVenture's investment was to scale up the company.

Social purpose of the SPO: ensuring that families with children could combine work and family

STEP 1: Determine Key Exit Considerations

Context	Youth, environment, social services, health in German-speaking countries. *→ Exit in each sector to be managed differently.*
Social & financial return goals	Social impact objectives are more important than the financial ones (capital preservation). *→ Exit is evaluated considering the portfolio performance.*
Type of investee	Scaling-up charities & social enterprises. *→ SPO's financial self-sustainability is key. Milestones are set in the exit plan and monitored throughout the investment.*
Type of funding	Convertible grants, loans, equity. *→ Debt = pay-back schedule, but patient capital = flexibility in the exit plan.*

STEP 2: Develop an Exit Plan

The Exit plan is part of the **due diligence** process and of the investment memorandum before an investment is made.

Goals and milestones for KKB

- The exit was planned by the **pay-back** of the mezzanine by 2016
- Establishing a **stable organisation** with a quality management system and IT and reporting tools
- **Financial and organisational resilience goals** were linked to milestones

STEP 3: Determine Exit Readiness

For KKB, exit readiness was assessed vis-à-vis the **goals and milestones** planned in Step 2.

BonVenture **monitors the repayment** of the debt throughout the investment period to see if the SPO is on track.

STEP 4: Execute an Exit

Three exit options at BonVenture:

Typical of non-profit	Hybrid	Similar to for-profit
End of the donation, mergers, end of project etc.	*Mezzanine pay back + Buy-back at the end of the loan*	*Loan pay-back, buy-back by company, etc.*

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KKB

STEP 5: Post-Investment Follow-up

EVALUATION

KKB reached its social, **financial and organisational goals**: growing from six to 42 centres, becoming financially self-sustaining, and setting up reporting processes and employee trainings.

Financial return goals (repayment of debt) were on track at the moment of writing.

CASE 3: EQUITY

PhiTrust Partenaires became involved with **Alter-Eco** via a pure equity investment. Alter Eco imports products from small holder farmers in developing countries, paying them above-market rate for their work, and distributing their products in developed countries under a well-known brand name.

Social purpose of the SPO: helping small producers sell their products in developed countries

STEP 1: Determine Key Exit Considerations

Context	Finance, technologies, environment, etc. in Europe, Africa, Asia, and Latin America.
Social & financial return goals	Social & financial return are equally important. *→ Both objectives need to be met to consider the exit successful.*
Type of investee	Established but scaling up/mature social enterprises. *→ Exit readiness determined by achievement of the SPO's social, financial and organisational goals.*
Type of funding	*Investing equity ↔ more engagement with the SPO –e.g. member(s) of the investment committee on SPO's board.*

STEP 2: Develop an Exit Plan

Upfront discussion with SPO to define the exit according to the SPO's growth and impact objectives and strategies.

For each new investment in AlterEco, when a deal is being structured, PhiTrust works with the SPO to:

- define measurable impact criteria,
- define longer term objectives,
- ask them to report on the chosen indicators.

The exit plan is **regularly revisited** with the SPO.

STEP 3: Determine Exit Readiness

Quarterly **portfolio reporting** tracks the financial development & social impact progression of each SPO.

In PhiTrust's 2012 Annual Report, AlterEco was meeting its sales goals and social return expectations, but the SPO's financial growth and overall development was not progressing as fast as hoped.

STEP 4: Execute an Exit

PhiTrust **sold their shares** to a European leader in the sale of organic food products.

This **new investor** offered to **maintain the existing business model** in addition to providing access to other European markets.

STEP 5: Post-Investment Follow-up

The investment was considered a success as PhiTrust exited a strong company and the financial return objective was met.

EXIT STRATEGY PROCESS AND INVESTMENT PROCESS

INVESTMENT PROCESS

Investment Strategy → Deal Screening → Due Diligence → Deal Structuring → Investment Management → Exit

STEP	**STEP 1: Determine Key Exit Considerations**	**STEP 2: Develop an Exit Plan**	**STEP 3: Determine exit readiness**	**STEP 4: Execute an exit**	**STEP 5: Post-Investment Follow-up**
GUIDELINES	The VPO/SI assesses how key elements of its investment strategy (context, goals of the VPO/SI, type of investee, etc.) are going to influence its future exits.	Before the investment is made, the VPO/SI **co-develops the exit plan** with the SPO.	The VPO/SI monitors the **achievement of the goals** of the SPO based on the plan made in Step 2 and assesses when the SPO is exit ready.	The VPO/SI determines whom to exit to and how to exit, and executes the exit.	
	Step 1 coincides with the development of the investment strategy and the deal screening phases. The key exit considerations will guide the VPO/SI in the deal screening phase.	Step 2 coincides with the phases of due diligence and deal structuring, helping the VPO/SI • make a detailed screening of the SPOs • choose which SPO to invest in • decide how to structure the deal in terms of outputs, outcomes, indicators, and when and how to monitor and report.	Step 3 coincides with the phase of investment management, as the SPO is **monitored** throughout the investment period and exit readiness is assessed once the financing period is coming to its end.	Step 4 coincides with the exit in the investment process.	Step 5 includes the **evaluation** (degree of achievement of the investments' goals and learnings from the process) and the **follow-up** activities (optional), post-exit.

FOR MORE INFORMATION

- Read the full publication "A Practical Guide to Planning and Executing an Impactful Exit"
- Register for our "Fundamental Course on Venture Philanthropy and Impact Investing"
- Contact us at knowledge.centre@evpa.eu.com

Disclaimer
The case studies presented in this report feature organisations that are continuously working on their exit strategies. As a result, all cases are evolving organisations and thus their exit strategies are continuously improving.

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