Making an Effective Business Case

Moving Health Care Upstream
Financial Sustainability Workgroup Meeting

October 26, 2015
8:00AM – 5:00PM ET
Capital Hilton – Washington, DC

AVIVAR CAPITAL
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Agenda

- MHCU Trajectories
- MHCU Profile
- Business Planning
- Next Steps
- Resources
MHCU Trajectories

- Two evolutions your enterprise is going through now
  - From (what) to (what), or
  - From (what 3 years ago) to (what 3 years from now)

- Discuss in small groups
  - Identify clusters
  - Report to the group
Business Planning: Core Components

- Design Concept/Business Description

1. Social and/or environmental mission
   - ✓ Product / Service Innovation
   - ✓ Target Population
   - ✓ Measurable Impact

2. Financial return objectives
Business Planning: Core Components

Revenue Model

Operating Model

Investing Model
Case Study

- **Omada Health**
  - Prevent online diabetes prevention program based on CDC guidelines
  - $1 million investment by Kresge Foundation and California Healthcare Foundation in 2014
  - To extend Omada into community health centers (CHCs) and other safety net health systems

We start with science

We deliver behavioral medicine that is clinically supported and evidence-based, and publish our results in peer-reviewed journals.

We deepen with design

Our programs guide participants through an inspiring and interactive journey that integrates seamlessly into everyday life.
Revenue Model

- Market assessment / competitive analysis
- Marketing and sales strategy
Revenue Model – Omada Health

• Market assessment / competitive analysis
  • Massive market: 30-40% U.S. adults have pre-diabetes
  • Omada demonstrably cheaper and more effective than “bricks and mortar” approaches
  • Competitors lack technology/design savvy, have high costs; new entrants lack evidence base
  • Minimum differential of $2,800 for cost of care for a diabetic vs. a non-diabetic
Revenue Model – Omada Health

- **Marketing and sales strategy**
  - Evidence from Omada’s clinical trials give credibility
  - Company focuses on private risk-bearing entities (e.g. corporations, plans)
  - Kresge and CHCF financed pilots in CHCs
  - Business development team focus on safety net market
  - Advocacy efforts to achieve Medicaid reimbursement

- **Pricing structure heavily based on success fees**
Revenue Model – Omada Health

- **Revenue model hypothesis:**
  Omada’s program can deliver value to participants and payers

- **Key metrics:**
  1. User experience feedback
  2. User results vs targets: value creation
  3. Revenue traction under success-based pricing model (value monetization lags value creation)
Revenue Model – MHCU Enterprises

- Market assessment / competitive analysis
- Marketing and sales strategy

Revenue Model

Operating Model

Investing Model

financing vibrant communities
Operating Model

Revenue Model

- Information technology strategy
- Management, board and organization

Operating Model

Investing Model
Operating Model – Omada Health

- **Information technology strategy**
  - Technology is at the core of Omada’s approach
  - Omada was incubated at Ideo, leading technology design firm emphasizing user experience
  - Localized and customized (e.g., Spanish version) for safety net market

- **Management, board and organization**
  - Top quality executive team
  - Board includes venture investors with deep industry experience who support entry to safety net market
  - Social mission in serving safety net helps motivate employees, adds to image as responsible company
Operating Model – Omada Health

- Operating model hypothesis:
  Omada can deliver an appropriate, cost-effective service to meet needs of safety net market

- Key metrics:
  1. Adaptation / localization (e.g., Spanish version)
  2. Board and executive-level engagement/support (via board observer rights and reporting)
  3. Operating expenses and general/administrative costs incurred by pilot

We insist on outcomes

We demand results for our patients and ROI for our partners. Our success-based fee structure means that if Prevent doesn’t work, you don’t pay.
Operating Model – MHCU Enterprises

Revenue Model

- Information technology strategy
- Management, board and organization

Operating Model

Investing Model
Investing Model

Revenue Model

Operating Model

Investing Model

- Financial projections
- Capitalization plan
Investing Model – Omada Health

- Financial projection and capitalization plan
  - Project cost estimated at $1 million for three-year pilot; pre-revenue stage through projected breakeven
  - Project financed by low-interest debt with warrants from Kresge and CHCF; warrants provide “upside” in alignment with company’s success
  - Additional grant for project evaluation
  - Project activities are specified in legal agreements to ensure compliance with charitable purpose under program-related investment (PRI) regulations
Investing Model – Omada Health

- Investing model hypothesis:
  Kresge/CHCF’s investment will support proof of concept, leading to sustainable/scalable business

- Key metrics:
  1. Net contribution of safety net market to Omada’s bottom line
  2. Board and executive-level engagement (via board observer rights and reporting)
Investing Model – Growth Capital

Organizational Growth

Adapted from George Overholser, Third Sector; previously Nonprofit Finance Fund
Investing Model – Expanding Options for Support

- Traditional and new partners offer a range of traditional and new support:

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<tr>
<th>Partner</th>
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<th>New Strategies</th>
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<td>Expanded Public-Private Partnerships</td>
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Investing Model – Impact Investing

- Impact investing: a lens on enterprise sustainability and a possible means to sustainability and scale

Social Thesis

Investment Thesis

Repayment?

- Revenue?
- Savings?
- Growth?
- Liquidity?

Impact Investment

Build healthy, equitable & vibrant communities
Investing into companies, organizations, and funds with the intention to generate measurable social and environmental impact alongside a financial return.¹

- Any asset class or structure (cash, fixed income, equity, etc.)
- Any expected financial return (interest rate, dividend, capital gain)
- Same fiduciary care as any institutional investment

**BELOW MARKET-RATE INVESTMENTS²**

Higher Risk          Lower Risk

Grants & Recoverable Grants  Alternatives & Novel Structures  Fixed Income  Cash

**MARKET-RATE INVESTMENTS**

Lower Risk          Higher Risk

Guarantees  Cash  Fixed Income  Public Equities  Alternatives

Program-Related Investment / PRI  Mission-Related Investment / MRI

¹Global Impact Investing Network, www.thegiin.org. ²F.B. Heron Foundation. See also Resources.
Investing Model – Segmenting the Market

- Leverage grants and subsidy with market driven strategies:

  Analyze project’s social and financial return

  Find government, corporate & investor partners who seek those returns

  Limited current cash flow (i.e., unable to repay investment)?
  → Potential sponsorship / crowdfunding

  Cash flow to repay investment?
  → Potential impact investment
Investing Model – MHCU Enterprises

Revenue Model

- Financial projections
- Capitalization plan

Operating Model

Investing Model
Next Steps

- MHCU enterprises identify priority next steps in their business planning process

- Participants suggest shared themes and areas for further MHCU joint work
Resources

**Business Planning for Social Enterprise**
The Academies for Social Entrepreneurship: [http://www.academies-se.org](http://www.academies-se.org)

Scaling What Works, an initiative of Grantmakers for Effective Organizations: [http://www.scalingwhatworks.org](http://www.scalingwhatworks.org)


**Impact Investing Associations, Agencies and Partners**
Mission Investors Exchange, [www.missioninvestors.org](http://www.missioninvestors.org)
Global Impact Investing Network, [www.globalimpactinvestingnetwork.org](http://www.globalimpactinvestingnetwork.org)
US SIF (Social Investment Forum), [www.socialinvest.org](http://www.socialinvest.org)
Community Development Financial Institutions Fund, [www.cdfifund.gov](http://www.cdfifund.gov)

**Other**
Federal Reserve Bank of San Francisco, [www.frbsf.org/cdinvestments](http://www.frbsf.org/cdinvestments) (resources on building healthy communities)
Building Healthy Places Network, [www.buildinghealthyplaces.org](http://www.buildinghealthyplaces.org) (resources on building healthy communities)
Fledge, the conscious accelerator [www.fledge.co/blog/](http://www.fledge.co/blog/) (reflections on what is needed for successful social enterprise)
UCLA Center for Healthier Children, Families and Communities, [www.healthychild.ucla.edu](http://www.healthychild.ucla.edu)

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Lisa Richter is a principal and co-founder of Avivar Capital. Previously, Lisa co-founded and led GPS Capital Partners, a national consultancy that assisted foundations and other institutions to design and execute impact investing strategies. Lisa brings over two decades of fund management and investing experience spanning asset classes, return expectations, geographies and issue areas, and frequently incorporating place-based or sector focus to increase equitable access to opportunity. Clients range from small to the nation’s largest independent and community foundations, banks and institutional investors, with interests ranging from place-based outcomes to theme-based strategies that apply traditional asset allocations to earn market-rate expected returns. Lisa authored the Grantmakers In Health Guide Impact Investing, co-authored Equity Advancing Equity (a guide to community foundation impact investing) and co-authored a rural community foundation impact investing guide. She co-designed the Mission Investors Exchange Institute where she continues as a lead trainer. Through early 2006, Lisa led the National Community Investment Fund, a national Community Development Financial Institution (CDFI) that places equity and debt in development banking institutions and built its national network of development banks and credit unions that increase asset building credit and financial services. Prior to that, Lisa assisted foundation, bank, government and community-based clients to create or expand development financing initiatives in urban, rural and tribal communities throughout the U.S. Lisa is a Senior Fellow with The Philanthropic Initiative, and serves or has served as a director or advisor to the Center for Community Development Investments of the Federal Reserve Bank of San Francisco (where she currently also serves as scholar-in-residence), Bank of America National Community Advisory Council, Dignity Health’s Community Investment Program, American Journal of Preventative Medicine, CDFI Coalition, US Social Investment Forum, and New Markets Tax Credit Coalition. She holds a BA and an MBA from the University of Chicago.

Dan Crisafulli, frequent Avivar collaborator and founder of Potrero Impact Advisors in 2010, assists foundations, corporations and other investors in developing and executing proactive investment strategies for positive social impact. Dan provides due diligence, program and fund structuring, portfolio reviews and market analysis for direct and fund investments, with an emphasis on venture and small business investing in U.S. health, education and community development. Dan serves as a lead financial advisor focused on youth health, human services and justice interventions under the White House Social Investment Fund’s Pay for Success initiative, in partnership with the with the National Council on Crime and Delinquency. Dan served as director of impact investments at the Skoll Foundation from 2007 to 2010, where he built and ran the $30 million impact investing program. From 2004 to 2007, Dan led the World Bank’s innovation fund, Development Marketplace (DM), mobilizing 80 percent of the funding from public and private sector partners and gaining a “best practice” in corporate innovation designation by the Harvard Business Review. In 2000, Dan cofounded the technology venture capital group at the International Finance Corporation (IFC) and led investments including a pioneering Indian digital animation company that had a successful IPO on the London Stock Exchange. He served on the boards of IFC investees in Russia, Mexico, and Vietnam. Dan served among the charter members of the Global Impact Investing Network while at Skoll, and continues to serve as a director of Root Capital. Dan began his career with the L|E|K Partnership, a London-based private equity advisory firm. He earned a bachelor’s degree summa cum laude from Dartmouth College and a master’s degree from the Harvard Kennedy School, where he was a Kennedy Scholar.
Avivar Capital is a U.S.-based SEC registered impact investment advisory firm focused on managing impact investment portfolios and developing coordinated impact-driven families of funds (fund syndication) on behalf of clients. Avivar assists foundations, banks and other institutional investors in the design and execution of impact investing strategy for financial, social and environmental return. The firm’s professionals bring domestic and international experience to serve as investment strategists, deal and fund structurers, asset managers, due diligence providers, coaches, trainers, market researchers, facilitators, and evaluators.

Portfolio Management & Advisory Services. Avivar’s portfolio management practice provides an impact investing portfolio management solution for institutional and private clients. Services range from a fully outsourced impact investing CIO model to organizationally integrated à la carte services supporting targeted aspects of the investment process (sourcing, due diligence, structuring, closing, monitoring, etc.).

Avivar’s advisory practice covers a range of client impact investing needs, from strategy design to implementation, evaluation and review. Advisory client relationships begin with dialogue to understand an organization or family’s mission, social and/or environmental mandate; financial, program and geographic priorities; human and financial resources; organizational design; existing partnerships; and other matters important to how the entity advances its work. Avivar is also a leading provider of impact investing training and coaching services. We develop customized training for board, staff, donors, clients and/or partners of individual institutions, as well as the broader field including philanthropies, health systems, banks, and those seeking to raise impact investment capital.

Fund Syndication
Avivar’s fund syndication practice works with clients to develop impact investment funds and families of funds that coordinate the range of capital necessary to build healthy, vibrant and sustainable communities. We structure, coordinate and manage institutional quality funds and/or investment vehicles that aggregate capital at the scale at which institutional investors need to deploy it while retaining the ability to redeploy that capital in communities or sectors at the scale at which they can absorb it.

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