KPMG Private Enterprise

The Full Scope of ESG for Private Companies

Strengthening your business | November 2023

Erika:

Welcome, both Adam and Page, very excited to have you on the podcast today. This is one of the favorite things that I get to do for KPMG, is to talk to folks like yourself and really help our high growth companies think about things like ESG, right? So that is the topic today. We're going to bounce around a little bit. Adam, I think you graciously offered to lay down what the landscaping looks like for investing right now, which is always important to our listeners. So without further ado, Adam, if you could introduce yourself and then Page, if you could introduce yourself after that, that'd be great.

Adam:

Yeah, sounds great. Pleasure to be here. So yeah, my name's Adam Struck. I'm the founder managing partner at Struck, but we have three different ways that we partner with founders. We have Struck Capital that's a $75 million horizontal and vertical SaaS focused fund. We have Struck Crypto that's around a hundred million dollars blockchain focused fund. And then we have Struck Studio where we basically take all the information, asymmetries that we gather, cataloging thousands of deals a year across capital and crypto, and we leverage those information asymmetries to create companies.

So we do all the ideation, validation, product development, and then once we've signed a product market fit, we then recruit a founder, CEO, a co-founder. We give them 50% of the company and we spin it out. Struck as a firm is backed by World-class VCs like Chicago Ventures, Union Square Ventures, Revolution, large institutional investors, and then very sort of specific context here from an ESG perspective. We also have Leonardo DiCaprio as an LP as well. So we love finding incredible companies that can also sort of fit that ESG mission-driven thesis. We think we can add a ton of value and really help them hit escape velocity.

Page:

I'm Page. I'm one of the co-founders and CEO of Topanga.io. We're an enterprise software company proving that sustainable business practices can achieve both environmental and economic ROI. Today we're focused largely on providing track and trace solutions that help organizations, primarily universities and food service operations switch from single use to reusable packaging. My background broadly is in all things e-commerce, marketing and sustainable supply chains. I'm so excited to be here with you all and fun to be here with Adam as well, as Struck is one of our latest investors.

Erika:

Awesome. Well, thank you both again, and I think where we'll start is if we think about our audience and the focus on growing revenue and probably very focused on EBITDA, at least as of this point, I think things have shifted towards that direction, although Adam, you can correct me if I'm wrong on that later, but what types of things should these companies be thinking about when it comes to ESG and Page maybe we'll start with you and then Adam, if you could also comment.

Page:

Yeah, definitely. I think when it comes to ESG broadly, I think the first thing that we're thinking about is what framework might work or what types of ESG, which of those letters is most important as it relates to your business practices. So really understanding why is this important to me to pursue ESG? And then from there, diving a little bit deeper to find the tools or frameworks that might work for your company and for your business operations. It's important to understand that for a tech company, this is very different if you're producing software and services versus a CPG company where you're really putting a physical product on the shelf. So I think step one is really just kind of doing some research and some digging to understand why.

Adam:

Adding on to that, if you're like Topanga, ESG is sort of core and central to your mission, but even if you're not Topanga and you're just a SaaS company struggling for product market fit, we still think it's really important to really focus on the S and the G as early as possible in your company's lifecycle. So thinking about employee benefits, diversity and inclusion, ethical standards, board governance, shareholder rights. From our perspective, companies that think about those things early and really prioritize them, those are the ones that when they find product market fit, it not only becomes easy to acquire incredible talent, but to also retain that talent and really scale a sort of mission-driven workforce. So we think all companies, no matter what the focus should be thinking about ESG as early as possible.

Erika:

Perfect. And we'll dive into that a little bit deeper a little later in the session here. Adam, just from your perspective, when you are looking at companies that you're considering investing in, not necessarily specific to ESG, that space, what are you generally looking for?

Adam:

Yeah, so we have a bunch of heuristics that our deal team uses to very quickly understand if a company or investment opportunities is in our wheelhouse. We have to be very disciplined and specific in terms of the types of companies we invest in. So right away we're going to do a very quick analysis on things like total addressable market. Are they in a multi-billion dollar market? Is there a multi-billion dollar sleepy incumbent that they can disrupt? We'll look at the competitive landscape. Is that a blue ocean or a red ocean? Do we fundamentally believe that there's a real opportunity here? We'll go really, really deep on the founders because at the end of the day a great idea without an incredible founder isn't going to go anywhere. And most importantly, we're looking at founders that have really robust information asymmetries in the space, can battle adversity have shown that they can get stronger through those experiences.

And if we feel really good about that, then we really choose to dive in. And what I mean by that is we're going to go really deep on the financial model, the unit economics, the tech stack, the architecture decisions. Are they unit testing their code? We're going to background check the founders, we're going to look at the hiring plan. We'll go really, really deep. And then I think most importantly, we'll also look at ourselves and just ask ourselves, are we the right firm to be on this cap table and can we really add value? So yeah, those are some of the high level things that we'll look at.

Erika:

In terms of, again, maybe let's take for example, if you're looking at a company that maybe they have some decent seed funding, but they're looking at a larger series A, not in the ESG space, but do you look at some of the practices that they have in place or maybe lack thereof as it relates to social responsibility? I think in our prep session you mentioned what are the employee benefits? How do they treat employees? What does that look like?

Adam:

Yeah, it's definitely something that's part of our diligence process. We're probably, if ESG is not absolutely core to the business itself, it's probably going to come in the confirmatory stage sort of at the end of diligence. But generally for us, we want to understand not only what the company looks like today and paying attention to things like board governance, shareholder rights, employee benefits, working conditions, diversity and inclusion. All of those things are very critical, but they become, if there's kinks in the armor, kinks in the chain, it becomes exacerbated as the company scales.

So we definitely want to ask questions to the founding team and sort of hear what their thoughts are, not only in terms of what's implemented today, but what do they want to implement at scale. Because again, it sort of serves as a microcosm for just a lot of different things associated with how they're actually going to act. If maybe they've got 50 million in the bank and they're hiring aggressively, are they going to prioritize these things that in our opinion, really does make the difference. So yeah, it's definitely something that we pay attention to and it's definitely something that we're going to look at prior to underwriting a deal and writing that check.

Erika:

Adam, that's helpful. Thank you. And on the flip side Page, having gone through fundraising, what has been your experience in terms of what investors are looking for?

Page:

I think it's really interesting, especially, yes, we are kind of a climate tech company with these environmental practices, but at the end of the day, we're trying to prove that environmental companies can also just be good business. So there's of course the fundamentals that we would assume, which is do you have a path to revenue, a path to profitability? Do you have clients? What does that market opportunity look like?

But I think also even something that we've kind of learned throughout our fundraising journey over the past two years and some of what Adam was saying is just being really intentional on why. So not just are you going to grow as fast as you can, but do you have an opportunity for longevity? Are you going to work into your financial model that you're going to offer employees benefits or is that something that you've completely overlooked? And I think more broadly just is it a good business, but also are there good people behind it to ensure that it's not just how do you look to the external world, but also are you operating internally pretty smoothly so that you can continue to achieve what you're hoping to build.

Erika:

And Adam, I'm going to flip over to you just in terms of, let's say that we've got some companies listening that maybe haven't raised for the last two years. How has the landscape changed really since the pandemic?

Adam:

Yeah, it's a great question. I definitely think high level, it's a tougher fundraising environment than it's been for quite some time. I think when you go back to sort of height of 2021, there was really some sort of irrational exuberance as a byproduct of just some very, very material quantitative easing. I think it got to a point where you could have a robust compound monthly growth rate in 300K in ARR, and all of a sudden you can raise $15 million series A. Now the pendulum has totally swung in the other direction, and we're advising our founders to have a clear path to two to two and a half million in ARR with a really strong monthly growth rate if they want to go out and raise a top of market series A. So I think just generally, it's very tough for founders that create an operating model and they think these are the KPIs that I need to hit to raise a subsequent round of financing and an up around.

And then all of a sudden because macro tailwinds turn to headwinds, the KPIs that you thought you had to show you need to 2x or sometimes even 3x that, how do you deal with that? Right? So I think for us, we spend a lot of time working with companies that we feel have robust product market fit, but they just didn't realize that, gosh, the goalposts have shifted and I need to show 2x revenue than I thought I did to raise that next round. So generally what I would say is it is a very tough fundraising environment. If you actually have AI and foundation models and something like that core to your business, maybe it's a different scenario, but for everything else it's very difficult. So I think it's really important for founders to understand just how much "the flavor of the week" can impact your ability to fundraise.

Right now people are just really shying away from e-commerce for whatever reason. Whereas at the height of the pandemic, everybody was very, very much into that. What I'll say for us that Struck is we like to keep blinders on and the way we evaluate a business in the top market or a down market, it doesn't really change for us. We don't want to be investors that are pedal to the metal in a frothy environment and then we slammed the brakes in a harsh environment. We just want to build with incredible founders and we want to work with great companies that have sustainable unit economics. So what I would tell founders is it's definitely tough out there, but the right VC can look at your traction in a certain way and find a way to get a deal done. So I still think there's more opportunity for innovation than ever before, and I think it's an exciting time right now to be in tech generally.

Erika:

So there's hope, Adam.

Adam:

Yes, there's still hope. Definitely.

Erika:

There's still hope. There's still hope. Great. Thank you for that, Adam. And Page back over to you and back on kind of our ESG topic. If again, you're an earlier stage company and maybe you're focused on some of the things Adam is talking about your revenue growth and perhaps showing a little more profitability, but you also want to focus on making sure that you're doing some things on the social aspect or the environmental side of things. What are some simple things that a company can do that aren't super aggressive but yet really move the needle?

Page:

I think simple is a good word there. I think it's very easy to get distracted by kind of the big lofty goals and net zero and carbon neutrality. But the reality is that you can start with what's possible for you today, and that's better than doing nothing at all. So for us, when we were first getting started, one of the simple things that we wanted to do was say, okay, hey, when we're looking to procure a new vendor, whether that's to help with our data processing or to help us with our sales efforts, is there a vendor out there who has the services that we want and also has a really good robust ESG framework themselves?

And that really helped us with selection or when it comes to employees is it can be as simple as, okay, maybe we don't have the best in class benefits plan today, but can we do something as simple as you get a half day on Friday and go and take time to do what will fulfill you so that when you show back up on work on Monday, you're ready to go and ready to be enthused by what's in front of you.

So I think it's really just kind of understanding what's possible for you and what's realistic for the company today, and then being really intentional in terms of where you invest your time and energy.

Erika:

That's perfect, Page. And I think like you said, those are simple examples. I think in a lot of cases, especially when it comes to diversity, excuse me, and inclusion, I do think companies are doing more than they probably realize. They maybe just don't necessarily have the reporting structure in place, which depending on the stage of the company, that might be okay. Just a couple things for everyone to watch out for while we're getting the rules finalized on, at least for public companies, what they'll need to report.

I think we recently wrote an article called Green Washing Green Hushing and Green Wishing. Don't fall victim to these ESG reporting tracks. And really what it's focused on is if you are going to report making sure that you have the data to support what you're reporting. And again, a lot of times this would maybe be more focused on companies that are either looking to go public or are public, but again, if you're going to put out an annual report and include some of these things, you just have to make sure that you have the reporting framework in place to support the numbers and support the statements that you're making.

And Adam, I think you spoke to that just a little bit. Again in diligence, maybe it's not super formal, but having substance behind the things that you're doing or the things that you're looking to do. Any thoughts on that from Page, either you or Adam?

Page:

Yeah, one that I have is, I think when it comes to the data is even if maybe regardless of what stage you're at, it's helpful to start understanding what data you would want to be reporting on sooner rather than later. It's a lot easier to get started rather than try to backtrack and find 2, 3, 5 years of operational data. So just even understanding where you want to go if you're not there yet is still a big step forward.

Adam:

Yeah. I'll say just for us as a firm, we're a registered investment advisor with the SCC, so we're very, very cautious in terms of just anything that we would report on in a public manner. But for us, it is really important for us to do things like at the end of the year track how many jobs have we helped create, how many diverse individuals have we helped get acquired in our portfolio companies? And we like to track that data and share it with our investors and our LPs more broadly. But I definitely agree with you, right? It's numbers in and of themselves mean nothing unless you have a very specific and granular framework in terms of how things were calculated and where they come from. So it's really critical to always have that top of mind.

Erika:

And I guess parting words just from me, and then I'd love to hear parting thoughts from both you, Page and Adam. I think depending on the stage of the company, even just putting together a little task force to brainstorm about what do we want this to look like and the future, and perhaps put some milestones in place. Here's some of the things that are really important to us as a company that are important to our employees, to our stakeholders. And then really starting to plot out that process and understanding the resources you need and what types of things you'd like to report on is a great place to start, no matter, no matter what size you are. Page, parting thoughts?

Page:

Yeah, I mean I love that kind of commentary on the task force. I think the biggest thing to me and when I'm talking to other founders is that ESG, both E, S and G, it's got to be top down and bottoms up. So having it really feel collaborative, so it's not just, hey, this is my mission and this is how we're going to bring this to life, but this is how everyone is going to feel better and we're going to put our best foot forward from day one, I think is the right mindset.

Erika:

Thank you, Page. Adam, parting thoughts?

Adam:

Yeah, I mean, I'll say from my perspective, I just think it's a really exciting time right now to be building and to focus on various forms of core technology innovation. I think for the first time ever, this generation has really faced with just how sort of daunting climate change is and the risk associated there. And I think there's a real opportunity right now to apply various forms of core technology innovation to combat climate change in a way that actually can create tremendous profit. So I think broadly there's a lot of opportunities on the environmental side, but I also think on the social and governance side, every company sort of big or small should be paying attention to this.

Especially I think in a sort of hybrid post COVID remote world where maybe you're not seeing your employees every day. The concept of really understanding things like diversity and inclusion, benefits, governance, various employee or shareholder rights, those are more important than ever before. So what I think a great theme of this conversation is it doesn't need to feel daunting. You can start small and you can really make a change. So I just think it's an exciting time right now to be focusing on that. And I think every company that wants to be large someday should start thinking of it right now when they're really creating the foundation and fiber of their organization.

Erika:

Well, thank you both for joining me today. I think this is really helpful and I think our listeners will really appreciate your perspectives and again, how to keep it simple, start small, but just the underlying importance. So thank you both for your time. I really appreciate it. Thank you. This is great.

Adam:

Thank you so much. Yeah, it was pleasure.

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