

Social Entrepreneurship

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President



Social Entrepreneurship

- ❑ Innovation driven by a desire to improve society rather than creation of wealth
- ❑ May result in creation of a lifestyle company
 - ❑ For profit; or
 - ❑ Not-for-profit
- ❑ Can be used to build a for-profit venture in a win-win

Agenda

- ❑ What is a not-for-profit corporation?
- ❑ Types of not-for-profit
- ❑ Management and Control
- ❑ Privileges and advantages of Not-for-profits
 - ❑ Philanthropic sources of funding
 - ❑ Tax exempt bonds
 - ❑ Asset ownership
- ❑ Regulation and supervision of Not-for-profits
 - ❑ Federal Level
 - ❑ State Level
- ❑ Exits
- ❑ Venture philanthropy
 - ❑ Hybrids -- Private-Public Product Development Partnerships
- ❑ A new type of corporation – the Benefit Corporation

Not-for-Profit Corporations

- ❑ One of the great strengths of the US economy and culture
- ❑ Aka (in other economies)
 - ❑ Charities (UK)
 - ❑ NGO's – “Non Government Organizations”
 - ❑ Quango's – “Quasi-Governmental Organizations”

Not-for-Profit Corporations

- ❑ A corporation whose objective is not the generation of profits for distribution to shareholders
 - ❑ Doesn't have shareholders
 - ❑ Only difference from a for-profit corporation
- ❑ Owns its own assets
 - ❑ Assets can be substantial, e.g.:
 - ❑ University endowments
 - ❑ Museum art collections
- ❑ Doesn't make a profit
 - ❑ Can generate a surplus
- ❑ Governed by Board of Trustees
- ❑ Generally, under supervision of the state Attorney General
 - ❑ Susceptible to politics

Characteristics of Not-for-Profit Corporations

- ❑ Mission
 - ❑ Generally have a public mission (of varying scope)
- ❑ Culture
 - ❑ Not driven by maximization of profits and shareholder value
- ❑ Stable
 - ❑ Not driven by maximization of profits and shareholder value
 - ❑ E.g., Wang Center
 - ❑ All that's left of the Wang name in Massachusetts (Just!)



Management and Control

- ❑ Governed by Board of Trustees
 - ❑ But, Trustees have no claim on assets
- ❑ Indeed, no one has a claim on assets
- ❑ Boards tend to be larger than boards of for-profit corporations
- ❑ Decisions tend to be taken by consensus rather than contested votes
 - ❑ Board members tend to have a common interest in the cause or mission
 - ❑ Generally expected to make substantial donations to the NFP
 - ❑ No competing financial interests
 - ❑ Management
 - ❑ Investor blocks
 - ❑ Small shareholders

Management and Control

- ❑ Cannot align interests with other not-for-profits through partial ownership
 - ❑ No shareholders
- ❑ Alignment of interest can be through:
 - ❑ Common memberships on Board
 - ❑ Affiliation agreements

Not-for-Profit Corporations

- ❑ Two primary flavors:
 - ❑ 501(c)6
 - ❑ 501(c)3

501(c)6

- ❑ Basic not-for-profit corporation
- ❑ Doesn't have a charitable or public mission
- ❑ Donations not tax deductible
- ❑ Does not pay taxes on surpluses
- ❑ Can engage in lobbying

Examples

- ❑ Trade associations
- ❑ Physician practice plans
- ❑ Political Action Committee's ("PAC's")

501(c)3

- ❑ Charitable not-for-profit corporation
- ❑ Must have a charitable or public mission
- ❑ Donations tax deductible
- ❑ Pays taxes on income from business activities not related to charitable/public mission (“UBIT”)
 - ❑ E.g., Campus Convenience
- ❑ Cannot engage in lobbying

Examples:

- ❑ Churches
- ❑ Universities
- ❑ Hospitals
- ❑ Foundations
- ❑ Museums
- ❑ Orchestras, theaters, operas, ballets

Privileges and Advantages of Not-for-profits

- ❑ Funding sources
- ❑ Ability to attract volunteer efforts
 - ❑ In kind donations
- ❑ Legal protection from suit

Funding Sources

- ❑ Philanthropic sources
 - ❑ Foundations
 - ❑ Generally only give to 501(c)3's
 - ❑ Individuals
 - ❑ Tax deductible if given to a 501(c)3
- ❑ Government grants
 - ❑ Government and Intergovernmental Agencies tend to prefer giving money to not-for-profits
- ❑ Tax Exempt Bonds
 - ❑ Can utilize tax exempt bond funding
 - ❑ Interest is tax-free to recipient
 - ❑ Interest rate can be lower than if taxable

Asset Ownership

- ❑ Not-for-profit corporations can:
 - ❑ Have wholly owned subsidiaries
 - ❑ Not-for-profit
 - ❑ For-profit
 - ❑ Own stock in for-profit corporations
 - ❑ Can own stock in Subchapter S corporations

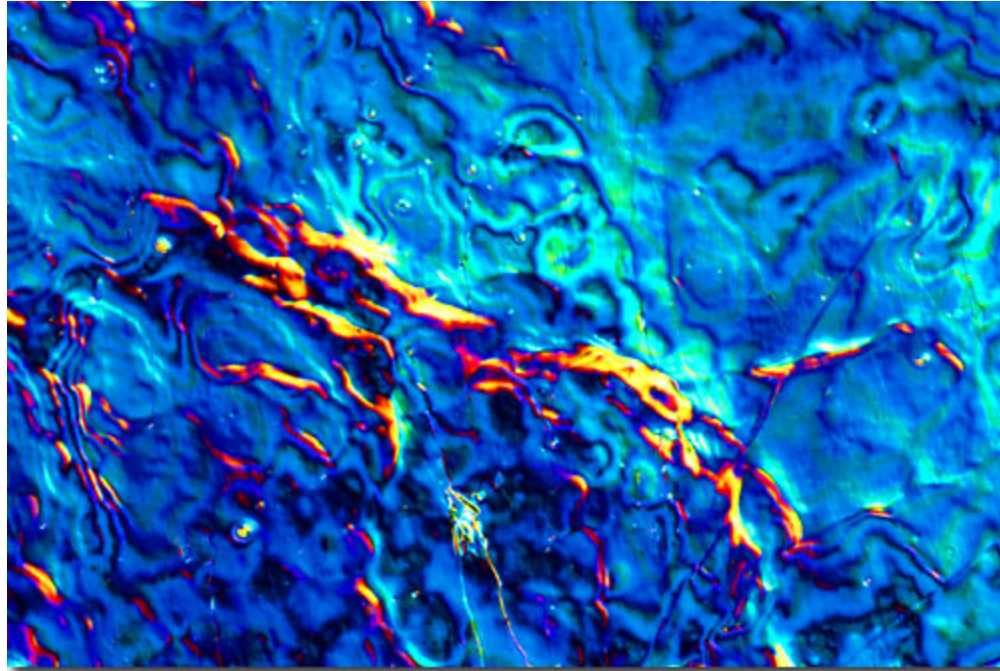
Regulation and Supervision of Not-for-profit Corporations

- ❑ Fly lower under radar screen than for-profits
- ❑ Federal Level
 - ❑ IRS
 - ❑ File tax returns
 - ❑ Private inurement
- ❑ State Level
 - ❑ Not for profits report to Attorney General's Office
 - ❑ E.g., Tom Reilly role in sale of Red Sox
 - ❑ Can lead to politically motivated actions
 - ❑ BU/Seragen
 - ❑ Kauffman Foundation
 - ❑ Publish salaries of 5 highest paid officers
 - ❑ Harvard Management Company – top 6 \$78.4 million in 2004

Exits

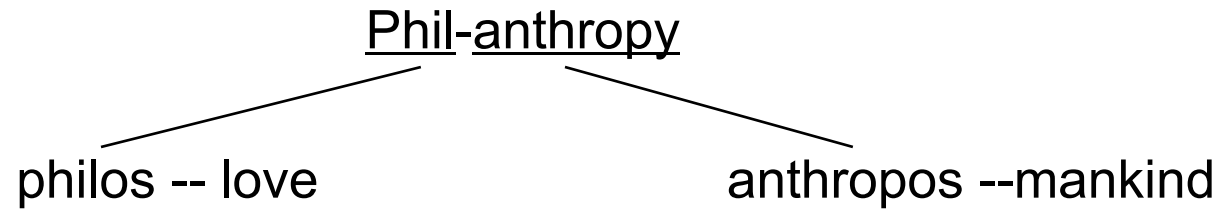
- ❑ Not-for-profits can be bought and sold
 - ❑ By another not- for-profit
 - ❑ By a for-profit
 - ❑ E.g., purchase of a not-for-profit community hospital by a for-profit hospital chain
- ❑ “Profit” – surplus over book value of assets on sale to a for-profit – must remain in a charitable foundation

Case Study – Florida State University -- MADD





Philanthropy



Philanthropy

- ❑ Moral obligation to give is one of the greatest strengths of US society
- ❑ Charitable funding is around \$335billion per year
 - ❑ ~2% of GDP
- ❑ Individuals largest source
 - ❑ \$188 billion
- ❑ Others:
 - ❑ Bequests
 - ❑ Foundations
 - ❑ Corporations
- ❑ Religion \$88 billion
- ❑ Education \$33 billion

The Changing Face of Philanthropy

“A capitalist is someone who spends the first two thirds of his life wresting a fortune away from his fellow men, and the last third giving it back again”

Philanthropy – the traditional model

- ❑ Make fortune
- ❑ Identify cause
- ❑ Set up foundation
- ❑ Die
- ❑ Assets flow to foundation
- ❑ Foundation buys/rents/builds very elegant facilities
- ❑ Foundation hires distinguished public servant as CEO and large staff
- ❑ Foundation spends 5% of its assets per year on building, staff (and cause)
- ❑ Examples:
 - ❑ Ford, Carnegie, Rockefeller Foundations

Philanthropy – the new model

- ❑ Make fortune
- ❑ Identify cause
- ❑ Set up foundation
- ❑ Live
- ❑ Devote significant time to foundation
- ❑ Require foundation to spend large amount of assets on cause
- ❑ Insist on visible outcomes
 - ❑ Still alive to see them!
 - ❑ Evaluate results of donations
 - ❑ Adjust strategy if needs be
- ❑ Examples:
 - ❑ Bill and Melinda Gates Foundation, Warren Buffet, Ted Turner

Venture Philanthropy

- ❑ Not about Venture Capitalists being Philanthropic
 - ❑ VC partnerships most definitely aren't
 - ❑ VC's personally are frequently highly philanthropic
- ❑ It's about Philanthropists acting like Venture Capitalists
 - ❑ Making high risk investments that will help fulfill their missions

Venture Philanthropy

- ❑ Foundations are becoming much more proactive in managing the outputs from their donations
- ❑ “Funding cures, not science”
 - ❑ Funding “translational research”
 - ❑ High risk research that can’t attract commercial funding
 - ❑ Prototyping
 - ❑ Early clinical trials
 - ❑ Making grants to corporations
 - ❑ Managing IP
- ❑ Center for Venture Philanthropy, Sand Hill Road, Menlo Park
- ❑ Examples:
 - ❑ JDRF



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Venture Philanthropy and Foundation Deals: A Biotech Company Perspective

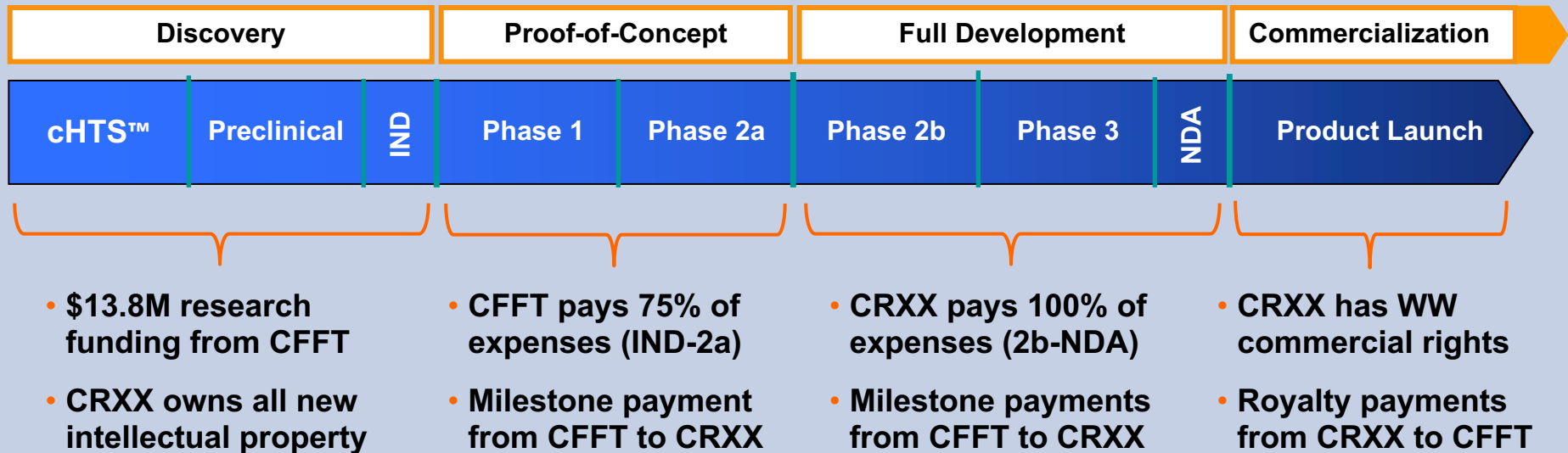
Bio 2007

Daniel Grau
Chief Operating Officer

Corporate & Venture Philanthropy Deals

| | Cancer | Cystic Fibrosis | Drug-Device | Neuro-Degenerative | Infectious Disease | Ophthalmic | Obesity |
|---------------------------------|--|--|-------------|---|---|---|---|
| Corporate Partnering |   |  | | |  |  |  |
| Foundation Venture Philanthropy |  |  | |  |  | | |
| | | | |  | | | |

CRXX- CFFT Deal Structure



- Funding from bench through patient POC plus 100% commercial rights
- New therapeutic area with focused specialty audience & high unmet need
- Multi-pathway combination sciences approach to CFTR modulation

Hallmarks of CRXX Venture Philanthropy Deals

- ❑ Therapeutic area amenable to approach, yet higher risk
- ❑ Partner underwrites research, preclinical and (sometimes) early clinical efforts
- ❑ Access to tools and leading advisors/expertise
- ❑ Obtain commercial rights to resulting product candidates
- ❑ Sharing of downstream economics
- ❑ Sharing of new tools and technologies for R&D purposes

Cystic fibrosis

- ❑ Defect in cystic fibrosis transmembrane conductance regulator (CFTR).
 - ❑ Sweat
 - ❑ Mucous
 - ❑ Digestion
- ❑ Recessive gene
 - ❑ 1 in 25 Europeans are carriers
 - ❑ Particularly N. Europe
 - ❑ 30,000 US
 - ❑ 70,000 global
- ❑ Used to die before 21

Cystic fibrosis

- ❑ Gene cloned in 1989
 - ❑ First genetic disease caused by a point mutation for which gene cloned
 - ❑ Hospital for Sick Kids, Toronto and U. of Michigan
- ❑ 1,897 mutations known
 - ❑ $\Delta 508$ most common
 - ❑ 66% worldwide, 90% US cases
 - ❑ G542X 2nd
 - ❑ 2.4%, common in Spanish populations
 - ❑ GF551D 3rd most common
 - ❑ 1.6%%, common in Celtic and English
- ❑ Genetic testing generally looks for ~32 mutations



Cystic fibrosis



An MS Diagnostic

| BioBusiness | | Drug Discovery | | | OMICS | | Bioprocessing | | | Translational Medicine | | |
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TO MOVE

GEN News Highlights: Dec 14, 2011

Lineagen, Fast Forward Team Up to Develop MS Tests

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Lineagen, a [molecular diagnostics](#) company, and **Fast Forward**, a nonprofit subsidiary of the National [Multiple Sclerosis Society](#), are joining forces to develop a test for multiple sclerosis (MS). The goal of the program is to develop a test that can aid clinicians in diagnosing MS and provide the prognostic information needed to help guide treatment decisions and response to therapies.

Under terms of the sponsored research agreement, Fast Forward is committing \$622,000 to establish and validate an array of [biomarkers](#) for MS, including genes associated with predisposition to the disease and blood-based markers that have diagnostic and prognostic potential. The funding will support an ongoing clinical program that is being conducted under the teams of John W. Rose, M.D., professor of neurology at the University of Utah and Mark Leppert, Ph.D., professor of human genetics at the University of Utah.

Lineagen, based in Salt Lake City, is focused on diagnostic and consultative services for complex genetic disorders. The company is working on a test for chronic obstructive pulmonary disorder and has one commercial product, FirstStepDx, for autism spectrum disorders (ASD).

FirstStep is an integrated genetic testing, counseling, and developmental screening service to aid in the clinical evaluation of children with ASD or other forms of developmental delay. FirstStep must be ordered by a doctor and use the provided collection kit, which includes an oral collection swab; blood collection kits are also available for circumstances in which a buccal sample is either undesirable or impossible. The Affymetrix CytoScanTM HD Array, used in FirstStepDx, has exceptionally dense DNA probe coverage across the whole genome, according to Lineagen.

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Public-Private Partnerships (PPP's)

Public-Private Partnerships (PPP's)

- ❑ Relatively new organizations created to develop products to improve public health in the developing world
- ❑ Philanthropically funded
 - ❑ Rockefeller Foundation
 - ❑ Bill and Melinda Gates Foundation
- ❑ Not-for-profit drug companies
 - ❑ Fund clinical development from philanthropic/NGO sources
 - ❑ Not from profits on existing drugs
 - ❑ Allows them to price drugs based on cost of production, not on ROI
 - ❑ Fund development, not discovery
 - ❑ Fixed dose combination therapies (“FDCT”)
 - ❑ New formulations
 - ❑ Pediatric

Public-Private Partnerships

❑ PATH



❑ Drugs for Neglected Diseases Initiative



❑ Medicines for Malaria Venture



❑ Institute for One World Health



❑ Aeras Global TB Vaccine Foundation



❑ International AIDS Vaccine Initiative (IAVI)



❑ TB Alliance



❑ International Partnership for Microbicides



❑ Foundation for Innovative New Diagnostics (FIND)



❑ CARB-X



New Products

ASAQ



ASMQ



NECT

Nifurtimox-Eflornithine Combination Therapy to treat human African trypanosomiasis



MenAfriVac

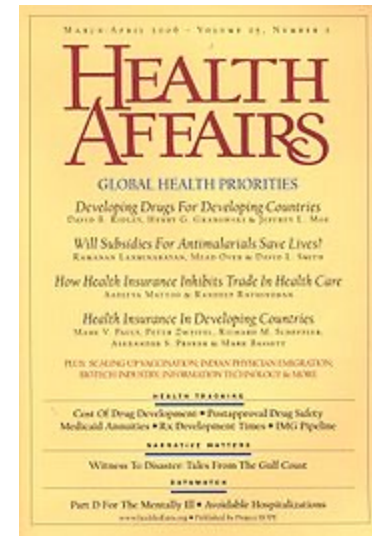
Meningococcal A Conjugate vaccine



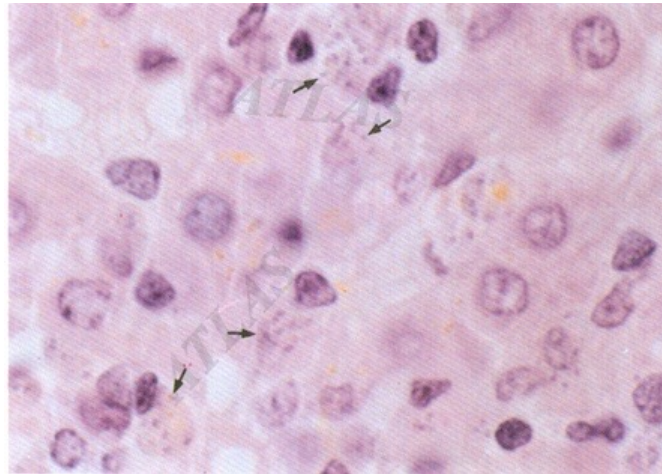
Serum
World Class Products. World Class Care.



Coartem



Paromomycin Intramuscular (IM) Injection



Visceral Leishmaniasis



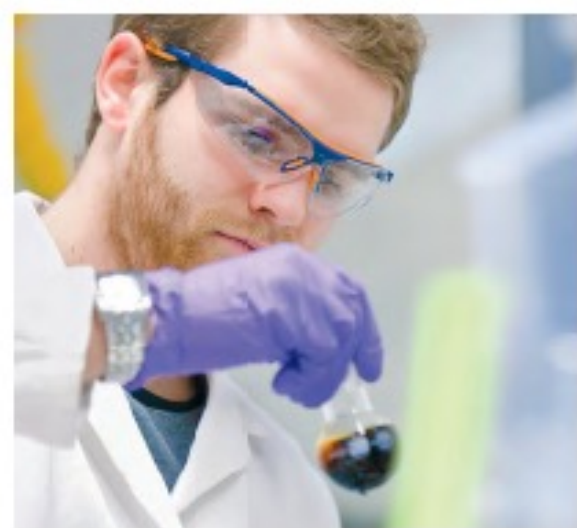
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| Our planet | 82 | → |
| Governance and management | 95 | → |

Do more,
feel better,
live longer

Corporate Responsibility Report



2011



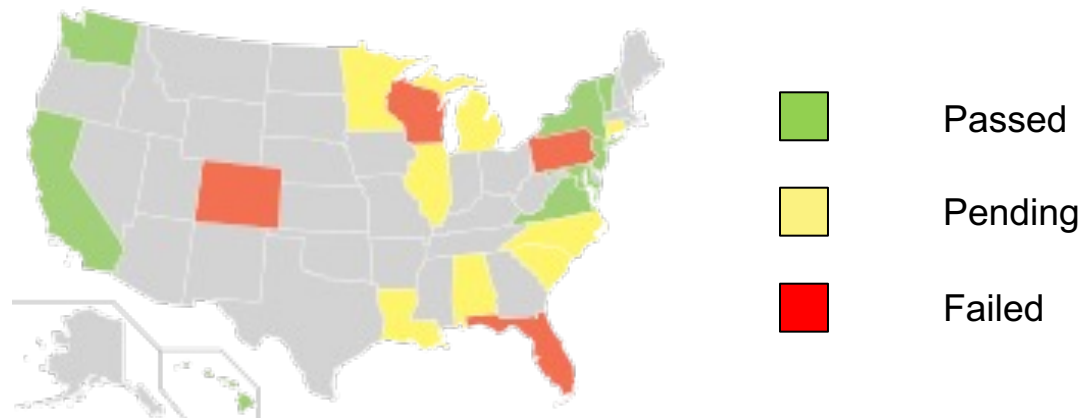
A New Type of Corporation

- ❑ California Flexible Purpose Corporation
 - ❑ Shareholders can specify a mission beyond mere profit in by-laws
- ❑ The Benefit Corporation
 - ❑ Required to “Create a material, positive impact on society and the environment and to consider the effects of its actions on its customers, its employees, society and the environment.”
 - ❑ Must report publically on their social and environmental performances using third party standards

A New Type of Corporation

- ❑ Started in 2006 in Philadelphia
 - ❑ B Lab
 - ❑ Founders sold a socially minded company and saw the new owners abandon the social mission
 - ❑ Provide certification to Benefit Corporations
- ❑ Maryland first to approve
 - ❑ 11 other states followed
 - ❑ Massachusetts approved in November 2012
 - ❑ Pending in 14 more

Powered by



A New Type of Corporation

- ❑ 170 corporations registered so far



Patagonia is trying to build a company that could last 100 years. Benefit Corporation legislation creates the legal framework to enable mission-driven companies like Patagonia to stay mission-driven through succession, capital raises, and even changes in ownership, by institutionalizing the values, culture, processes, and high standards put in place by founding entrepreneurs.

Yvon Chouinard
Founder