



## Sustainability

[Home](#)

› [Blog](#)

› Series: Changemaker Fellows Connect with Alumni

# Series: Changemaker Fellows Connect with Alumni

## Jason Plant '23 Interviews Alumnus and Entrepreneur, David Ferran

MONDAY, APRIL 05, 2021

*Jason Plant '23 | Business Administration*

*In this blog series, the 2<sup>nd</sup> year cohort of Changemaker Fellows are conducting informational interviews with alumni changemakers as part of the fellowship. Fellows are building their professional networks and learning from and developing relationships with role models within UNH's alumni community. As a key component of this process, Fellows are writing blog posts that highlight the professional and impactful successes of the alumni they interviewed. Fellows will walk away from this experience having a better idea of how they can make an impact in their professional pursuits, no matter what*

### SHARE

EMAIL

FACEBOOK

LINKEDIN

TWITTER

PINTEREST

*fields interest them.*

---

## **UNH Alumnus David Ferran's Catalyst of Stakeholder Capitalism**

It is no secret that the United States' capital markets are not set up to support stakeholder-focused, long-term oriented startup entrepreneurs. In the venture capital (VC) market where most companies get their initial financing, when one buys stock in a company, a liquidity event will be needed at some point in the future for the investor to make their returns (usually 2 to 5 years from the time of investment). The exit strategies entrepreneurs must develop and follow through on in order to receive equity financing from these investors do not facilitate long-term relationships with the various stakeholders that are key to the success of the company, including the shareholders themselves. This is because most of the time, a company has to be sold in order for its angel and venture investors to get their returns (rarely, a company can become publicly traded through an IPO).

Another aspect of early-stage equity investing that works against entrepreneurs is how startup companies are valued. Valuation by angels and VCs at the Seed and Series A rounds is often arbitrary, because the company has few if any financial metrics to base the valuation on. This makes it easy for early-stage investors to take more than their fair share by undervaluing a company. This dilutes the entrepreneur's stake in the company and gives more control over how the company's vision is executed to short-term profit-motivated investors.

Furthermore, the exit valuations of venture-backed companies are not based on the quality of their stakeholder relationships, as the value of those relationships only becomes apparent in the longer-term. Instead, they are valued based on EBITDA (Equity Before Interest, Taxes, Interest, Depreciation, and Amortization) and other short-term metrics. This means that unless an entrepreneur builds their company from day one to focus on profitability over all other stakeholder interests, the

company is unlikely to be viewed favorably by most potential investors.

## An Agent of Change

University of New Hampshire alumnus, UNH Sustainability Institute Advisory Board member, and serial entrepreneur, [David J. Ferran](#), is currently working on a unique revenue-based financing (RBF) investment fund that seeks to provide entrepreneurs with a better alternative to equity-based financing.



RBF takes place when an investor provides an entrepreneur with capital and over time, as the company generates revenue, the investor takes a percentage of that revenue until the investor makes a predetermined return on investment.

At Ferran's company, called [Torrey Project](#), entrepreneurs are taught the difference between stakeholder and shareholder capitalism and the critical aspects of starting a business – which include being clear on values and purpose – and how they can use their business as a force for good in the world. Not only does Torrey Project and its affiliate fund, Venture-RBF, have serious disruptive potential within the early-stage financing space, but it poses a compelling value proposition to entrepreneurs.

## Top two reasons why revenue-based financing has not become a more popular financing option for startups

One might ask why revenue-based financing has not become a more popular financing option for startups. After all, RBF has existed for a long time and it does not require entrepreneurs to give up equity in their company, meaning that it does not come with the many pitfalls of the short-term focus typical of equity investors. If entrepreneurs retain equity in their companies, not only do they have more control over when an exit event occurs, but they reap more of the rewards when such an event does take place.

## **1 – Risk Mitigation**

RBF firms today will not invest in companies that do not have revenue, which right away eliminates idea-stage and pre-revenue startups from consideration. Furthermore, RBF firms also look at the quality of revenues. They want to invest in companies that have significant revenue totals, low customer concentration (i.e. does not rely on only a few customers for all of its revenue), low churn rates, and strong recurring revenues. Additionally, RBF firms want portfolio companies to have significant gross profit and high gross margins (upwards of 50%), because RBF investors can charge companies with high gross profits a higher revenue percentage without stifling the company's growth. This means that RBF investors get their returns faster and in doing so, mitigate the risk that a company fails or cannot make payments before the RBF firm has made their predetermined return on investment. Very few if any startup companies fit these guidelines.

## **2 – Failure Rate**

Another issue preventing RBF firms from investing in startups is that most startups fail. Venture capitalists can account for this because if one of a venture capitalist's portfolio companies becomes very valuable, the returns on selling their equity in that company can make up for their losses. Since RBF firms do not hold any equity in the companies they invest in, they have no such way of making up for the high failure rate that comes with investing in startups.

### **Torrey Project and Venture-RBF's new approach to revenue-based financing**

David Ferran believes Torrey Project's Venture-RBF approach may be the way to deliver more supportive early-stage capital to the startup world. As Venture-RBF gets its revenue-based returns from companies that have not yet generated any revenue, there is a high degree of risk involved. The genius of Torrey Project and Venture-RBF lies in how they mitigate the aforementioned risks involved when investing in startups.

One way that Torrey Project mitigates the risk that comes with venture RBF is by conducting far more due diligence (the research investors conduct into a startup's viability as an investment) than their equity financing and RBF counterparts. This complex, detailed due diligence will help Torrey Project invest in the companies that are most likely to succeed. This due diligence will also be provided to Torrey Project's Venture-RBF partners to provide a value-add that informs their investments.

Also, instead of requiring that companies have sizable, quality revenues and high gross margins, Torrey Project mitigates its risk by, "helping entrepreneurs with a level of mentorship, training, tools, and support that is currently unheard of." Here is how the Torrey Project's process works to empower mission-driven social entrepreneurs both financially and through mentorship.

### **Bootcamp for Conscious Entrepreneurs**

Companies seeking to obtain help and/or financing from Torrey Project first attend the company's 30-day Bootcamp for Conscious Entrepreneurs. This Bootcamp is currently geared towards first-time entrepreneurs and teaches founders how to build a company that employs a multi-stakeholder approach to make a positive impact, while also making the profits the business needs to both survive and reward its financiers.

### **Torrey Project's Investment Capital Accelerator**

After completion of the Bootcamp for Conscious Entrepreneurs, if a given company shows sufficient promise, it may be invited to Torrey Project's Investment Capital Accelerator where they will be further supported in preparing for capital attraction. Currently, Ferran expects that the number of companies graduating from the Bootcamp that will qualify for enrollment in Torrey Project's Investment Capital Accelerator will likely be quite small. That said, being able to spend so much time "under the hood" with startup teams will contribute significantly to their

ability to accurately assess and mitigate risk. By selecting only the most worthy of graduates, and then providing them unheard-of levels of support, Torrey Project hopes to demonstrate that Venture-RBF is a viable component in any investment portfolio. Being selective will also help Torrey Project in tailoring its mentorship and support services to the specific needs of each portfolio company.

### **Torrey Project Certification**

When a company successfully graduates from the Investment Capital Accelerator, they will receive a Torrey Project Certification, that will help the company in obtaining financing from other sources. Torrey Project is currently trying to convince other financiers to embrace the concept of Venture RBF investing as well. Their main reasons for doing so are to spread the benefits of this financing method to as many entrepreneurs as possible and to create a collaborative ecosystem in which Torrey Project and other like-minded organizations can work together to generate high quality deal flow and thus attract high quality investors.

Additionally, after graduating Torrey Project's Investment Capital Accelerator, the given company will either receive investment capital from Torrey Project's Venture RBF fund directly, or will be supported in accessing capital from members of Torrey Project's extended investor network. Today, women receive about 4% of venture capital investment dollars, and people of color receive less than 1%, with the other 95% going mostly to white males. Once David learned about this immense discrimination that women and entrepreneurs of color face, he decided that Torrey Project will, at least in its beginning stages, only provide investment capital to underserved entrepreneurs in an effort to level this playing field. Ferran insists that if his proof-of-concept fund succeeds, it can be scaled to accommodate entrepreneurs of all races and genders in the future.

### **Project Management Plan**

Once a given company has secured financing from Torrey Project's Venture-RBF fund, another innovative risk mitigation technique is

utilized. Torrey Project's support of the entrepreneur heightens even further at this stage; Torrey Project will support the entrepreneur in composing a budget and a project management plan complete with deliverables and proposed dates by which to reach these milestones. As the entrepreneur's company meets these milestones, Torrey Project uses a technique called micro-traunching, in which the committed funds are split into separate portions that the company 'earns' by reaching the milestones consistent with its project management plan.

For example, a company is given \$50,000, which is determined by the company and Torrey Project to be enough to get the company to meet the metrics consistent with completion of a milestone. If the company meets this goal, they receive the funding they need to meet their next milestone, and so on. If the company does not meet this goal, they meet with Torrey Project to discuss next steps and adjustments to their budget and project management plan.

This process helps the entrepreneur (especially first-time entrepreneurs) while also mitigating risk for Torrey Project in that if a company were to fail during this process, the Venture RBF investor would not lose all of the committed capital. This process is perfectly tailored to helping startups develop proof-of-concept, because in the cases where the company's business model or technology is proven not to be viable, Torrey Project does not lose more capital than was necessary to come to this conclusion.

## **Stakeholder Capitalism**

The final aspect of Torrey Project that will help it accomplish its mission is how it encourages entrepreneurs to put their money where their mouths are when it comes to stakeholder capitalism. A challenge that comes with revenue-based financing is the lack of accountability to investors, given that RBF investors have no equity in the company. Torrey Project only wants to provide capital to stakeholder-driven companies, but prior to making an investment, it is hard to separate the actors from those that truly will incorporate stakeholder capitalism into

their businesses. Torrey Project's creative solution to this issue is an adjustment to the economic incentives at play.

Torrey Project's capital is provided at a higher initial cost to the company financed, but if the company achieves B-Corp Certification during the term of the investment, they will be refunded a significant percentage of that cost. This strategy makes it more expensive not to adopt a multi-stakeholder approach and it discourages actors from seeking funding from Torrey Project, because achieving B-Corp Certification is nearly impossible to do without a true dedication to multiple stakeholders, taking years of preparation and dedication. Portfolio companies that become B-Corps help Torrey Project meet its goal of facilitating stakeholder capitalism, and for this, they receive a discount on their cost of capital. Portfolio companies whose founders might have been disingenuous about their intentions to incorporate values, purpose, and a multi-stakeholder approach drive up Torrey Project's internal rate of return, making it easier for Torrey Project to obtain funding from institutional investors. It is a win-win for Torrey Project and mission-driven companies alike.

David Ferran, through Torrey Project, is working to further his mission to foster social entrepreneurship and empower underserved founders. While Torrey Project's approach is experimental, it shows promise to fundamentally alter the entrepreneurial ecosystem. At scale, this new form of financing could help usher in a new era of conscious, stakeholder-focused capitalism where customers, employees, suppliers, communities, society, the environment, *and* shareholders derive rich benefits from the companies they form relationships with.

Those interested in learning more about Torrey Project can visit [their website](#) or email David Ferran at [david.ferran@torreyproject.org](mailto:david.ferran@torreyproject.org).

---

*Jason Plant '23, a sophomore majoring in Business Administration with options in Entrepreneurial Studies and Finance. On campus, he is a student-athlete tutor and a member of the Paul Scholars Program, the Honors Program, Entrepreneurship Club, Sign Language Club, and the*



*Rines Angel Investment Fund. He was inspired to join the Changemaker Fellowship by his younger brother, who struggles with severe schizophrenia. Through the Fellowship, he seeks to learn how he could apply social innovation to make the world a better place for people who suffer from severe mental illness.*

---

## RECENT

[Creating](#)

[Impact](#)

[while](#)

[Nurturing](#)

[Leaders](#)

SATURDAY,

JUNE 10, 2023

[New](#)

[England](#)

[High](#)

[School](#)

[Students](#)

[Innovate to](#)

[Solve](#)

[Sustainability](#)

[Problems](#)

THURSDAY,

MAY 25, 2023

[Bee](#)

[Campus](#)

[UNH](#)

MONDAY,

MAY 08, 2023

[VIEW ALL](#)

## CATEGORIES

- [Campus Initiatives](#)
- [Community Engagement](#)
- [Research](#)
- [Sustainability Education](#)
- [Sustainability Leadership](#)
- [Sustainable Learning Community](#)

## ARCHIVE

- Choose

-

[SUBSCRIBE TO FEED](#)

## RESOURCES

---

[For Students](#)

[For Faculty](#)

For Staff

For Alumni & Partners

## MORE TO EXPLORE

---

Changemaker Collaborative

Our Community Networks

SIMAP

Donate

Copyright © 2023, University of New Hampshire. All rights reserved.

TTY Users: 7-1-1 or 800-735-2964 (Relay NH)

[USNH Privacy Policies](#) • [USNH Terms of Use](#) • [ADA Acknowledgment](#) • [Affirmative Action](#) • [Jeanne Clery Act](#)

## CONTACT US

---

### Sustainability Institute

107 Nesmith Hall

131 Main St.

Durham, NH 03824

(603) 862-8564

[sustainability@unh.edu](mailto:sustainability@unh.edu)

**NEWSLETTER: SIGN UP**



## Sustainability

---

### Sustainability Institute



Staff

Blog

Events

News

Faculty Resources

Alumni & Partner Resources

Sustainability Advisory Board

Task Forces

History

Sustainability Leadership

UNH Land Acknowledgement

Philanthropy

### Student Education & Engagement



Sustainability Dual Major

Fellowships & Internships

Hands-on Programs

Scholarships

Events

News

Related Degrees

For High Schools

## Campus Initiatives

