

newschools
venture fund



**INVESTMENT CRITERIA &
DILIGENCE PROCESS:
NewSchools' Methodology for
Evaluating and Investing in Ventures**

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“As a co-investor with NewSchools, I was impressed at the detailed diligence and analysis that NewSchools performed. Their analysis and diligence ranked among the best VCs we have invested with.”

–Dean Miller, Safeguard Scientific, co-investor in NewSchools portfolio company

OVERVIEW

Since its inception, NewSchools Venture Fund™ has reviewed several hundred business plans but has ultimately invested in fewer than fifteen organizations. Because of our early-stage focus, intensive management assistance and capacity-building support for the organizations we fund, NewSchools’ investment and due diligence processes lie at the core of our efforts to transform K-12 public education.

NewSchools actively sources investment opportunities year-round through a variety of channels, including: referrals from investment and network partners, active scouting by NewSchools’ Venture Team, unsolicited submissions through our website, and in some cases, direct incubation by NewSchools in an area of intense strategic value. This document explains the NewSchools Venture Fund multi-stage process for evaluating and funding new ventures, including an overview of investment criteria and due diligence steps.

INVESTMENT CRITERIA & DILIGENCE PROCESS FOR NEW INVESTMENTS

Initial Screen

Initially, newly received business plans are assessed against three criteria: fit with NewSchools’ investment strategy, potential for significant social impact, and the overall quality of the plan itself.

1. Fit with NewSchools Investment Strategy

- The venture is consistent with one of the leverage areas targeted for the respective Fund.

2. Potential for Significant Social Impact

- The venture will produce measurable learning outcomes for underserved children.
- The venture will scale, so that its impact will be felt broadly.
- The venture is sustainable, so that its impact will grow over time.

- The venture will have a catalytic impact on the educational system; that is, the venture’s impact will be felt beyond the direct effect it has on students or staff that it serves directly.

3. Overall Quality of Plan

- The plan is well-written, clearly articulated, and credible.

Preliminary Diligence

Ventures that pass the initial screen are assigned to a member of the NewSchools Venture Team who leads preliminary diligence on the venture. Preliminary diligence includes reading the business plan, seeing the product or service (if appropriate), and speaking with and interviewing the entrepreneurs. At this stage, ventures are assessed in relation to the following criteria:

1. Size of Potential Market/Opportunity

- The venture addresses a defined opportunity to change public education.
- The venture focuses its efforts on a sizable or growing market, with a particular focus on underserved children.
- The venture has a competitive advantage that will support traction in the market, growth and sustainability.

2. Quality of Product/Service

- The product/service achieves measurable outcomes for children and has a high quality assessment plan for measuring and continuously improving outcomes.
- The product/service is scalable, with the potential to impact thousands or hundreds of thousands of children.
- The product/service is sustainable, with a model that allows the organization to become self-sustaining over time.

- The product/service will have direct impact on improving K-12 public education.

3. Strength of Management Team

- The venture is led by passionate entrepreneurs who are driven to improve outcomes for underserved children.
- The venture is managed by a “hybrid” leadership team that possesses expertise in both education and business.
- The venture’s team has demonstrated the ability to attract and retain high-quality people.

4. Viability of Scaling/Dissemination Strategy

- The management team has clearly identified distribution channels and/or developed marketing plans to get the product/service into the market.
- Replication and/or distribution strategies are well-defined, well-understood, and credible.
- The dissemination model can scale to support products/services replication and/or distribution, leveraging partnerships where relevant.

5. Sustainable Financial/Business Model

- The venture has a logical business model that is sustainable over time, with appropriate, reasonable estimates of funding needs (and fundraising plans) if anticipated.
- The venture’s corporate status (for-profit or nonprofit) is appropriate for its needs and purpose.

Following the completion of preliminary diligence, the NewSchools Venture Team prepares a written recommendation of whether to pursue full diligence. Those ventures we find promising but choose not to invest in, are referred, where possible, to other potential funders and network partners. Those promising ventures in which we remain interested enter the full diligence process.

“NewSchools is one of our most valued sounding boards ... because of their knowledge of both the K-12 arena and business strategy, they really understand how to evaluate opportunities and risks, and what will make the greatest impact.”

–Gloria Lee, COO, Aspire Public Schools

Full Diligence

The Venture Team lead coordinates the diligence activities for a venture in full diligence. In addition to the involvement of NewSchools staff, full diligence may make use of ad hoc “working groups” that bring to bear the expertise of Investment Partners and/or Network Partners, as required, to further understand and assess:

- **The organization’s management team**, based on in-person interviews and 360° reference checks. (Investments may be contingent on changes or additions to the management team);
- **The product and/or service**, based on site visits, demonstrations, and/or discussions with users/customers (as appropriate). If the product is technology-based, additional diligence is conducted (with the assistance of technology experts

in the NewSchools Network) on the product’s architecture and quality;

- **The potential of the target market**, based on market research (both original and purchased research information) and discussions with users/customers and competitors;
- **The distribution or dissemination** channels and/or marketing plans (as appropriate), based primarily on interviews with prospective partners; and
- **The venture’s financial health and viability**, based on financials provided by the venture’s team, but filtered and evaluated by NewSchools analysts.

If the venture continues to appear promising as a NewSchools potential investment, the venture’s management team is invited to “make their pitch” to the

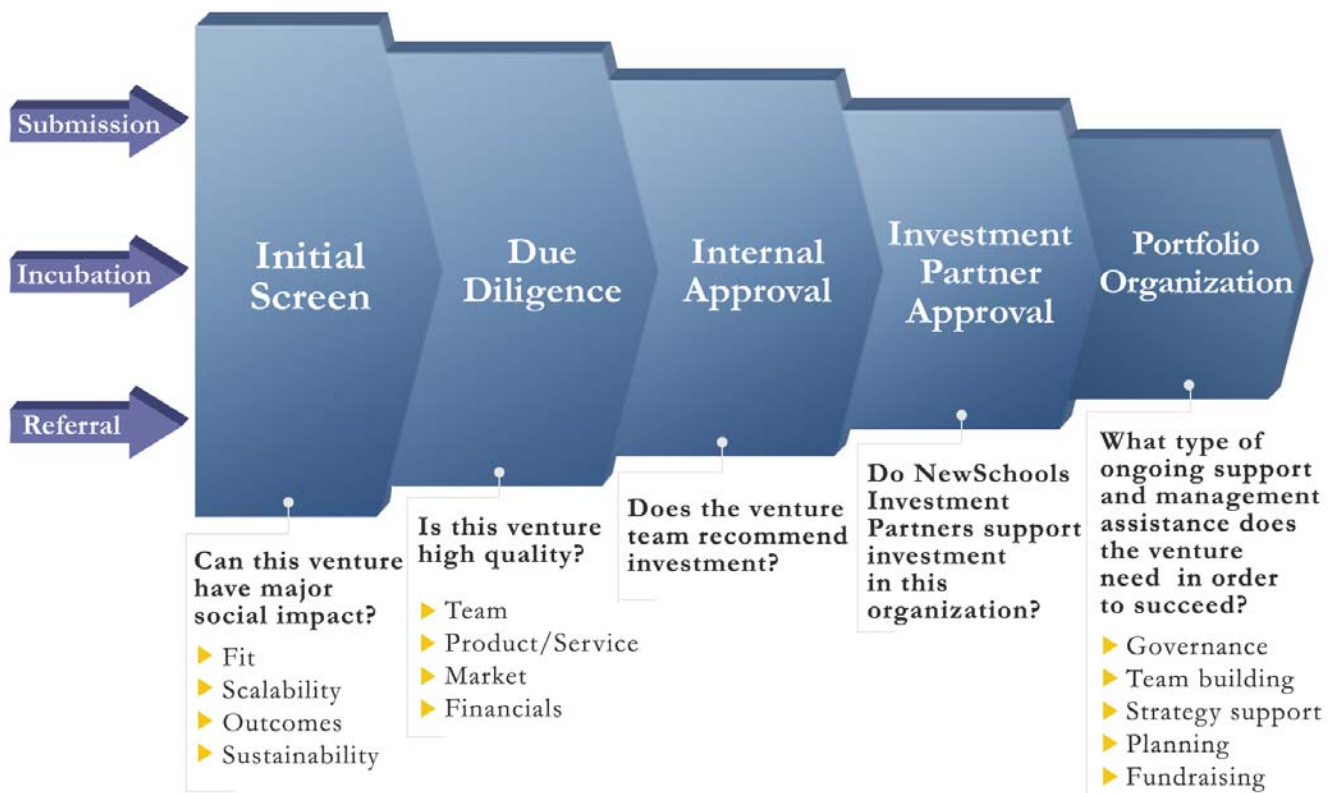
NewSchools Venture Team. Following this pitch meeting, the NewSchools Venture Team decides whether the investment is a “go/no go” collectively. If the team decides it’s “a go,” then outstanding diligence is completed and the entrepreneurs are invited to make their pitch to NewSchools Investment Partners.

Ventures that are not invited to present to NewSchools Investment Partners either require additional time/information, or are deemed not appropriate for a NewSchools investment. In the former case, the “working group” leading the diligence continues their diligence and seek an investment recommendation at a later time. Those ventures not chosen for investment are notified in a timely manner.

Investment Partner Approval

Investment Partners have the final approval on all investments made by NewSchools. Before the venture’s presentation to the Investment Partners, the NewSchools Venture Team furnishes the Investment Partners with a thorough analysis of the venture, its business plan and potential for social impact.

After the venture’s pitch, and a brief question-and-answer period, the NewSchools Venture Team facilitates a discussion among the Investment Partners, concluding with a final investment decision. Entrepreneurs are notified of the result soon afterwards; once funded, the venture enters the NewSchools Portfolio.



“Without NewSchools’ unique perspective in terms of looking at the dual bottom line, we would have not only made sub-optimal social decisions, but actually even sub-optimal business decisions. Their sheer tenacity in trying to ensure the success of the enterprise was phenomenal.”

–Jim Shelton, former President, LearnNow

ENTERING THE NEWSCHOOLS PORTFOLIO & SECURING FOLLOW-ON INVESTMENTS

The NewSchools Venture Team works closely with portfolio ventures to further develop their business model and ensure they achieve their goals. Typically, NewSchools takes a seat on the board of the portfolio organization, working with them to determine quarterly milestones to which they will be held accountable. A venture’s progress toward these milestones is shared and analyzed by the venture team on a weekly basis. It is through this hands-on process that a portfolio venture’s follow-on funding needs are discussed and prepared.

Follow-on funding needs tend to be triggered by an annual funding cycle (typical for grants to non-profits) or by a new fundraising round (typical for loans or for-profit ventures). The Venture Team lead for each organization is responsible for bringing such opportunities to the Venture Team’s attention and initiating the process of determining whether NewSchools should make an additional investment. At this time, particular attention is paid to:

- Progress versus plan and agreed upon benchmarks;
- Major changes to strategic direction;
- Mitigation of risks identified in earlier funding decision;
- Identification of future risks; and
- Discussion of items listed above with other co-funders.

CONCLUSION

The NewSchools Venture Fund investment model presupposes a high level of engagement and partnership with any organization that seeks or receives funding from NewSchools. Through our rigorous evaluation of potential investments, NewSchools lays the foundation for a strong, ongoing working relationship with entrepreneurs, as well as the solid strategy and execution their ventures need to succeed.