Case Study

WILDPLASTIC CASE STUDY

PURPOSE: TACKLING SOCIETAL PROBLEMS

Wildplastic was founded in 2019 with the goal to clean up the planet from unmanaged plastic waste. Following their motto "recover, recycle, reuse", they are collecting „wild plastic" from the environment and recycling it into products that are made of recycled plastic. To ensure that the company will always put systemic and ecological change first, Wildplastic was founded as a steward-owned company and successfully raised two rounds of aligned financing to grow sustainably and purpose-driven.

KEY FACTS

- Established: 2019
- Location: Hamburg, Germany
- # of employees: 11

EXECUTIVE SUMMARY

Wildplastic was founded in 2019 by five entrepreneurs with the goal to free the environment from plastic waste by structurally changing the way we think about plastic. In cooperation with certified organizations, NGOs and communities of collectors, the start-up works globally to collect wild plastic from beaches, landfills, and illegal dumpsites. In spring 2019, Wildplastic started producing and selling the first trash bag made out of 100% recycled and formerly wild plastic.

> "We are wild! Wild about making products for a better world, instead of just worrying about it. Wild about solving one of today's biggest problems, instead of just talking about it. Wild about seeing waste not only as waste, but as a material that inspires us to build."

The company's mission is not to produce trash bags or plastic packaging. Instead, Wildplastic seeks to clean up the planet by regarding wild plastic not as waste but as a resource with which they create new products. To guard this mission, Wildplastic was founded as a steward-owned company. Opting for the golden share model of steward-ownership, 1% of the voting shares are held by the Purpose Foundation to protect the principles of steward-ownership. In two financing rounds, a diverse group of investors (from family office to impact investors and Purpose Ventures), provided Wildplastic with non-extractive, mission-aligned growth capital to help the business grow.

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CLEANING THE WORLD FROM WILD PLASTIC

Germany alone produces up to 21 million tons of plastic a year. More than 80% of the plastic produced is made of virgin plastic and only 20% of it is being recycled. But especially countries in the global South are suffering from non-existent waste infrastructure. Environmental plastic pollution is everywhere. About 5 billion tons of plastic waste are littering our ecosystems and can be found in the environment, lakes, and oceans.

On their travels and in everyday life, the founders noticed time and again how much plastic waste collects on beaches, in nature, in the wild. Plastic waste that destroys ecosystems and livelihoods. Instead of simply worrying about the problem, they came together as a group to build a business model based on tackling plastic waste in the long-term – by cleaning up wild plastic and ensuring that no new plastic is created for new products.

Conventional production processes are often focused on the addition of virgin plastic to create new plastic products. Wildplastic has developed a new solution: a process that makes it possible to use exclusively recycled and wild plastic in new creations – such as trash bags. Bright colors and unusual prints make Wildplastic trash bags a real eye-catcher and add to successful marketing. And their plastic bags not only clean up the environment – but, according to a published life cycle analysis – also avoid up to 60% of CO_2 emissions in comparison to bags made of virgin plastic. New in line at Wildplastic are shipping bags made out of wild plastic. With ever increasing online shopping relying heavily on plastic packaging, packaging made from wild plastic creates a huge potential to clean up the world, regenerate ecosystems and save resources. Imagine how much plastic would get collected if all deliveries would be shipped in bags made out of wild plastic! This is what is currently envisioned in a collaboration between Wildplastic and the second largest online retailer in Europe, OTTO. By changing OTTO's shipping bags to ones made out of collected and recycled plastic, the collaboration could clean up an estimate of 340.000 kg of wild plastic from nature and save 516.800 kg CO_2e.[1]

[1] https://www.wildplastic.com/otto/

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ALIGNING OWNERSHIP: PURPOSE AND MOTIVATION

The task of cleaning the planet from plastic waste is monumental and intergenerational. It requires all the help – and attention – it can get. Therefore, and right from the start, the mission was set for the long-term and is reflected in the legal form and ownership structure of the company. To find a structure that would be aligned with their mission and goals, the founding team underwent a process where they would challenge their individual and team motivation that made them found the company in the first place, their visions for Wildplastic in the near and far future, and its focus in the long-term. They knew: For Wildplastic, the purpose would always come first and profits would be used as a means for this purpose – and not the other way around.

“Companies often face the dilemma that they want to do cool things in the world but have to maximize profits for their shareholders. That is neither fun nor sustainable in the long run and can lead to problematic trade-offs”, explains Christian Sigmund.

The founders’ goal was for Wildplastic to grow sustainably and clean up the planet in the long run, not to maximize shareholder value. They didn’t want to compromise their mission in response to shareholder pressure and profit maximization. “When founding, we all had one goal: cleaning up the planet. That is why we are doing what we do, this is our purpose. We never planned on making an exit and selling the company.”

When hearing about steward-ownership and Purpose, the idea of enshrining purpose-orientation and self-determination into the company’s legal DNA resonated deeply with the founders’ idea and motivation. For co-founder Nadja Boegli it was clear from the beginning that she didn’t want to found an exit-oriented start-up. “We wanted a structure that aligns with our mission and allows for a trust-based and supportive relationship with investors.” After learning more about the concept and getting into contact with Purpose, the founders decided that founding a Purpose company was the perfect fit to commit to impact-orientation from the start.

Founded directly as a steward-owned company with a golden share model, Wildplastic now ensures that the company’s mission is always in focus and that decisions are made by people connected to the mission and activities of the company.

> “Wildplastic has been a steward-owned company from the start – to save our mission and to create transparency and trust for our employees, partners, and consumers.”
>
> - Nadia Boegli, Co-Founder

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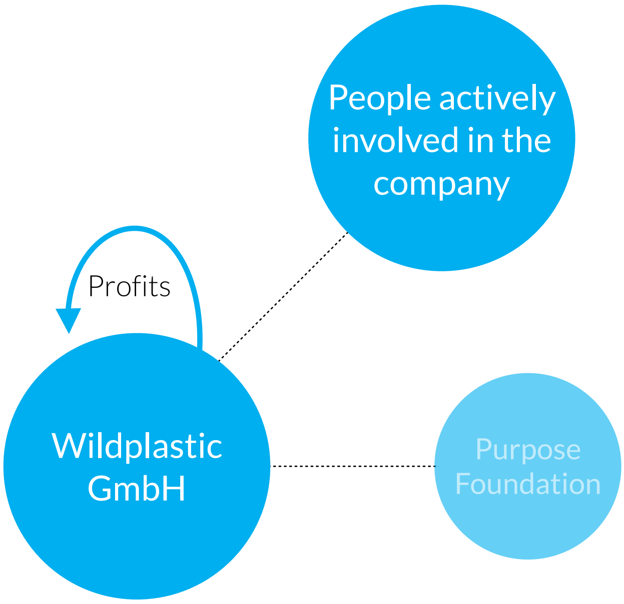
STEWARD-OWNERSHIP WITH A GOLDEN SHARE MODEL

Purpose supported Wildplastic in the process of setting up a steward-owned company based on the golden share model. The company was founded as a GmbH, a German legal form similar to a limited liability company, with the principles of steward-ownership enshrined in its legal statute and ownership structure. By separating the voting rights from economic rights, the model ensures that decisions are made inside the company on the basis of the company's purpose and not on individual financial motives.

The people holding the voting rights are stewards of the company and cannot extract its profits or assets. The voting shares cannot be sold, but are passed on to people actively working in the company, so Wildplastic can never be a speculative good. The control always remains inside the company. This structure is set in the company's legal statutes. To make it legally binding in the long-term, Wildplastic has entrusted one percent of the voting rights, a golden share, to the Purpose Foundation, which is legally bound to veto changes that undermine the principles of steward-ownership, but that does not have any further say in the company.



The **steward shares** make up 99 % of the voting rights and are distributed evenly between the founders currently active in the company. The steward shares can only be held by people who are actively working in the company. They do not include any economic rights.

The **golden share**, or veto share, makes up 1 % of the voting rights. This voting right is limited to a right to veto changes to the statutes of the company that touch the principles of steward-ownership. It doesn't make up any further voting or economic rights.

The golden share is held by the Purpose Foundation, which is through its own statutes mandated to always use its veto in the case of respective changes.

Profits after capital costs can be reinvested, remain in the company or donated.

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Soulsearching process

To decide whether steward-ownership was the right fit for the founders and the company, the founding team went through an intensive ‚soulsearching process', in which they challenged and discussed their individual motivation, the role they wanted to play now and in the future and their vision for the company and its purpose. For them, this led to many discussions and produced insights that would usually have come much later in the further development of the organization. For a team of five, this process was intense and at times not easy, but eventually allowed for more transparency and a mutual understanding of the individual's motives and roles. "It wasn't all easy, but the conversations we had, the issues we dealt with are insanely important and make a huge difference to our work", says Christian Sigmund. Their example shows the relevance of honest and trust-based conversations in the process of becoming steward-owned.

The founders' role

Wildplastic decided that the steward shares – the voting rights – should only be held by people playing an active role in the company. For Wildplastic, an active role is defined as a minimum of 20 working hours per week for at least two years, thus catering to different types of involvement in the company. This will come into place after a certain "founding period" that currently allows all five founders to hold steward shares irrespective of their active involvement in the company. After this period is over, founders, who do not play an active role within the company (e.g. employee or Managing Director) automatically lose the qualification to be the trustees of Wildplastic. Their voting rights can be taken back by the company. This gives them the security that the company's mission-orientation is protected in the long-term and the company cannot be controlled from absentee-owners.

Founder's compensation

Similarly to many start-up founders, the founders of Wildplastic took a risk in starting a company and worked many unpaid hours before and after setting up the company. As they won't be able to be compensated for this risk by paying themselves out profits later, they devised a process for a founders' compensation once the company is able to sustain it.

In cooperation, the founding team, (existing and potential) investors and Purpose, calculated a sum for unpaid salaries and initial risks: the founders' compensation. A contract was set up between the individual founders and Wildplastic stating that this sum will be paid out under the following conditions:

- payments have to be structured in alignment with the principles of steward-ownership;
- payments can only be made if the company is profitable and can sustainably finance the payments;
- payments can only begin after a part of the investment sum has already been paid back, after that the founders' compensation will be linked to the investors' return payments.

To leave flexibility for future developments of the company, details of the type of payment instrument for the founders' compensation have not yet been fixed. Options include salaries, boni or other tools. By linking the founders' compensation to payments made to investors, Wildplastic increases security for existing and potential investors.

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DEBT-BASED, NON-EXTRACTIVE FINANCING

By ensuring that the company cannot be controlled by investors from the outside and cannot be sold as a speculative good, the start-up is set up quite differently compared to "mainstream" start-ups. For them, this was a purposeful statement with which they wanted to protect Wildplastic's mission and show their motivation and purpose. Still, to grow and make a difference in the world, the company needed capital and aligned financing partners, who share the same vision and want to support the company – whilst making a fair return.

The first step to find aligned financing was to clarify what kind of investment partner and financing conditions would support the company best. "We asked ourselves: If we want to become a relevant company that has an impact in the world – how can we finance ourselves? How much does Wildplastic need from a financial perspective in order to successfully grow and what kind of financing conditions and financing partners are aligned with our mission? And on what does the risk profile of an investment in Wildplastic depend on?", explains Christian Sigmund. Based on their mission, strategy and ownership structure, they set up matching financing conditions:

- It was clear to the founders that conventional equity and giving too much power to shareholders would not be an option, (1) due to their mission-orientation and the need to stay independent from shareholder value pressure in order to clean up the planet from wild plastic and (2) their already established steward-ownership structure. They needed alternative financing structures and investors willing to invest without taking over control.
- They knew they wanted investors that understand and support the mission of Wildplastic, so they were actively looking for investors who could be trusted partners for the journey.
- Their mission was a long-term one – cleaning up the planet from wild plastic will not be achieved in a few months – so they needed capital with a long horizon and investment partners that would invest for the long term.
- The founders wanted a fair and risk-adequate return for investors. Being a start-up, they knew an investment in Wildplastic comes with risk for investors. So they were looking for a fair and risk-adequate return on investment.

Initially, the founders calculated with fundraising a large amount of capital. However, after considering the cost of capital and the actual financing requirements they would need for sustainable and successful growth, they realized that the most promising path for them would be to raise the capital they needed for the next phase. Therefore they decided to raise a lower amount of money that would help them reach the next level.

In 2021, Wildplastic closed its second financing round with aligned financing instruments and investors. Together with Purpose Ventures and the other investors, they managed to build a structure that feels right for entrepreneurs and investors. The investors receive a risk-adjusted return on investment with a clear path to liquidity (a structured exit) and the company has access to long-term capital that enables it to grow at a speed that is ambitious and gives them the opportunity to build sustainable structures for the future.

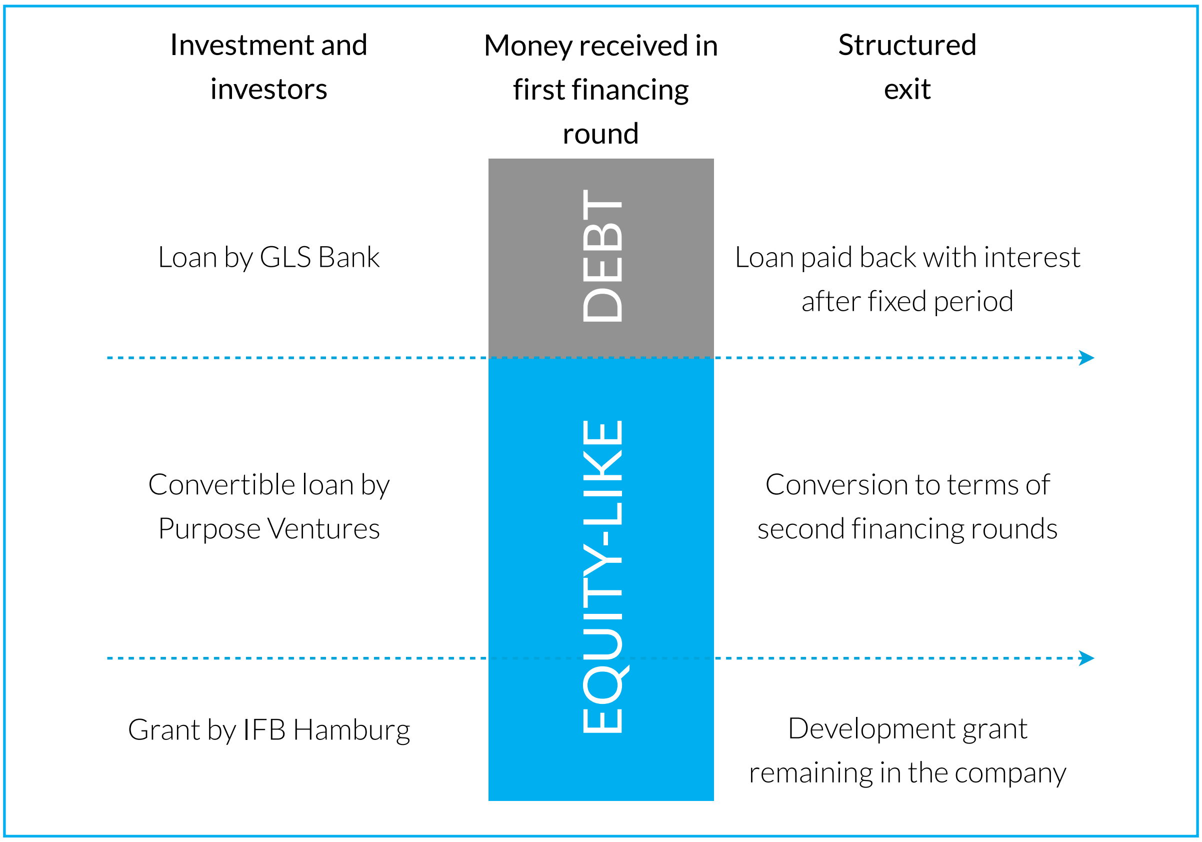
DEEP DIVE FINANCING STRUCTURE

Wildplastic went through two financing rounds, one initial round in 2019 and a second round in 2021 in which they raised 1.1 Mio. €. As Wildplastic was founded directly in steward-ownership, they set up both financing rounds with financial instruments aligned with the principles of steward-ownership. The following will provide a deep dive into each of the financing rounds and how they were structured.

First round of financing 2019

In the very beginning of developing the initial idea of Wildplastic, the team received grants from the IFB Hamburg (investment and development bank Hamburg), a development bank supporting innovative business models. Thus, they had initial funding to start off with, which did not have to be paid back. Wildplastic also received a loan from the GLS Bank, a sustainable bank. Receiving a bank loan as a start-up is rather unusual, however the impact-driven business model was attractive to the bank – and the loan was backed by steward-ownership aligned risk capital of 75.000€ from Purpose Ventures. On the basis of these three investments, Wildplastic was founded as a Purpose company in 2019.

The early-stage financing from Purpose Ventures was structured as follows: Wildplastic and Purpose Ventures set up a subordinated convertible loan[2] in alignment with steward-ownership. To do this, the investment agreement states that the convertible loan could only be converted into steward-ownership aligned options, i.e. either (1) equity without voting rights or (2) debt. For future financing rounds, the convertible loan would be converted into the same structure (non-voting equity or debt) and terms that apply for future investors who come on board, but with slightly better conditions (a discount) to account for the added risk in the beginning.



[2]German: Wandeldarlehen: A convertible loan is a financing instrument between mezzanine capital and equity, as it is usually set up as debt which can be reverted at a later point in time to equity.

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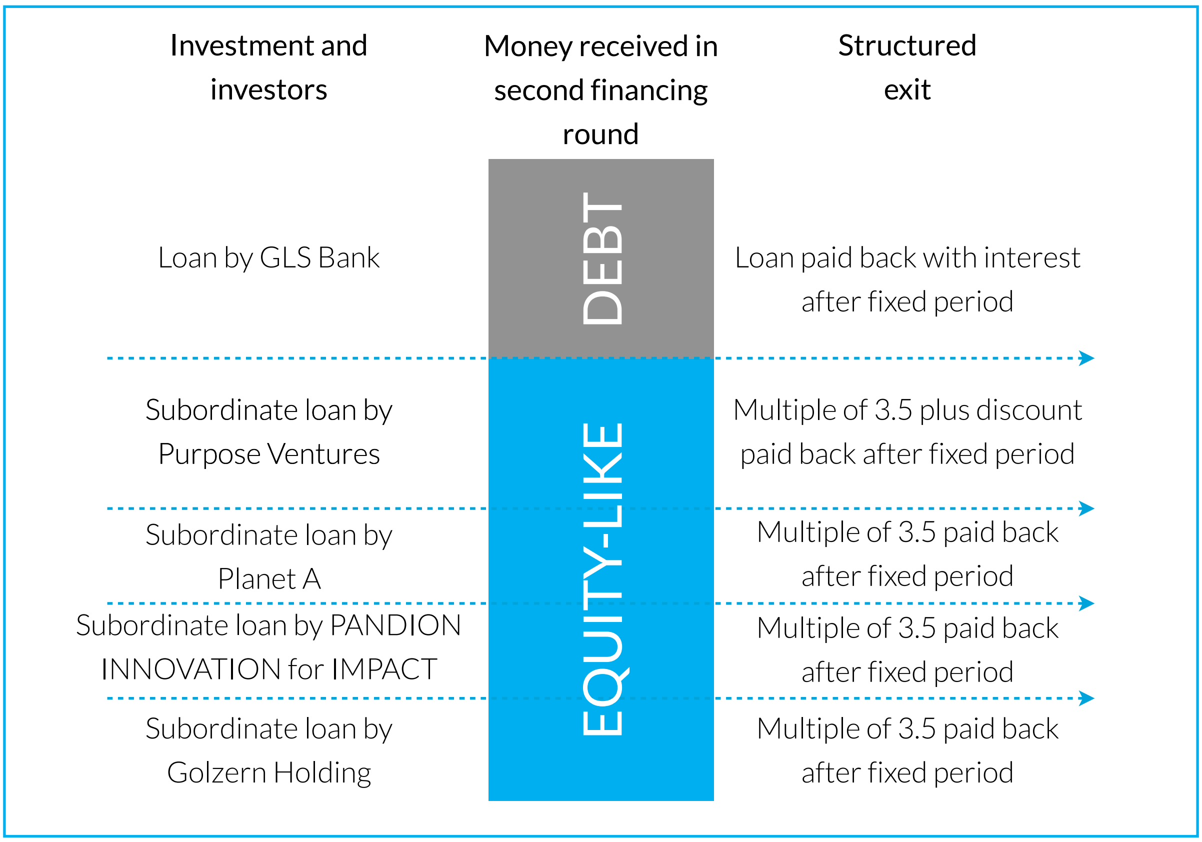
Second round of financing 2021

In 2021, Wildplastic completed a second round of financing, raising a total of 600.000 € from four investors in addition to a bank loan of 500.000 € from the GLS Bank. With the money from the investment, they are planning on taking further steps towards scaling up their business model through supply chain development, product development, marketing and increasing the team.

The investments of the four start-up investors are structured as subordinated loans[3] running over 10 years. A multiple-of-investment of 3.5 (i.e. 3.5 times the investment) was mutually decided on as a risk-adequate return target should the company turn profitable. This multiple takes into account Wildplastic's situation and the time scale and structure of the investment.

The repayments are structured as **bullet payments**: If its financial situation allows it, Wildplastic is scheduled to repay a 0.5 multiple-of-investment in year 6 and year 8, thus already freeing up liquidity for the investors. If Wildplastic is not able to follow the fixed repayment schedule, the final return target increases. The final payments are due after 10 years.

As the investment is structured as a **subordinated loan**, the repayments can only be made if the company is cash-flow positive and not over-indebted. This means that the payments cannot be made if they would result in insolvency. Furthermore, as the investment is contract-based, both the investors and Wildplastic have the option of renegotiating the contract and repayment conditions if needed.



[3] German: Nachrangdarlehen: A subordinated loan is a financing instrument belonging to mezzanine capital. It is a loan that is only paid after all other debts have been paid.

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A speciality of the investment contract are certain consent-, information and consultancy-rights for investors that apply to a few specified points such as significant changes made to the company's purpose. The investors have the usual information rights to the annual financial statements and financial plannings. Consultancy rights mean that the company is obligated to listen to and consider the investors' feedback before making a decision concerning one of the specified points, for example large investments of the company. These rights of investors ensure both that the investors are involved in (major) decisions being made and events in the company and that Wildplastic can count on their input and leverage their experience.

INVESTMENT CONSORTIUM

When looking for investment partners in each of their financing rounds, the founders of Wildplastic had a specific goal in mind: "Independent of capital structure and limits to financing instruments as a result of steward-ownership, we were always looking for partners on our journey. We would have always been looking for people we trust and who support our mission without taking over the steering wheel disrespective of steward-ownership", says Christian Sigmund. But with their steward-ownership structure, they were able to clearly communicate the desired relationship and investment criteria to investors. For Christian Sigmund, this changed a lot in the conversations: "We experience investment conversations in a completely new way and we feel that steward-ownership has the potential to radically change investments as well." They knew they were looking for a close and trust-based relationship in the second financing round – and found it in a group of five investors: Planet A, an impact fund; Golzern Holding, a family office; PANDION INNOVATION for IMPACT, an impact investor; the GLS Bank as a sustainable bank; and Purpose Ventures as a financing partner for steward-owned companies.

For many of the investors, investing in Wildplastic as a Purpose company was quite a new experience. With their diverse backgrounds ranging from impact fund to family office, their motivation to invest in Wildplastic differed in detail. All of them were attracted by the clear purpose and direct impact of Wildplastic, believed that it would generate good return on investments, understood the role of steward-ownership for the company and wanted to join the founders on their journey. They regard steward-ownership as an aligned ownership structure for Wildplastic that supports their mission, which is why they were content to invest in this structure. The investors consider an investment in a company that plans on building a profitable and solid business through an impactful business model as attractive, and steward-ownership – by supporting such a long-term oriented business – as a sensible structure to invest in.

READ ON

Learn more about Wildplastic and their journey on their website and with articles and podcasts:

- https://www.wildplastic.com/en/
- https://www.wuv.de/karriere/der_erste_muellbeutel_der_die_welt_aufraeumt (podcast in German)
- https://purposeprojects.de/podcast/18-nadia-boegli-christian-sigmund-von-wildplastic-wie-koennen-wir-plastikmuell-nachhaltig-verwerten/ (podcast in German)
- https://www.handelsblatt.com/unternehmen/innovationweek/75-ideen/gruender-finanzierung-geld-ohne-nebenwirkungen-start-ups-koennen-ihre-unabhaengigkeit-behalten-trotz-wagniskapitals/27151816.html (article in German)
- https://wildplastic.medium.com/ein-social-impact-startup-und-seine-finanzierung-2b9dd4327fcf (article in German)