

# den sociale kapitalfond

**Den Sociale Kapitalfond**  
**CEO, Claus Bjørn Billehøj**  
**May 2018**

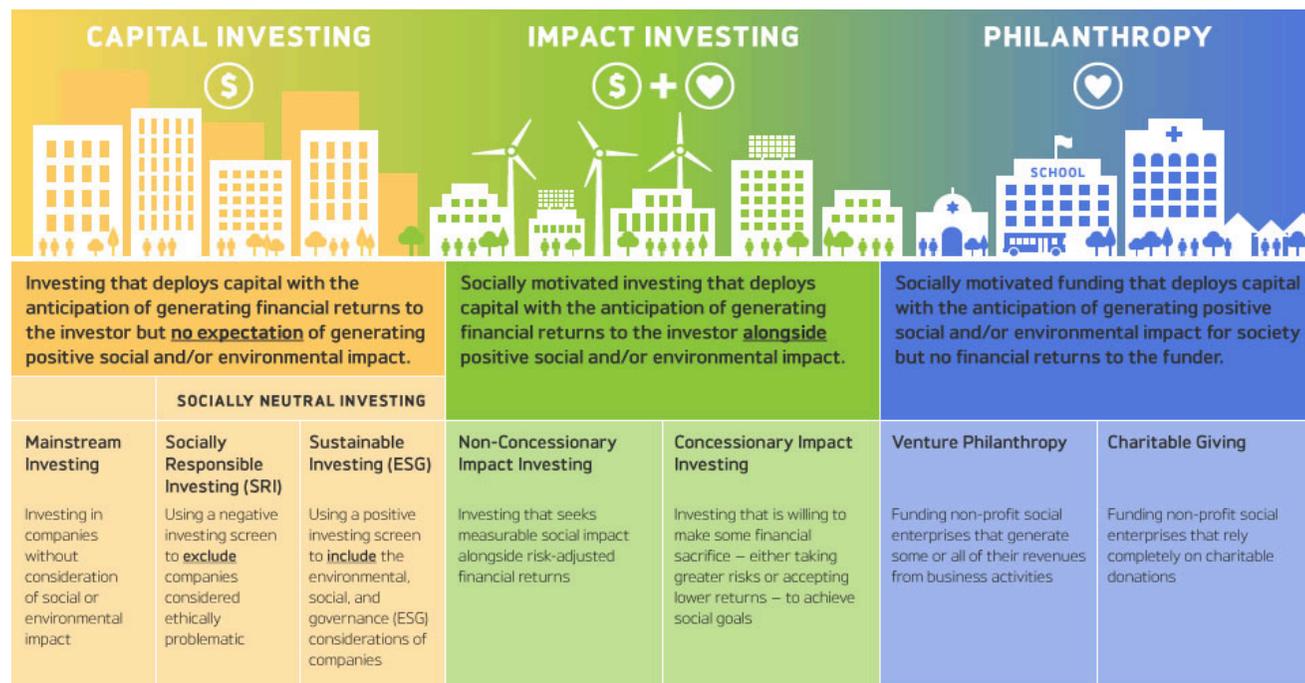
# Introduction: Impact investing – social impact funds

Impact investing is made into companies and funds with the intention to generate social and environmental impact alongside a financial return:

- **Aligns values with investments:** A way of positively and intendedly aligning financial responsibilities with values and mission
- **Transcends “silos”:** Breaks down traditional barriers between “doing good and doing well” - investing and philanthropy
- **Global movement:** Growing niche in global investment markets led by, among others, significant “Next Gen” demand

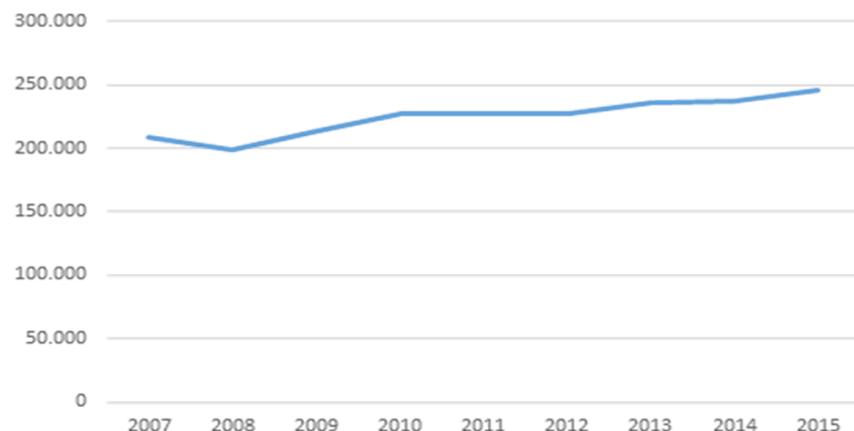
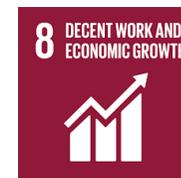
## Social impact funds a key segment:

- Using venture capital and private equity models to grow businesses with substantial social impact
- A financially scalable approach to creating inclusive growth
- Mainly pioneered in emerging markets but increasingly prevalent in Europe
- Den Sociale Kapitalfond is a Scandinavian leader in social impact fund investing for the benefit of marginalized people



Source: Impactspace.com

# Inclusive growth: Challenge and opportunity in DK



Marginalization on the Danish labour market. Source: Danmarks Statistik, Q3 2016

## Marginalization threatens well being and social cohesion:

- 240,000 people (approx. 7 %) in Denmark in the working ages are on cash benefits, sick leave, and other special benefits due to physical, psychological and social problems
- An additional approx. 200,000 people are on early retirement benefits for similar reasons
- Marginalization damages individual well being and personal opportunities, social cohesion and economic sustainability
- Conversely, being part of a real, market-based workplace boosts self-respect, sense of belonging, and self-reliance for vulnerable and marginalized persons

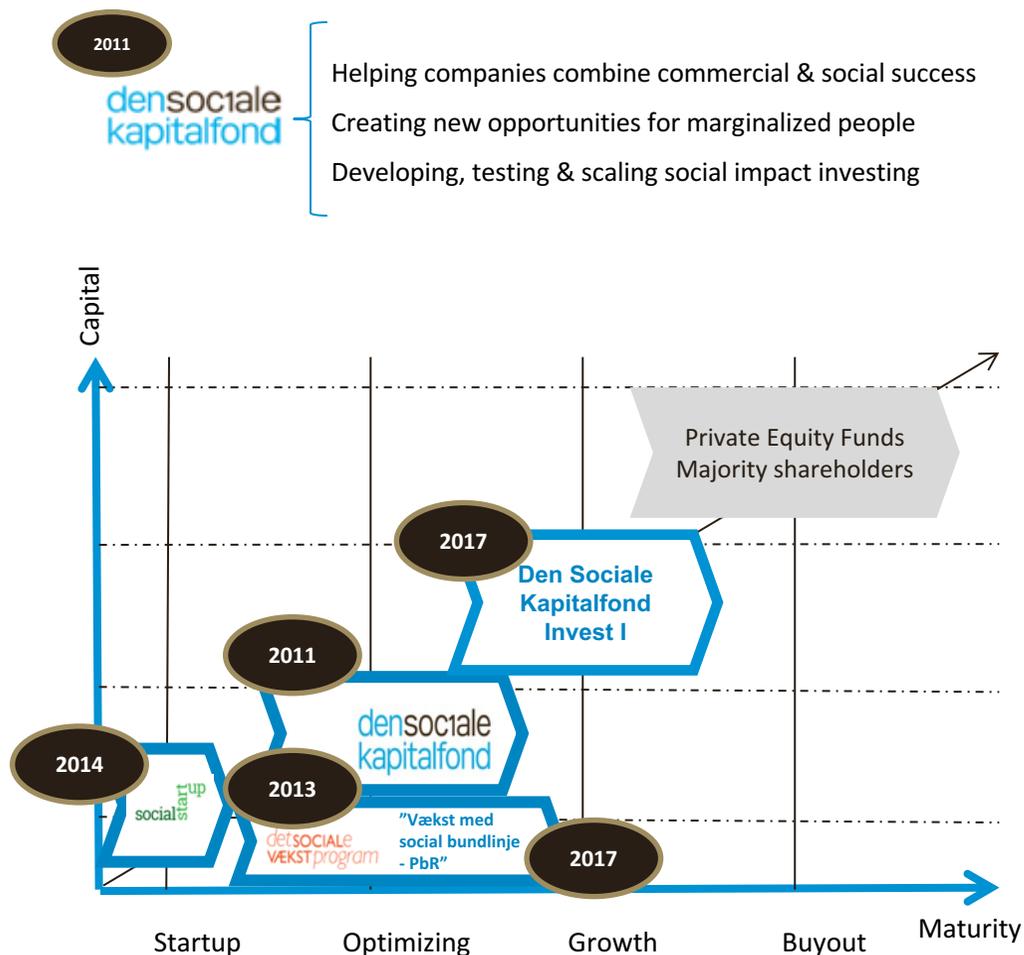
## SMEs are key to inclusive growth:

- Small and medium-sized enterprises account for the most significant share of value added and employment in the private sector in Denmark
- Growth potentials are often high, but lack of equity investments, competences and employee attractiveness are typical barriers to full utilization
- 35 % of all Danish companies employ marginalized persons – and 10% of all SMEs have at least 10 % or minimum 5 persons as marginalized employees

Being socially inclusive and value driven strengthens the culture, identity and brand of an organization – and can be a competitive advantage in markets where *employee attractiveness, branding and stakeholder support* matter

The large number of social SMEs with strong growth potentials represents a significant opportunity for inclusive growth and social impact investing in Denmark

# Den Sociale Kapitalfond: Building a social impact investing ecosystem



## Den Sociale Kapitalfond

- Social impact investment development fund in DK
- Since 2011: 8 pilot investments to date
- Funded by TrygFonden

## Det Sociale Vækst-program

- Accelerator program for social enterprises in DK
- 2013-16: 32 companies
- Funded by Danish Ministry of Employment

## Social StartUp

- Accelerator program for new social businesses in DK & NO
- 2014-17: 20 companies
- Funded by VELUX & VILLUM Foundations
- 2017: Expanded to Norway in cooperation with Ferd

## Den Sociale Kapitalfond Analyse

- R&D program for impact investment in Scandinavia
- Since 2015: Social Business Map; SROI online tool, etc.
- Funded by private and public sector clients

## Vækst med social bundlinje – Payment by Results

- Accelerator program for social SMEs testing "Payment by Results" as financial scaling mechanism in DK
- 2017-18: 26 companies
- Funded by TrygFonden, Tuborgfondet, Bikubenfonden, Markedsmodningsfonden and 6 municipalities

## Den Sociale Kapitalfond Invest I

- Social impact investment fund for social SMEs in DK & SE
- 2017-27: 15-20 companies
- Investors include EIF, Vækstfonden, TryghedsGruppen, Novo Nordisk Foundation, Hempel Foundation, Færchfonden a.o.

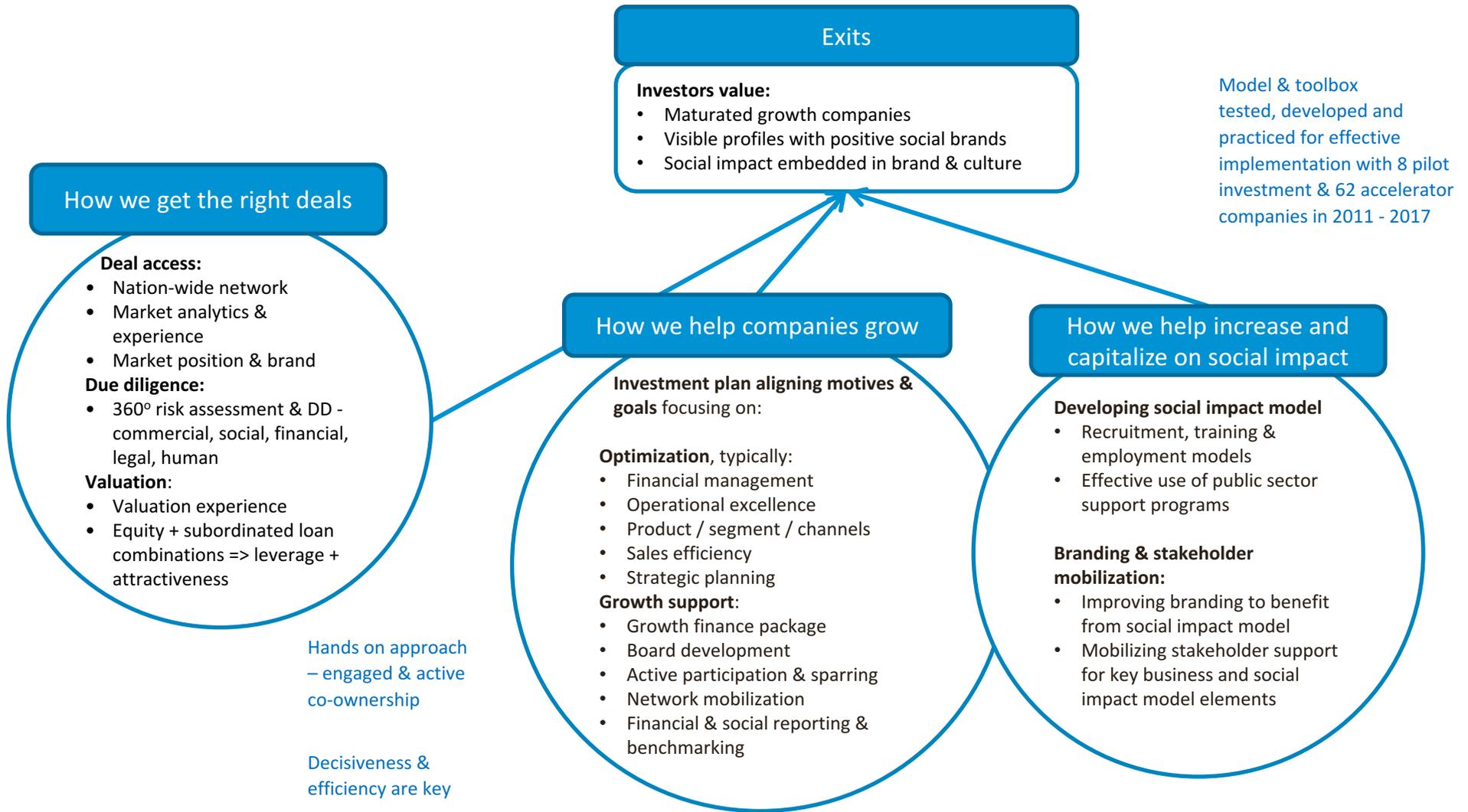
# Experience & theory of change: From pilot to scale

## Track record 2011-2017:

- **Experience:** 850+ companies screened, 8 pilot investments and 62 accelerations executed (hereof 1 pilot investment)
- **Growth:** Net growth of 16 % in annual revenue in 2016 (DKK 72m for first 53 companies) – with a total EBT of 4% (DKK 21m). Positive trend across portfolio in spite of experimental purpose and large varieties in maturity, size and vintage (26 month average engagement period)
- **Impact:** Net growth of 13 jobs and training positions per company (718 for first 55 companies) per 31 December 2016. “Jobs per kroner” tops the league among comparable organizations & projects
- **Toolbox** tested, developed and practiced for efficiently getting the right deals, helping SMEs grow, increasing social impact and structuring deals effectively
- **Ecosystem** for social business development created – including experienced team, nationwide deal flow network, market analytics and tools



# Value creation model: Deal access, growth & social impact



# Case: All Ears Telemarketing S.m.b.A.

## Realizing Overseen Competencies

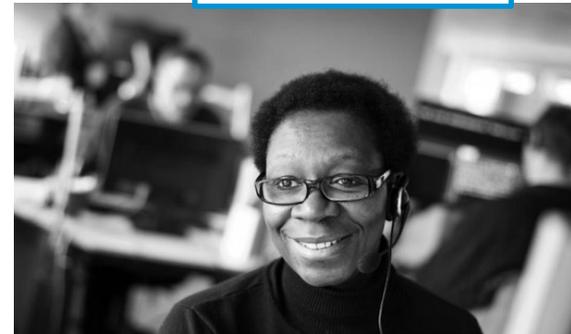
- **Business model:** High quality telemarketing – fundraising & meeting booking for charities and membership organizations
  - **Social impact model:** Training and employing people with vision impairments, unlocking their unique potential to be “all ears”
  - **Cooperation with Den Sociale Kapitalfond:** Pilot investment of DKK 1m (Euro 0.13m) in 2012 as loan. Payback according to plan
  - **Value creation: Transformation**
    - **New strategy** - based on assessment of market opportunities, social impact model and operational potential
    - **Effective implementation** through active board participation, sparring with management, and KPI-measurement focus.
    - **Successful transformation** from training and education provider to profitable social telemarketing provider
- ⇒ Very high training to employment conversion, stakeholder backing, unique market position – and gazelle growth rates
- ⇒ CEO awarded the Oslo Business for Peace Award in 2013

## Financial results 2011 -> 2015

- **99 % revenue increase** from DKK 4.5m -> DKK 9.0m (Euro 0.6m -> 1.2m)
- **10 % EBITDA increase** from DKK 0.6m -> DKK 0.7m (Euro 81,000 -> 90,000)

## Social impact 2011 -> 2015

- **78 % increase in marginalized employees** from 9 -> 16
- **71 % increase in training positions** from 7 -> 12



# Case: Gamle Mursten ApS

## People – Planet – Profit

- **Business model:** Recycling of used bricks for new construction based on patented semi-automatic process in 2 factories - ensuring competitive prices, architectural “look & feel” in high demand, and large CO2 savings
  - **Social impact model:** Employing local marginalized people, including refugees and mentally vulnerable
  - **Cooperation with Den Sociale Kapitalfond:** Pilot investment of DKK 2.6m (Euro 0.35m) in 2014 as convertible loan - converted to 25 % equity share in 2016
  - **Value creation: Optimization and scaling model**
    - **Optimization** – of social impact model, operations and financial management
    - **Growth** – based on optimized supply chain and branding towards key stakeholders, among others
    - **Scaling taking of** – via innovative public-private-partnership model making future factories less costly
- ⇒ Strong stakeholder (incl. government) backing and brand
- ⇒ Børsen Gazelle-growth company in 2009 and 2016

## Financial results 2013 -> 2015

- **45 % revenue increase** from DKK 8.4m -> DKK 12.2m (Euro 1.1m -> 1.6m)
- **92 % EBITDA increase** from DKK 950,000 -> DKK 1,825,000 (Euro 128,000 -> 245,000)

## Social impact 2013 -> 2015

- **167 % increase in marginalized employees** from 6 -> 16
- **-100 % decline in training positions** from 2 -> 0



# Case: Borg & Bigum Danmark A/S and Borg & Bigum RSV

## “Buy Social” Market Opportunity

- **Business model:** Market leader in company gifts, promotion merchandise and company wear & uniforms. Setting up social division to create label for socially branded products
  - **Social impact model:** Carving out a separate but closely related social enterprise for new division employing marginalized persons
  - **Cooperation with Den Sociale Kapitalfond:** Participation in accelerator program in 2016
  - **Value creation: New social model and market access**
    - **Market assessment** and business strategy development targeting Danish “buy social” market potentials
    - **Social impact model development** – by using expertise and leveraging public sector network
    - **Execution of plans** with sparring and guidance → head start for new social entity
- ⇒ Strong branding potential in niche market
- ⇒ Social division a formally registered social enterprise (RSV)

### Financial results 2014/2015 -> 2015/2016

- **15 % revenue increase** from DKK 103.7m -> DKK 118.9m (Euro 13.9m -> 16.0m)
- **8 % EBITDA increase** from DKK 8.3m -> DKK 9.0m (Euro 1.1->1.2m)

### Social impact 2014/2015 -> 2015/2016

- **First marginalized employees** from 0 -> 2
- **First training positions** from 0 -> 1



# New social impact investing fund: Den Sociale Kapitalfond Invest I

## Den Sociale Kapitalfond Invest I:

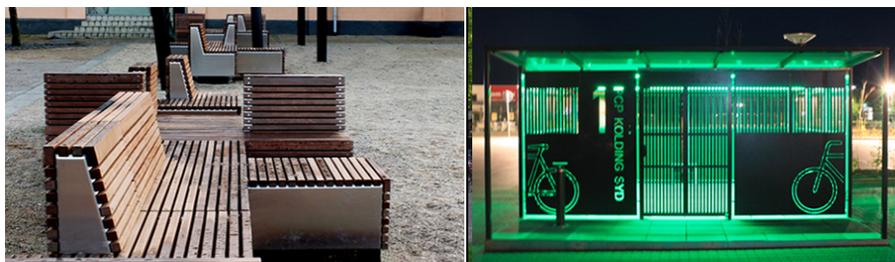
- **Inclusive growth:** Helping SMEs in Denmark and Southern Sweden realize their potential for inclusive growth
- **Financial returns & social impact:** Creating a risk-adjusted financial return and a measurable positive impact for the benefit of marginalized persons and areas to the investors
- **Fund characteristics:**
  - Closed end fund (2017-27)
  - Investment in 15-20 companies
  - Minority investor with 10 – 49 % equity share – possibly supplemented with subordinated loans
  - Social impact goals are selected, approved and measured for all investments – with carry based on both financial and social performance
  - Experienced management team with partners from both social business development and traditional private equity – supported by Den Sociale Kapitalfond's ecosystem and Senior Advisors
- **Investors – initial closing:** The European Investment Fund, Vækstfonden (The Danish Growth Fund), TryghedsGruppen, The Novo Nordisk Foundation, Færchfonden, The Hempel Foundation, Den Sociale Kapitalfond, management team and Senior Advisors.

### Target companies: Social SMEs in growth phase

- SMEs (10-249 employees) in Denmark and Southern Sweden
- Quality niche products - industry & service
- Competent management team with strong social values
- Significant maturation & growth potential – aligned with social impact potential:
  - Employing marginalized persons
  - Providing impactful products & services for marginalized persons
  - Creating local opportunities in deprived areas
- Typical revenue range from DKK 30m-150m (enterprise value > DKK 10m)
- Need for additional equity financing - typically DKK 5m-20m (and cash self sustainable with new cash)
- Match with Den Sociale Kapitalfond Invest value creation model & capabilities

# Investment case: Creating a Nordic market leader

**HITSA**  
WE SUPPLY URBAN SPACES



31 January 2018, Den Sociale Kapitalfond Invest purchased c 40 pct. of HITSA A/S – which on this background acquired leading competitor VEKSØ A/S from NRGi. The plan is to develop a Nordic market leader in urban solutions which promote urban life quality, environmental sustainability and social inclusion

HITSA and VEKSØ are Denmark's leading manufacturers of urban space equipment. Customers include municipalities, transport organizations, housing associations and contractors. The consolidated organization employs approx. 100 people with headquarters in Denmark (Kolding and Fredericia) and subsidiaries in Latvia (production company) and Sweden

HITSA is a socially run company, training vulnerable young people and employing people from the margins of the labour market. Social responsibility is an emerging market advantage and the company aims to become a Nordic role model for inclusive growth

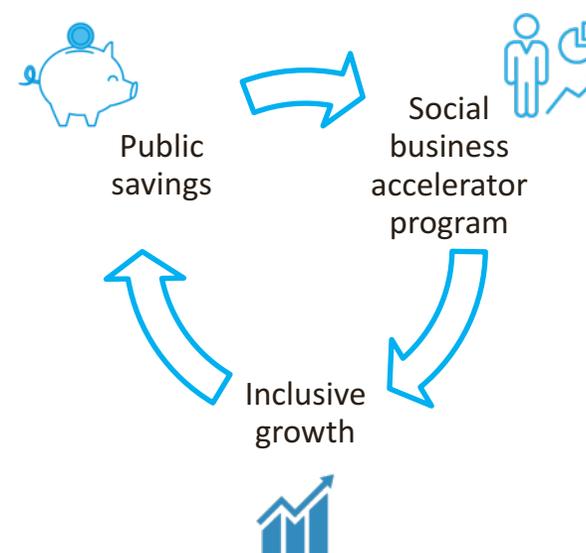
**Market size of 3,600+ social SMEs in DK alone**

- # **Employing significant share of marginalized persons:**  
Approx. 1,800 in top decile of inclusive SMEs in Denmark with at least 10 % or 5 employees with government wage subsidies due to special needs. Many more with similar potential
- # **Products & services empowering marginalized persons:**  
Approx. 600 social education & training businesses in industry associations. More with other empowering services & products
- # **Creating local job opportunities in socially deprived areas:**  
Approx. 1,200 SMEs in the 10 most deprived municipalities in Denmark. More in “ghettos”

# New impact investing pilot: Payment by Results driven accelerator

## Den Sociale Kapitalfond is testing a new financial scaling model:

- **Accelerator:** “Growth with a social bottom-line – Payment by Results” is an accelerator program focusing creating inclusive growth through intensified competence support
- **Partnership:** It has been developed in partnership and is supported by TrygFonden, TuborgFondet, Bikubenfonden, Markedsmodningsfonden and leading Danish municipalities
- **SME focus:** The accelerator helps SMEs to grow and create new opportunities for marginalized persons people
- **Social impact targets:** The accelerator has specific targets for job creation for marginalized groups and economic growth of the participating companies
- **Measurement & valuation:** Social impact target realization is measured and priced according to the value (including direct and indirect cashable savings) for the municipalities
- **Payment by Results:** The project tests whether the resulting savings on municipal budgets can fund the program through a so-called “Payment by Results”(PbR) mechanism.
- **Social Impact Bond basis:** PbR forms the basis for the involvement of potential external partners to invest in social efforts through so-called "Social Impact Bonds" (SIBs).



# Senior Team

## Foundation & management company:

- Activities organized around foundation – Den Sociale Kapitalfond – managed by separate management company with not-for-profit statutes – Den Sociale Kapitalfond Management ApS

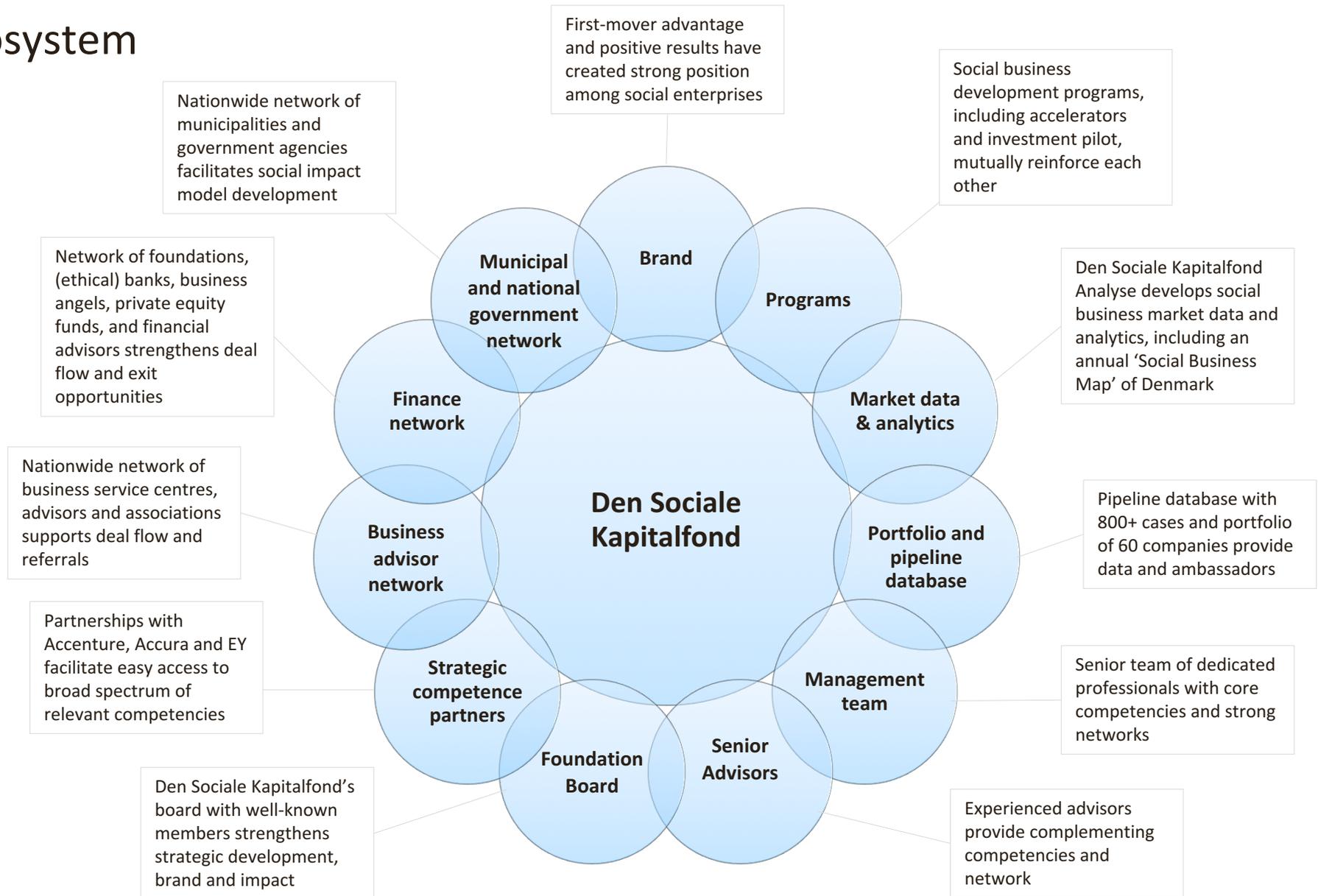
## Probably the most experienced impact investment team in Denmark:

- More than 150 years of combined executive and managerial experience – in VC, PE, M&A, finance, strategy, sales, operations and analytics as well as hands-on entrepreneurial and owner-led business experience
- More than 20 years of combined experience directly related to social impact investments
- More than 800 investment and accelerator opportunities assessed since 2011 – with 60 executed investments (8) and accelerations (52)

## Dedicated to social impact:

- Senior team of professionals, all of whom have actively chosen to work for social businesses and catalyze inclusive growth in Denmark via social impact investments

# Ecosystem



# Track Record

## By 31 December 2015 we had:

- A combined portfolio of 6 pilot investments and 40 accelerated social enterprises
- Positive performance trends across the combined portfolio despite early stage of investment pilot and accelerator portfolios
- No exits of convertible loans / equity investments yet – but successful follow-up investment round and active investor interest

## Financial results

### Total portfolio performance in 2015

Revenue: €40.3m up 24 % from €32.5m in 2014

EBT: €0.9m up from € -0.2m in 2014

(Data from 44 companies)

### Accelerator portfolio in 2015

Revenue: €29.7m up 34 % from €22.3m in 2014

EBT: €0.75m up 451 % from €0.17m in 2014

(Data from 38 companies)

### Pilot investment portfolio from engagement to 2015

Multiple: 2.72\*

Revenue: €10.6m up 20 % from €8.8m

EBITDA: €0.5m (5.2 %) up from € -0.21m (-2,4 %)

(Data from 6 companies. Average engagement period 33 months)

\* Based on theoretical valuation EBITDA x 5 minus net interest-bearing debt. A valuation of DKK 1 is used when result is negative



## Social impact

### Impact status from engagement to 2015

1,511 persons employed or in training

- Hereof 68 % marginalized (1,032 persons)

(Data from 44 companies. Average engagement period approx. 18 months)

### Impact change from engagement to 2015

Total net growth: 347 jobs & training positions (up 30 %)

- Hereof jobs for marginalized: 117 positions (up 45 %)

- Hereof training for marginalized: 170 positions (up 35%)

(Data from 44 companies. Average engagement period approx. 18 months)

### Job creation efficiency

“Jobs per kroner” top of class among Danish accelerator programs – in spite of target group

(Data from 38 companies)

# Thank you for your attention



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