**Transcript Markus Lehmann – IBB Ventures**

5 January 2024, 01:01pm

 **Alexander Hertel** 0:04  
Then first of all, maybe walk us through your personal career history and how this has led to your current role.

 **Markus Lehmann** 0:14  
I'm working as the finance director at IBB Ventures. I started here in the year 2000. So over 20 years in the venture capital business. Now IBB Ventures was founded in 1997. We are part of the IBB, the Investment Bank Berlin, this business promotion bank of the state of Berlin. And IBB Ventures was founded to take care of the venture capital business, which isa little bit difficult to do directly out of the bank.

Since 2004 we are using ERDF money from the European Union in combination with money provided by the IBB and since 2022 we also have started an impact fund.  
So far we had a tech fund. This was what we did since 1997. The classical tech investments in venture capital. And since 2008, we also have an fund for creative industries, because this is an important industry in Berlin. And since 2022 also the impact investing fund that has a volume of €30 million and the total volume of our current fund generations €120 million, which we only invest in Berlin based startups.

 **Alexander Hertel** 1:34  
Maybe describe especially within the impact funds that you mentioned, what's the mission and the vision behind this fund?

 **Markus Lehmann** 2:04  
We are 100% public funded and every Euro that is returned to the fund is invested again. So no private investors, we have to make a happy. We are working for promoting the venture capital and startup ecosystem in in Berlin.  
And I think it's fitting for a public venture fund not to do just a business promotion, which is of course, the one aim of this venture capital business here, but also look inside the companies what they are they doing with the money and besides creating new jobs in start up companies, can we have an added value with a business model within the company. Added value for society or for the environment and that is the idea behind an impact investing fund. This impact fund is also funded by the European Union, 40% is ERDF and the rest is reflows from the tech and Creative Fund. We are using this reflows to create a new instrument here in Berlin the the Impact Fund.

**03:25**

Of course, not every startup we are looking into is suitable for the impact fund that we have. We are investing in base technologies or enabling technologies that you often cannot determine the impact. Because the impact is depending on what is the customer doing with your software technology or whatever or the the impact is only visible in a very long term. And we as a venture fund are usually invested for five, seven, ten years.

**03:55**

And if you do for example Biotech drug development, in most cases if the drug is successfully developed, we will sell the company before this is going to the market. So we cannot measure in impact how many people are affected by this drug. We can't measure because we are not a shareholder anymore when the impact is achieved. So it's important to have both, impact fund for startups with measurable impact and tech fund and creativecompanies. So no one nobody is dropping out of adventure financing.

**04:42**  
Because we we have this broad approach and it makes sense not to just focus on one technology here in Berlin, because we have this strict regional focus. So for a venture fund it is important to have enough deal flow because only two to three percent of the applicants are suitable for venture financing in the end. So the market has to be big enough to place this 120 million Euro.

 **Alexander Hertel** 5:13  
When you talk about impact and impact investing, do you use a specific definition of what you see as impact and as impact investing in your case?

 **Markus Lehmann** 5:25  
Yeah, we are also member of the Bundesinitiative Impact Investing and I think they have a quite fitting definition of impact investing. So it's five criteria says that are important: First of all, it has to be a real business that is at least in the middle and long term able to generate a profit. This very important.

Then the impact has to be integrated into the business model not as an add on impact. For example sell a conventional product and use the revenue to do something else: Plant the three or something like this. The product itself has to generate an impact. This is very important.

**06:07**

Then the impact has to be intended. Means for us: the Founders are doing this because of the impact. It's not just a by product for them. And very important is the measurability, so we have to be able to measure the impact. If it's too long term and we can't measure anything, then it's not for the impact fund. Maybe for the tech fund.

06:35  
And a third point is the positive impact has to be much bigger than the negative impact, that are usually connected to every business activity you have. You use resources in the end, and so there's always a negative impact, too. But the positive impact has to be much bigger.

 **Alexander Hertel** 7:00  
We're coming back to the measurement in a second. But first of all, maybe can you walk me through the first touchpoint you have with a startup and what's the process that follows until you make an investment decision?

 **Markus Lehmann** 7:15  
So we have multiple channels because we are only active in in Berlin. It's for us the chance. We try to see every deal that is done in Berlin. So there are multiple approaches: A lot of enquiries are coming by our websites or startups approaching us. But it's this is only one way to get in in contact. There are a lot of events here in Berlin universities. And we have a very large network of Co-investors and business angels. Every investment we are doing here in Berlin, we are doing together with private investors on Pari Paso terms. Meaning we are not handing out subsidies, because we always invest to market conditions. That works well in Berlin because here it's a very active venture market. This will not work in remote areas in Germany.

08:15  
So you have to adapt your model to fit the the market. So for here in Berlin this works well and that's why we have a very large network, also a network of founders or our former founders we have invested in. And quite a few deals and also the more attractive proposals are often coming from this network.

08:40

The third important way is we also do approach startups. So we have a lot of market data, which new startups have been founded in Berlin and we are monitoring these, checking what they are doing and actively approaching them and talk with them about financing. A green circle with white letters

Description automatically generatedSo every year we see around 600 startups here in Berlin and out of these 600 we invest in 10 to 12 new start-ups and a lot more in the follow-on of financing rounds in start-ups, we are already invested in.

 **Alexander Hertel** 9:20  
And in this process, until you make an investment or positive investment decision, how do you generally evaluate a start up and also how specifically do you evaluate the impact or the the potential of impact of from a start up?

 **Markus Lehmann** 9:41  
So if you look into a startup, quite early on we decide, is it something for the impact fund or more for the for the classical tech funds. Of course we ask the founders, if are in their own belief an impact startup or not. So this is the first important thing and we look into, what can be measured in this start up regarding the impact.

**10:12**

Only if these two things are given, then we would put this into the impact fund. If not, it's more omething for the tech fund. And the other things are classical venture due diligence. So how is the potential for scaling, the business is very important, the founding team of course is is very important. Do they have former experiences or how clear is their approach is this. This is a sound approach because we see a lot of businesses. We also have financed over 180 companies in the last more than 20 years. So I think we have a very quite good idea if this can work or not.

**11:03**

And you also have to find private financing partners for financing these companies. So it's a funne. There are the 600 companies coming in into the funnel and a big chunk is not suitable for venture financing in general. This is condensed down quite fast, but in comparison to private investors, I think we are much more responsive. So we have a lot of meetings with founders even if we are not convinced that it is already a good venture case, but with the potential maybe for a venture financing in one to two years.

**11:44**

So you also can approach us by telephone. Most private fund managers will not pick up the telephone if you try to call them. So we are quite approachable, talk a lot more than it's necessary, a lot on event because we want to developed this ecosystem. And most of the founders, we see more than once. So maybe in the first approach it's too early. Then we can always send them to the IBB, which has programmes of financing of 50.000 Euro or something, which is too small for us. But they have other programmes for very early start up companies. And then maybe we talk again in after 12 months or two years.

 **Alexander Hertel** 12:35  
And when it comes to measuring the impact, do you use specific frameworks or criteria to to measure and also predict and manage the impact of a start up for the impact fund?

 **Markus Lehmann** 12:48  
We are using, which is quasi the market standard, the IOOI model. So go from the input to the output, outcome, and impact. And the impact fund is investing along the the SDGs. So it's a very broad scale, not just climate or health. It's a health, climate,  
education, fight against poverty, sustainability. So it’s a very broad approach.  
13:20

And in the end you have to identify suitable indicators for each business model. So we don't have a fixed set of of indicators because we don't know yet, what kind of companies we will finance in the end. It's easier if you have just the climate funds and you can measure CO2 equivalents. But as we don't have this narrow focus, which doesn't make sense for us with this strict region of focus, ee don't know the the indicators in advance and you have to find indicators suitable for each and every investment.

13:59  
And we developed this together with a with the founders. Some already have a kind of a concept. But we do this in the course of the due diligence and there has a lot of work to go into this planning of the impact. And it's not just planning numbers, but also how do you get the data then? In many cases you need quality data. So if you work in your education project, usually you have to do questionnaires. You have to also ask your participants, if you want to know not only how many people have participated in a workshop or something like this, but also did they learn something and did what the learned help them to tackle their problems.

14:50

And to get this this data you have in advance a plan how to get this data. Because in the retrospective after five years you think: I should have measured this. But then you often don't get the data afterwards? It's difficult. So you not just plan the numbers in advance, but also have an idea how do you get the data and what has to be done along the road to to come to this data. So and this planning has to be done in the course of the due diligence.

 **Alexander Hertel** 15:27  
You already touched it, when it comes to collecting and validating data. Do you have like a template for all your founders or your investments? Or do you do individual plans for every company that you invest in?

 **Markus Lehmann** 15:45  
Currently we are doing individual plans because we are also new investor in this. But I think for us, it's makes a lot of sense to have some kind of template. So we have an idea, what has to be in this template. So far we have we have found five impact startups and also from from very different areas. So we are still working on a best practise to have a template for these companies.

**16:17**

Because you have such a big network of co-investors, we also did investments out of our technology fund and creative fund with impact investors. […] They have this impact planning and we were able to to get these impact planning tools for joint investment. So we have quite a good overview what’s the current best practise in the market and are adhering to this best practise. But yeah, I think a kind of template that is suitable for different areas is in a work in progress with us.

 **Alexander Hertel** 17:05  
And apart from the impact and measuring the impact, are there any other criteria that play a role in the investment decision, apart from financial and impact criteria? So anything specific, that you that you have developed?

 **Markus Lehmann** 17:22  
Yeah, what is more and more important, not just for impact investing, but also for the classical investment is the is the ESG topic or is a risk assessment. Are there any negative aspects you should mind when when investing? And this is something we do for for every investment. The startups have to fill out an online questionnaire which is in cooperation with a Berlin based company. […]

18:05

So I see a lot of such questionnaires from different different providers. Most of them are not targeted on startup companies, more on older companies where you have to fill in greenhouse gas emissions up to Level 3, which doesn't make much sense for a company with less than 10 employees. If you do a first investment with less than 10 employees, 0 revenues, there's no need to ask them for greenhouse gas emissions. They don't have the numbers and the effort to get these numbers would be too high for not a lot of insight you get.

18:39

But to have such a questionnaire is more for us to identify an area where we should have it deeper look. So if a company is producing something physical, then the supply chain might be an important issue. Where are they planning to get their raw material materials from and so on? If this is just a software company, this might be not an issue, but then you have maybe an issue with data protection and so on.

19:10

So it's a questionnaire which can be filled out by a founder in 30 minutes to one hour, but he doesn't have to look up numbers. That's important. So just to get a feeling, if there are areas in your diligence, where we should have a deeper look. But this is something that is now quite common to do such ESG assessment also with private funds. So we are not outlier anymore with this.

 **Alexander Hertel** 19:43  
 Now let's talk about the final investment decision you have. All the data you have the due diligence, you have the financial predictions, the impact measurement.  
Maybe can you explain how in the final decision all these aspects are interrelated and what kind of impact they have on the investment decision? So is it in the end still more the financial predictions then the impact? Are they 50:50? How does it look like?

 **Markus Lehmann** 20:14  
The final investment decision is made by an investment committee. The committee is internal with us, because we want to act fast. So we don't have an external board that is doing investments decision once a month. We can do this internally, usually four people: our CEOs and the the team that is working on the case.  
20:47  
The base for this investment committee is the document, usually 30 to 40 pages, where the investment manager responsible for the case is writing down everything you have to know for this for this case. Including the impact, the planning, amount we're investing? WWho are the Co-investors? Who are the founders? So everything that is important for the due diligence. Also the criteria that comes from the EU. Also there's this ESG assessment and in case of impact investments, there is a impact planning.

21:25

Everything is in this document and the final decision is a meeting. And in this meeting also the founders are present once again in front of this investment committee and the committee members can then ask questions. And after this meeting the decision has to be unanimously from all investment committee members.

21:56  
We factor in as well the financials, the risk is important and the likelihood this succeeds. And there's often a spread, as you have some cases where the growth potential might not be that high, but you have a lower risk of failure. Experienced founders, technology is is not a very high risk. And maybe in other cases the potential return is very high, but also the risk is very high. Long term technology development. It's not clear if the technology is final as the one that will succeed. Maybe you don't have yet a very good product market fit. It's a mixture and for us it's important to have a portfolio of different cases, some with a higher risk but higher return potential, some cases with lower risk and a lower return potential.

23:08  
And in case of the impact, it's has to be in a good relation to the investment and also the risk and the growth potential is in the normal cases aligned. If you have a a high growth potential, you have also a high impact because it's interlocked. And in this case you have two halves, this on the one hand you have may be very risky investments with a very high growth potential. Then you have also a high impact potential. But also a high risk of failure. And you have on the other hand maybe not so risky models with more moderate impact and revenue. But at a lower risk, so it has to be in relation in some cases.

24:01

Of course if you have greenhouse gas emissions related things: there are already is quite good numbers so you can see if you invest a million in a case and see the potential for greenhouse gas emissions reduction. You do have market data and can say this is very expensive or this is a very competitive price. But for many other cases, if you are in in education or health, it's not so simple. Also, number of people affected is not for itself a good indicator, because the people are affected in different ways.

24:43  
If you do a healthcare project, there are some diseases which have a very severe effect on the people. And maybe you‘re targeting not as many people, but the people you are helping with this product have a very big benefit out of it. And then you have maybe education projects, where the gains for the for the target audience might not be as severe and big as in the health department, but you are reaching much more people with this project. With greenhouse gas it's a quite simple calculation. If people are affected, it's often not that easy to do, so you have to use your common sense to determine if the investment and the the impact is an adequate ratio.

 **Alexander Hertel** 25:40  
And now you've touched already some, let's say, blind spots of the process of evaluating impact startups. What would you say are the biggest changes needed in this sector in impact investing to make even better decisions in the future, measure impact, better predict impact better and so on?

 **Markus Lehmann** 26:01  
One reason for us to establish an impact fund is because we see this is getting a lot of traction over the past years. But it's still a green field, you can say. So there are some older players, but many new players and it’s not so standardised right now. That's why it's important for us to work in these initiatives to talk to the Co-investors.  
Because you want to be also part of the development of standards and best practises in this area. That's why for example, we are working in a work group in the BII for on the topic of impact due diligence. So what should be covered if you do an impact due diligence? What aspects are important and what is the best practise in this area?

26:58  
This was one one aim of establishing the Impact fund to be there on the forefront and. I think we've had the first public fund here in Germany with an impact fund, but it makes sense because we are active here in the biggest market in in Germany. So it's difficult to, for example in Brandenburg to establish an impact fund with a relevant size should be 20 million plus. There's not enough impact start-ups yet, but this might change in in maybe 10 years. So for us, it was important to have this new instrument in Berlin.

 **Alexander Hertel** 27:42  
And in order to change this, what do you think must happen? There needs to be more impact startups, more money for impact investing or just better matching between both.

 **Markus Lehmann** 27:55  
I think there are already a lot of impact startups, but sometimes there are a lot of companies that are generating positive impacts in social economy. In Berlin it is quite a broad space. You often have to explain that that venture capital is like a classic start up area and not for everyone. It's a very small target group that is suitable for venture financing.

28:29  
And it's the same for for impact investing like we do. So in the end the companies have to meet also the venture capital criteria: highly scalable, profit in the end. So we always have to explain a lot, what kind of companies we are looking for, because we need the scaling effect to generate a relevant impact with venture capital and also to generate in the end returns that we are then able to reinvest.

28:59  
And a lot of companies that approach us are not venture suitable. But the good thing is, with the with the Investitionsbank in our back, there are a lot of programmes from the IBB which also are open for for for companies that are not venture companies, but sound businesses. And we can always connect them to the IBB and maybe they get a funding there. That's important.

29:36

So matching is one topic.What is very interesting for us is with the five investments we have done so far we were able to find new co-investors, that we haven't invested with before. So in many cases impact orientated investors. So it's for us a way also to expand our investor network, that's a side effect. And matchmaking is always a topic.

30:12

Also for classical startups to find an investor, in most cases you have to approach a lot of potential investors and find in the end the consortium. It's the same for us. So if you only invest in two percent and in the end, maybe of the startup companies 20 to 30% get a financing, you have to approach maybe at least 10 to 20 potential investors to to find financing. It's the same for impact startups.

30:43  
But it's I think it's an advantage if you have an impact startup. So there there is not so much competition. So it's something you can put on the table. I would say it's easier for an impact startup to get a financing than a classical tech startup. Maybe because there are not so many impact startups yet. So if you are on this path, it is worth to to put effort in this. It's a additional effort for the startups of course, because they don't have not just a financial business plan but also an impact business plan. So it's additional effort, but it might be worth it because you're can approach additional investors with this concept.