Community Development
Venture Capital

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President
Community Development Venture Capital Alliance
Agenda

- The CDVC model
- Statistical overview of the industry
- Industry trends
- Financial and social returns
The CDVC Model

The Double Bottom Line

- Pursue market rates of return for investors
- Pursue social returns by creating good entry-level employment and economic activity in underinvested areas
Markets

- Rapidly growing businesses with proprietary technologies or other competitive advantages
  - Where in the new economy are good jobs being created?
- Rural and inner-city markets where other VCs do not compete
  - Proprietary deal flow with lower valuations
- Smaller companies in industries not typically served by traditional VCs
  - Diversity and lower beta
Management

- Experienced venture capitalists and economic development professionals
  - Strong roots in and understanding of local markets
  - Experts in inner-city and rural businesses
  - Experts in growing companies with large entry-level workforces
  - Relationships with economic development agencies and government
  - Access to resources other VCs don’t have
- Volunteer VCs on investment committees and business people who provide entrepreneurial mentoring
A Small but Rapidly Growing Industry

- 69 funds in the United States, with others forming throughout the world
- $1.2 billion under management domestically
Growth of Industry
Number of Funds Active or In Formation

<table>
<thead>
<tr>
<th>Year</th>
<th>Active</th>
<th>In Formation</th>
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</thead>
<tbody>
<tr>
<td>1990 or Before</td>
<td>5</td>
<td>6</td>
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<tr>
<td>1991</td>
<td>6</td>
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<td>2005</td>
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<td>14</td>
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<tr>
<td>2006</td>
<td>69</td>
<td>16</td>
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</table>
Growth in CDVC Capital Under Management

2000: $401.5
2001: $605.9
2002: $688.3
2003: $839.3
2004: $870.3
2005: $935.0
2006: $1,200.0

Millions
Sources of Capital for CDVC Funds

- Nondepository financial institutions: 8.06%
- Corporations: 11.44%
- Federal Government: 11.12%
- State & Local Government: 12.93%
- Foundations: 14.01%
- Banks: 30.21%
- Individuals: 2.86%
- Other: 9.37%
Fund and Investment Size

- Fund Size of newer funds:
  - $25 – 75 MM

- Investment Size
  - $500,000 - $5 MM
**Structure**

- Most new CDVC funds are being structured like traditional VC funds
  - 10-year partnerships
  - Management company managing multiple funds
  - Management fee and carried interest
- Some CDVC funds are organized as not-for-profit corporations
CDVC Investment Industries (% of investments outstanding)

- Service/Other*: 24%
- Clean Tech: 3%
- High Tech: 12%
- Business/Financial: 4%
- Industrial/Energy: 18%
- Retailing/Media: 22%
- Health: 16%

* Five are related to employment training or education, and six are related to the natural foods industry.
CDVC Exits

- External sale: 77%
- Management buyback: 10%
- IPO: 10%
- ESOP: 3%
Trends: Predominance of Financial Investors

Capital Outstanding as of 2003

Capital Committed in 2003
Trends: More Expansion Stage Investment

CDVC Investments Outstanding in 2003

- Seed/Start-up: 33%
- Expansion: 31%
- Later: 13%
- Early: 23%

CDVC Investments Made in 2003

- Seed/Start-up: 15%
- Expansion: 45%
- Later: 6%
- Early: 34%
Financial Performance

- Young industry, cash on cash return information is not yet available
- Only two failures so far
- Early progress looks promising
- Look at two funds CDVCA’s fund of funds is currently doing due diligence on as examples
### Financial Returns

<table>
<thead>
<tr>
<th>2001 Vintage</th>
<th>IRR</th>
<th>Total Value to Paid-in Capital</th>
<th>Distribution to Paid-in Capital</th>
<th>Residual Value to Paid-in Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>CDVC Fund II</td>
<td>8.73%</td>
<td>1.38</td>
<td>0.24</td>
<td>1.15</td>
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<tr>
<td>Top Quartile</td>
<td>9.60%</td>
<td>1.37</td>
<td>0.44</td>
<td>0.94</td>
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<tr>
<td>Average</td>
<td>3.10%</td>
<td>1.12</td>
<td>0.30</td>
<td>0.81</td>
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<tr>
<td>Pooled Average</td>
<td>3.00%</td>
<td>1.12</td>
<td>0.32</td>
<td>0.80</td>
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<tr>
<td>Median</td>
<td>0.70%</td>
<td>1.02</td>
<td>0.21</td>
<td>0.80</td>
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</tbody>
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### Financial Returns

<table>
<thead>
<tr>
<th>CDVC Fund I</th>
<th>Performance</th>
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</thead>
<tbody>
<tr>
<td>Fund I Gross Realized Deal IRR</td>
<td>69%</td>
</tr>
<tr>
<td>Fund I Gross Realized Levered Deal IRR</td>
<td>114%</td>
</tr>
<tr>
<td>Fund I Gross GAAP Realized/Unrealized Deal IRR</td>
<td>21.2%</td>
</tr>
<tr>
<td>Fund I Net IRR at GAAP Value</td>
<td>2.53%</td>
</tr>
<tr>
<td>Fund I Net IRR at Current Fair Market Value</td>
<td>20.63%</td>
</tr>
<tr>
<td>Vintage 2003 Top Quartile IRR</td>
<td>12.58%</td>
</tr>
<tr>
<td>Vintage 2003 Mean IRR</td>
<td>-2.51%</td>
</tr>
</tbody>
</table>
Measurable social returns
- Job creation, particularly for entry-level workers with lesser economic opportunity
- Quality employment
  - Living wage
  - Medical benefits
  - Opportunities for training and advancement
  - Opportunities for employee ownership and wealth-building
- Measure social impact rigorously for investors and to improve performance
Additional Social Impacts

- Women and minority ownership
- Cleantech
- Products useful to communities
- Good employment practices