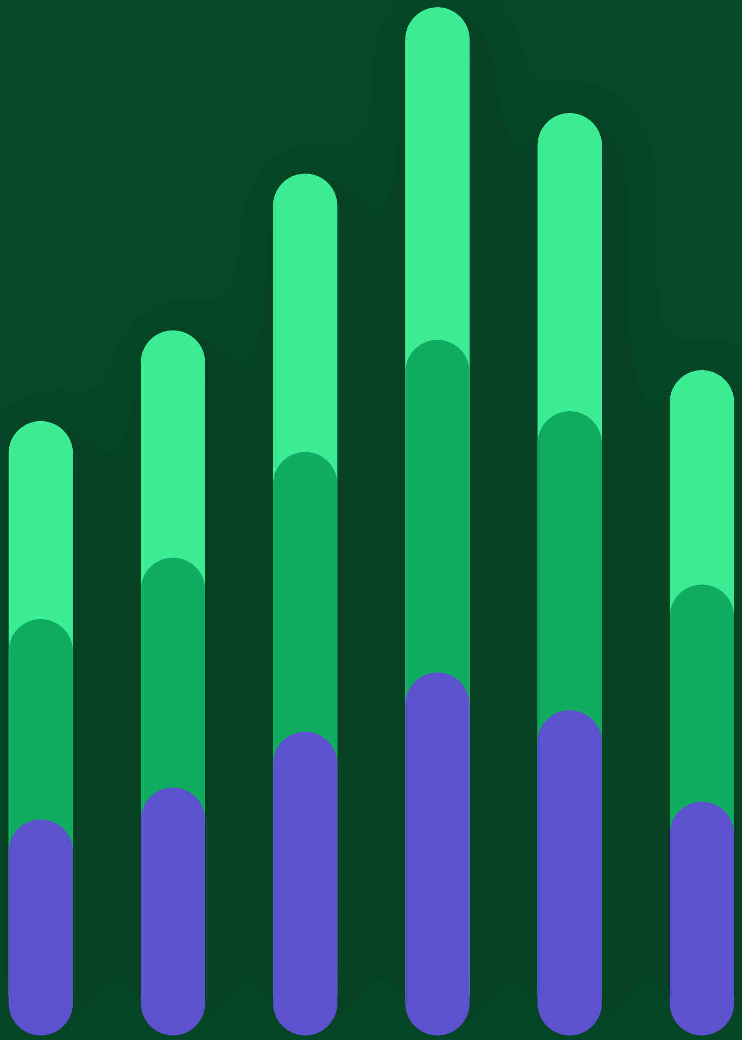
Why sustainability pays

A look at startup & scaleup funding trends linked to UN Sustainable Development Goals (SDGs)



Executive summary

The topic of environmental, social and governance (ESG) within venture capital has gained a significant momentum over the last couple of years. Driven by a range of external and internal factors as well as shifting global attitudes, this report will look at the impact the ESG movement has had on the fundraising landscape.

To achieve this, we analysed over 2,292 companies, and measured their ability to raise funds, based on their relevance to UN Sustainable Development Goals (SDGs) which is a broader framework within ESG.

We highlight the most commonly cited Sustainable Development Goals (SDGs) and the technologies and geographies driving record global investments.

Taking an in-depth look at the venture and innovation ecosystem, we analysed over

2,292

companies, and measured their ability to raise funds, based on their relevance to UN Sustainable Development Goals (SDGs).

Key findings

1. The top ten UN Sustainable Development Goals (SDGs) driving ESG innovation and attracting the most investment globally today
2. European SDG relevant startups are raising more funding than their American counterparts
3. The best location to start an SDG relevant startup in Europe
4. SDG relevant startups are more likely to raise Series A funding rounds, but are less likely to exit
5. SDG relevant startups are less likely to fail than other startups

Methodology

In the analysis, we looked at companies ability to raise funds, based on their relevance to UN Sustainable Development Goals (SDGs).

SDGs were adopted by the UN in 2015, and form 17 interlinked goals which have been designed to be a blueprint to create a better and more sustainable future for the World. We chose SDGs as the basis of our analysis as they offer a universal, global standard for measuring and categorising ESGs.

In order to improve comparability of the analysis, we've applied the following filters:

- founded during 2015 or later
- raised at least one equity funding round
- located in Europe, the U.S. or Israel

About the data in this analysis

The Data source for the SDG relevance of companies has been sourced from **Dealroom.co** while the fundraising data is based on **NGP Capital's data and analytics platform, Q**, which scans and combines data from hundreds of different data sources.

It's important to note that the company classification to SDGs is a potential source of bias. We have applied the filters to mitigate possible biases, but some effect might still remain.

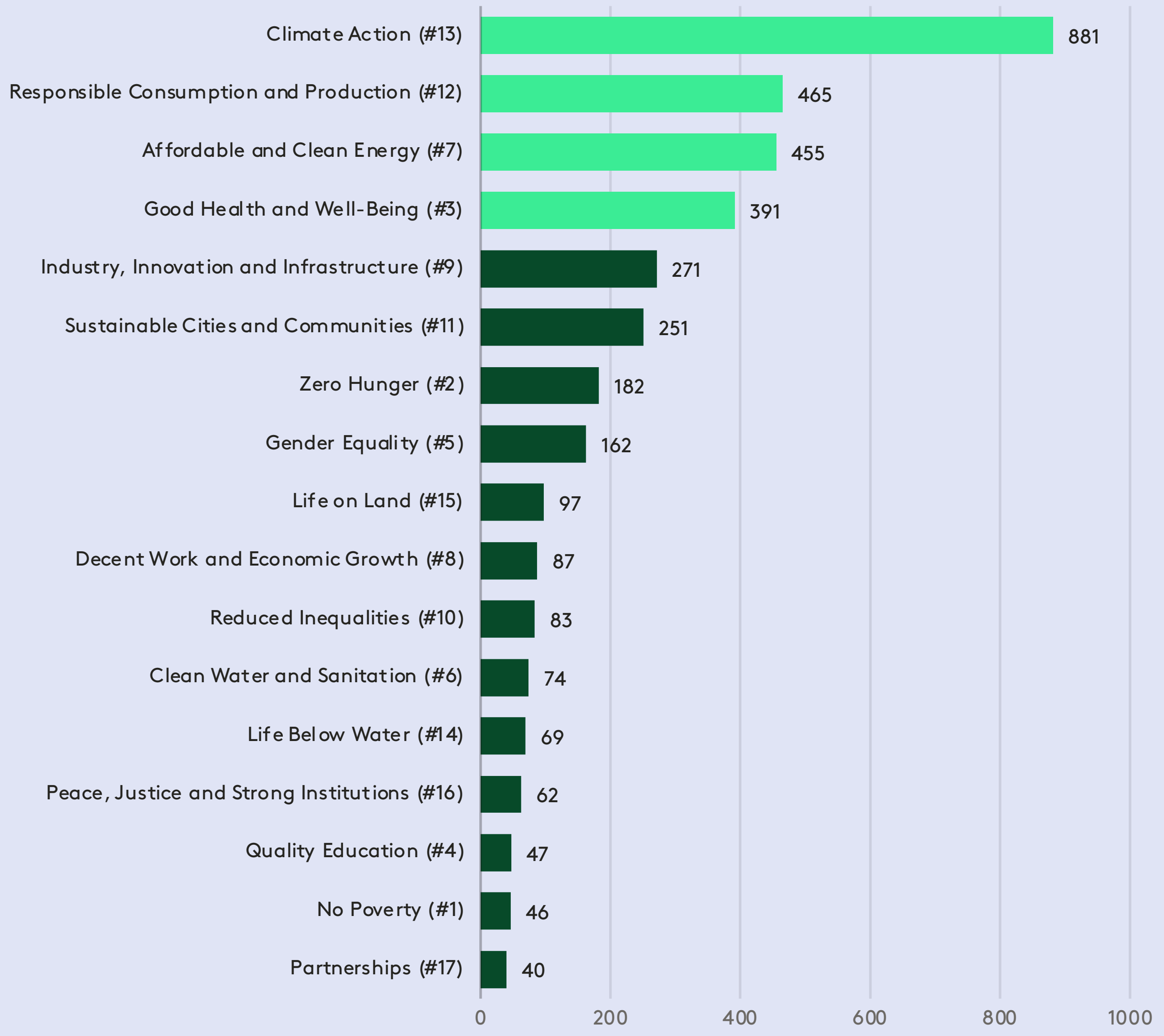
The Top Sustainable Development Goals (SDGs) driving innovation today

#13 Climate Action (SDG #13) is the most common cause or function amongst SDG relevant startups (881 businesses).

#12 Responsible Consumption and Production (SDG #12) is the second most common cause or function (465).

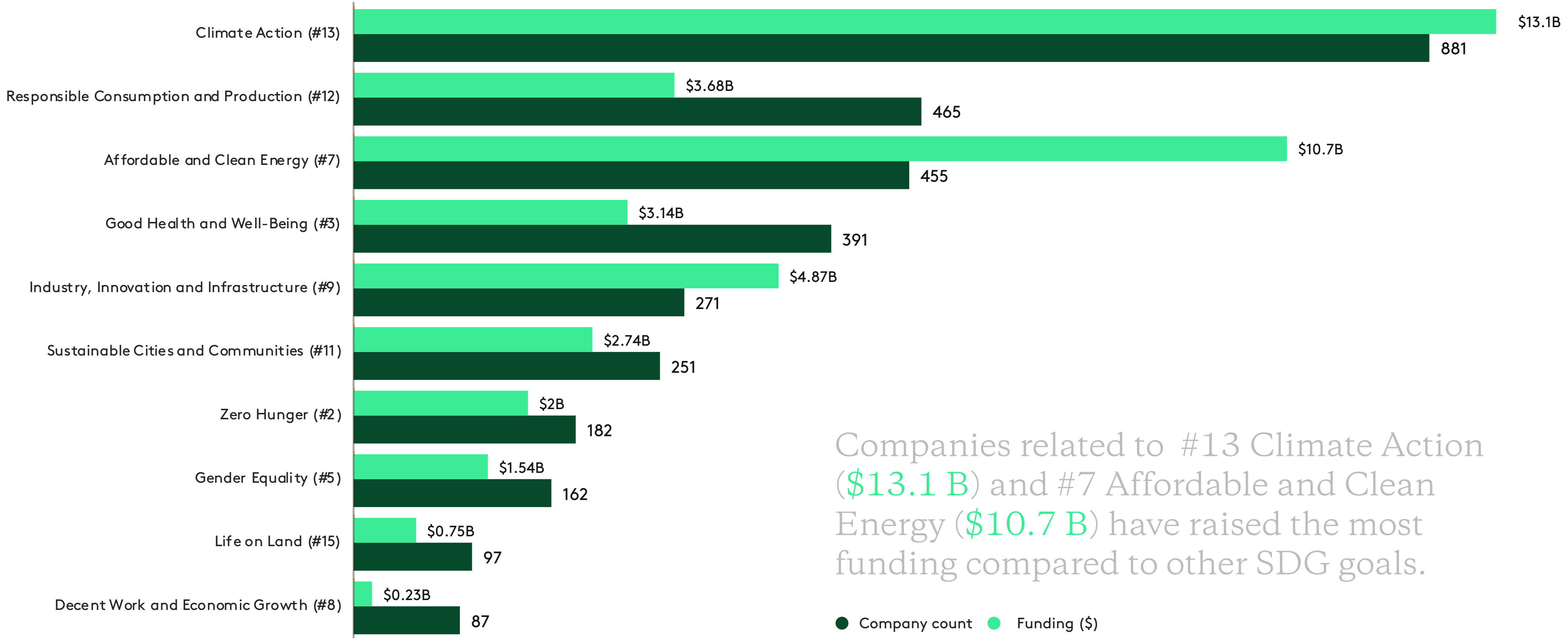
#7 #3 Affordable and Clean Energy (SDG#7) (455) and Good Health and Well-Being (SDG#3) (391) are also popular causes for impact focused founding teams.

THE NUMBER OF SDG RELATED COMPANIES IN THE DATASET



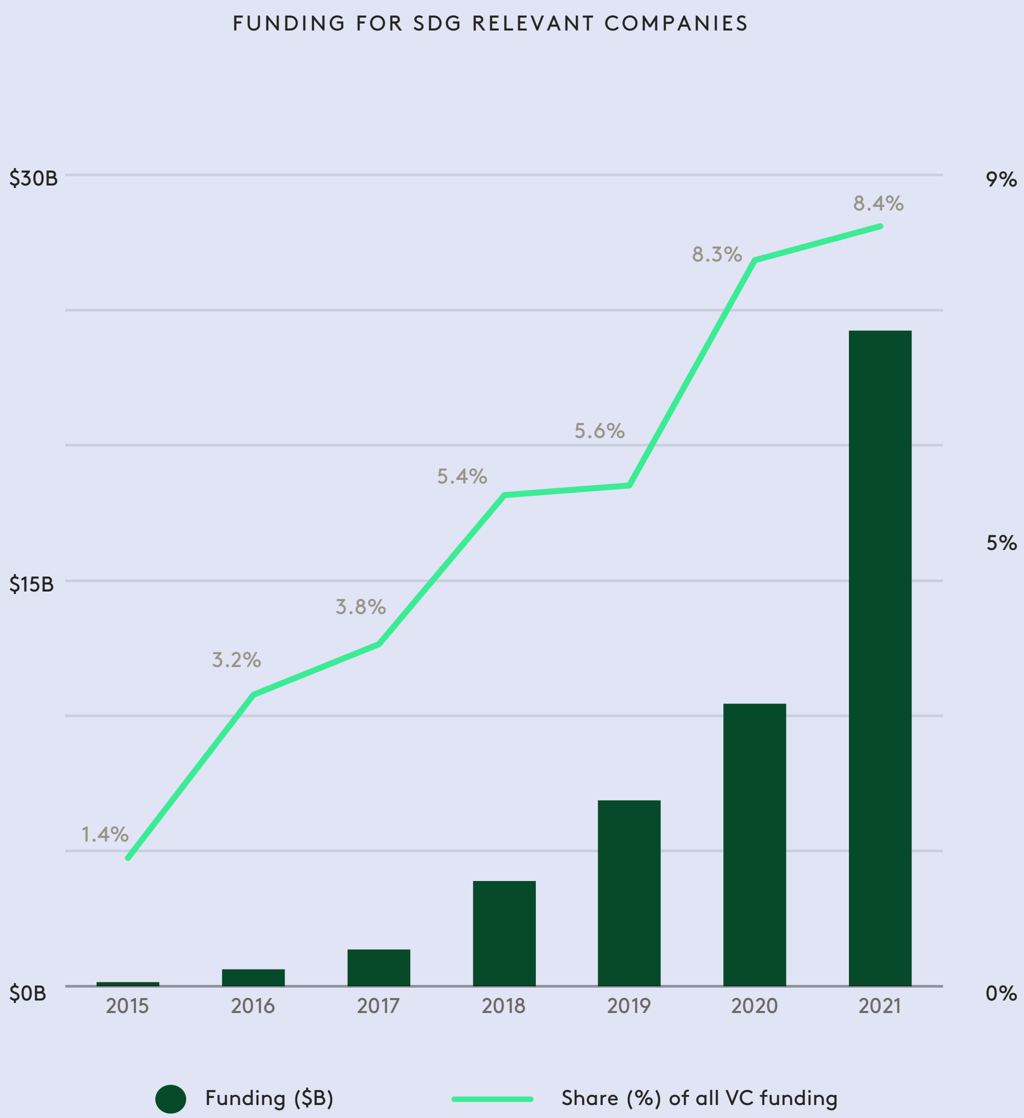
Data: SDGs based on Dealroom.co, Funding based on NGP Capital Platform Q

Climate Action and Clean Energy companies received the most funding



Companies related to #13 Climate Action ($13.1 B) and #7 Affordable and Clean Energy ($10.7 B) have raised the most funding compared to other SDG goals.

Data: SDGs based on Dealroom.co, Funding based on NGP Capital Platform Q



Funding for SDG relevant companies has doubled since 2020

Between 2015 and 2021, the share of funding for SDG relevant companies has increased from 1.4 % to 8.4%.

In absolute terms, SDG relevant companies founded on or after 2015 raised $24.2 billion in venture funding in 2021.

Interestingly, the share of SDG relevant funding and the actuals have increased every year in the period, with a massive increase between 2020 and 2021 (from $10.5B to $24.2B) aligning with a general increase in VC funding.

Data: SDGs based on Dealroom.co, Funding based on NGP Capital Platform Q

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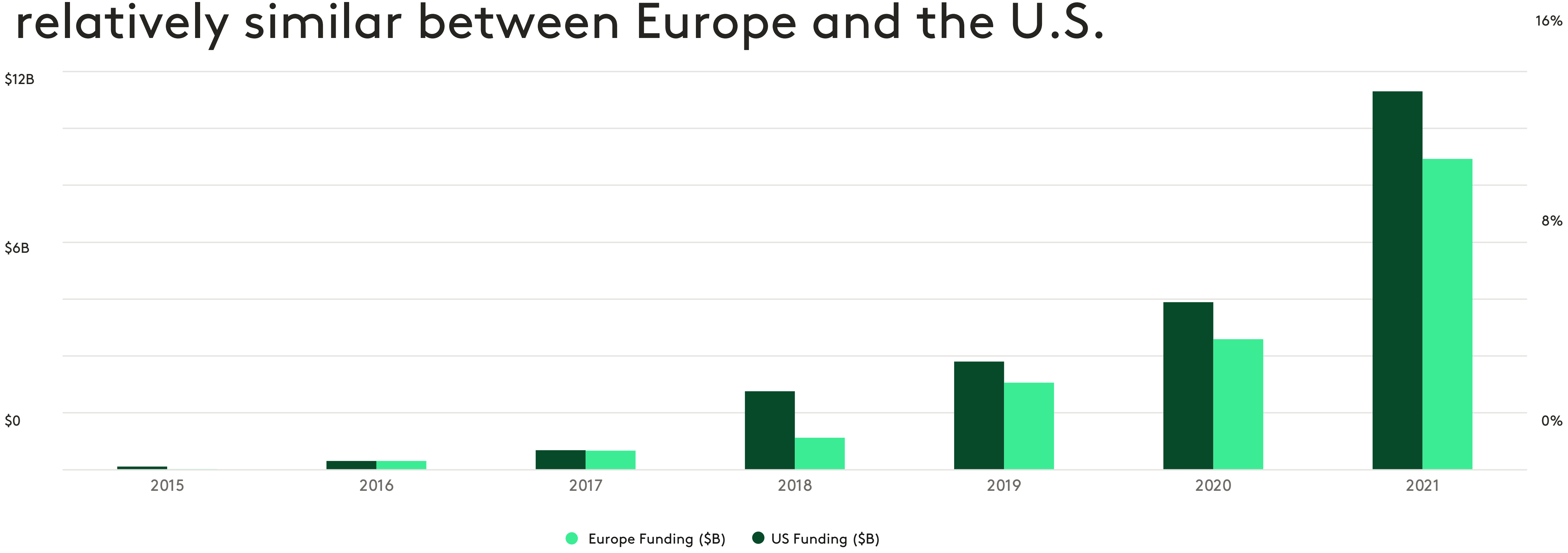
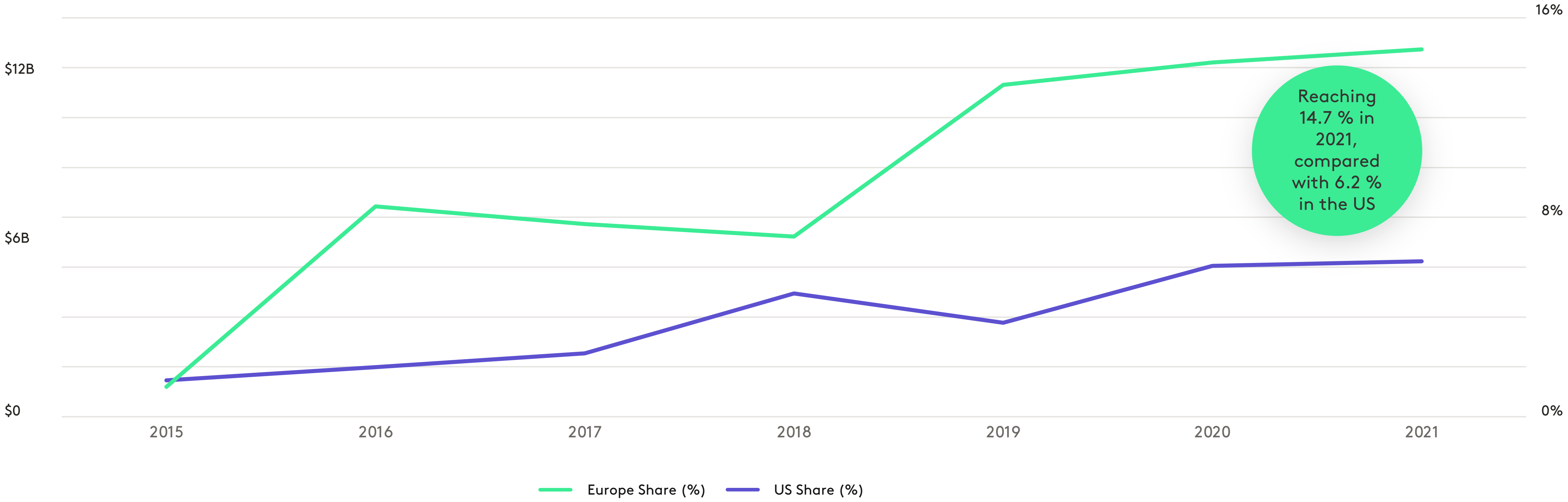
The amount of funding raised by SDG relevant companies is relatively similar between Europe and the U.S.



The total amount of funding raised by SDG relevant companies is relatively similar between the regions,

Both in Europe and the US the share of funding for SDG relevant companies is on a increasing trend for the full period from 2015 to 2021.

However, Europe is leading the way in terms of share of funding for SDG companies compared to the U.S.



Comparing share of total funding, European SDG companies are raising more funding than their American counterparts.

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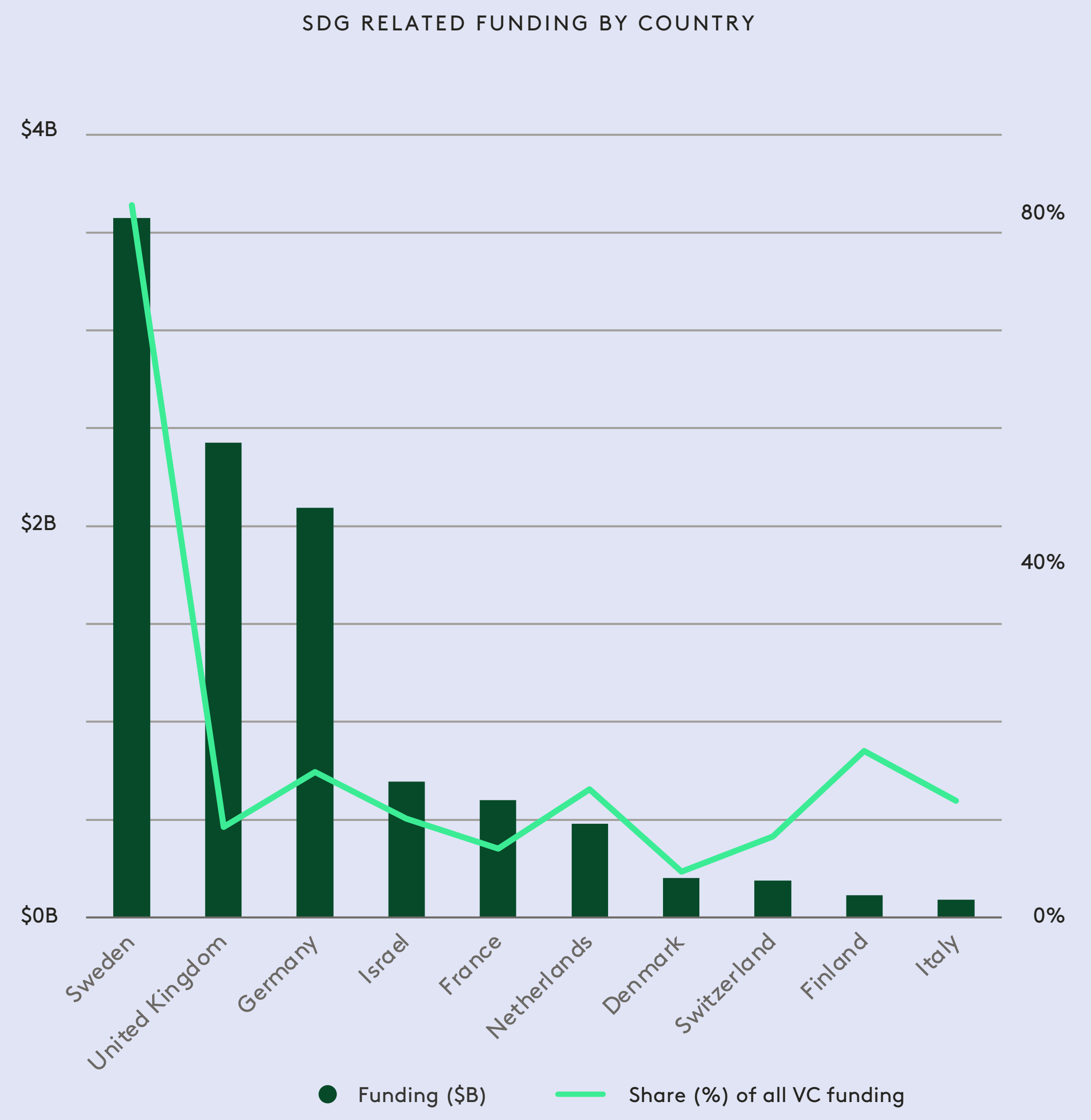

Sweden is currently the best place to start an SDG relevant company

Looking at European VC funding data from 2021 on country level, Sweden ($3.6 B), United Kingdom ($2.4 B) and Germany ($2.1 B) have the most funding for SDG relevant companies.

Especially notable here is Sweden, led by huge funding rounds of Northvolt ($2.7B), where a total of 82% of VC funding is raised by SDG relevant companies.

Looking at the largest VC markets, Israel ($0.7 B, 11% of total) and France ($0.6 B, 8% of total) have less-than-average funding for SDG relevant companies.

Data: SDGs based on Dealroom.co, Funding based on NGP Capital Platform Q

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SDG relevant companies are more likely to raise Series A funding rounds, but are less likely to exit

Companies relevant to SDG categories are nearly always more likely to raise a Series A round compared to those not relevant to an SDG category.

On the other hand, SDG relevant companies don't have similar edge on exits as they do on Series A.

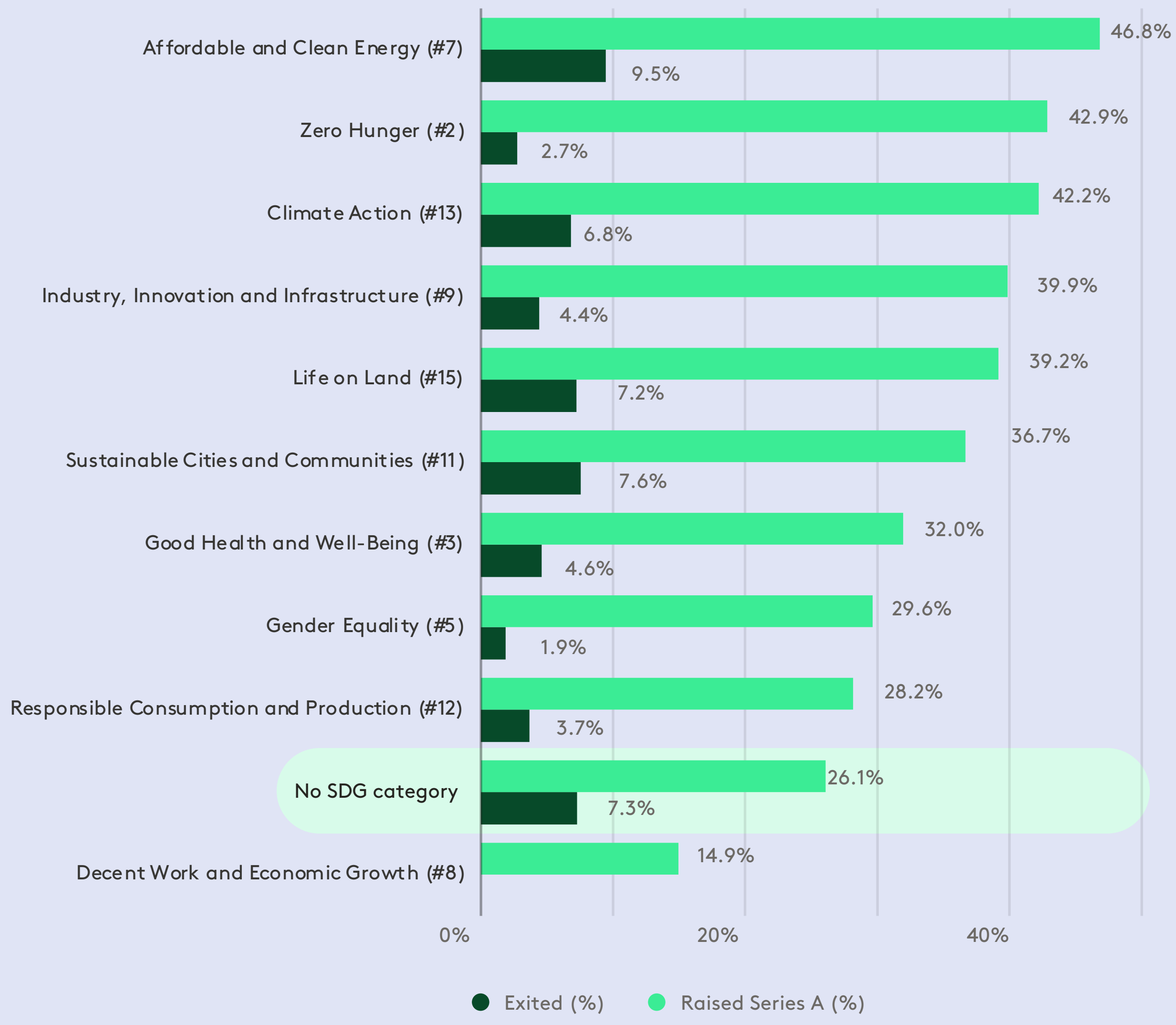
Within companies not relevant to any SDGs, 7.3% have exited.

#7

#11

However, a few SDGs end up above this, with the highest percentages within companies relevant to #7 Affordable and Clean energy (9.5%) and #11 Sustainable Cities and Communities (7.6%)

SHARE (%) OF COMPANIES THAT RAISED SERIES A OR EXITED AMONG ALL ANALYSED COMPANIES



Data: SDGs based on Dealroom.co, Funding based on NGP Capital Platform Q

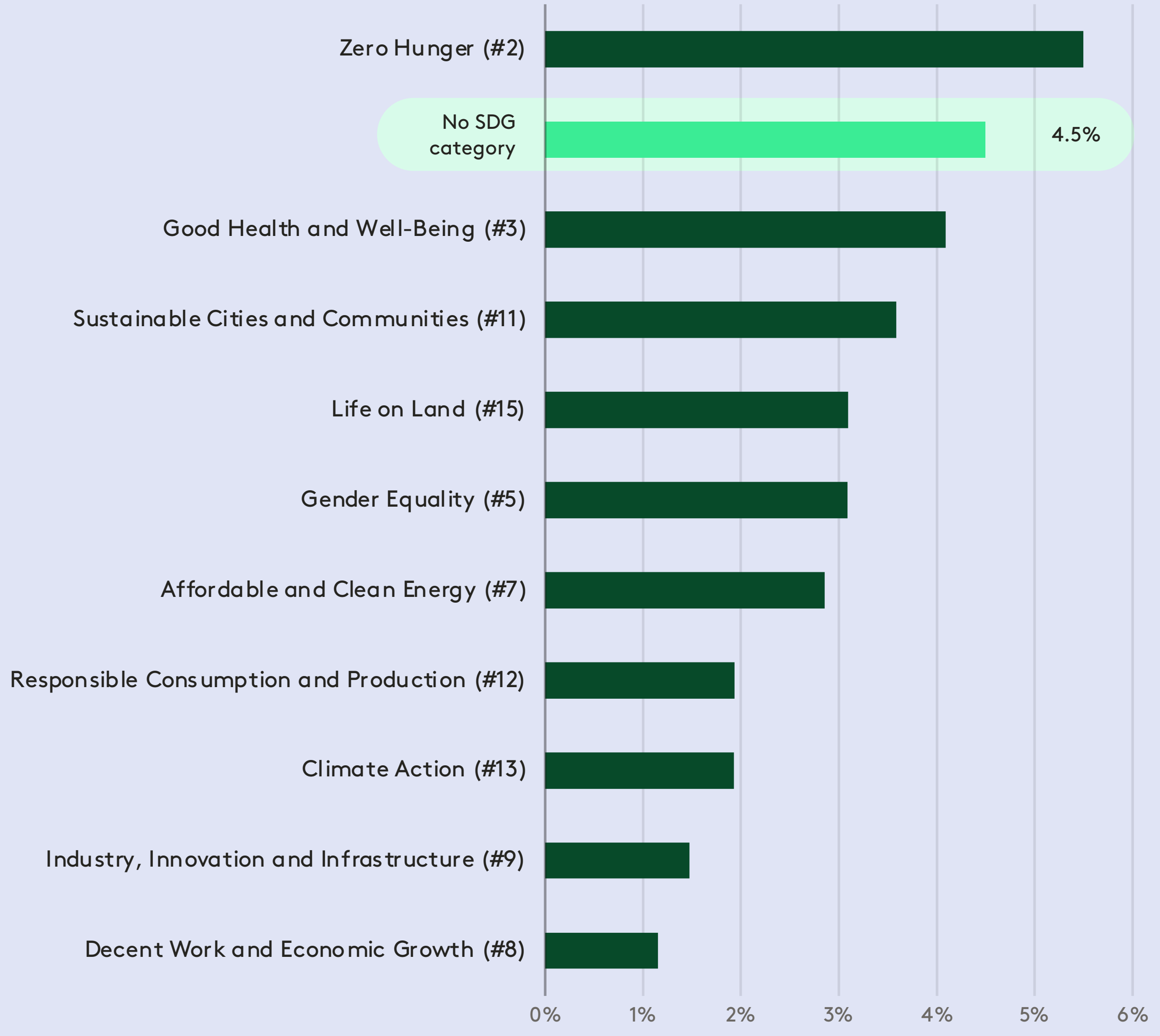
Companies relevant to SDGs are less likely to fail

4.5% of non-SDG focused startups are now out of business, while purpose-driven startups are less likely to close shop and are in it for the long game.

Those focused on Climate Action (1.5%), Responsible Consumption and Production (1.9%) and Affordable and Clean Energy (3.1 %) are all less likely to shut down

Only one SDG with relatively few companies, Zero Hunger, end-up with a higher probability of closing, which can indicate the inherent difficulty of building a business around that SDG.

FAILURE RATE (%) AS A SHARE OF ALL FOUNDED COMPANIES, PER SDG CATEGORY



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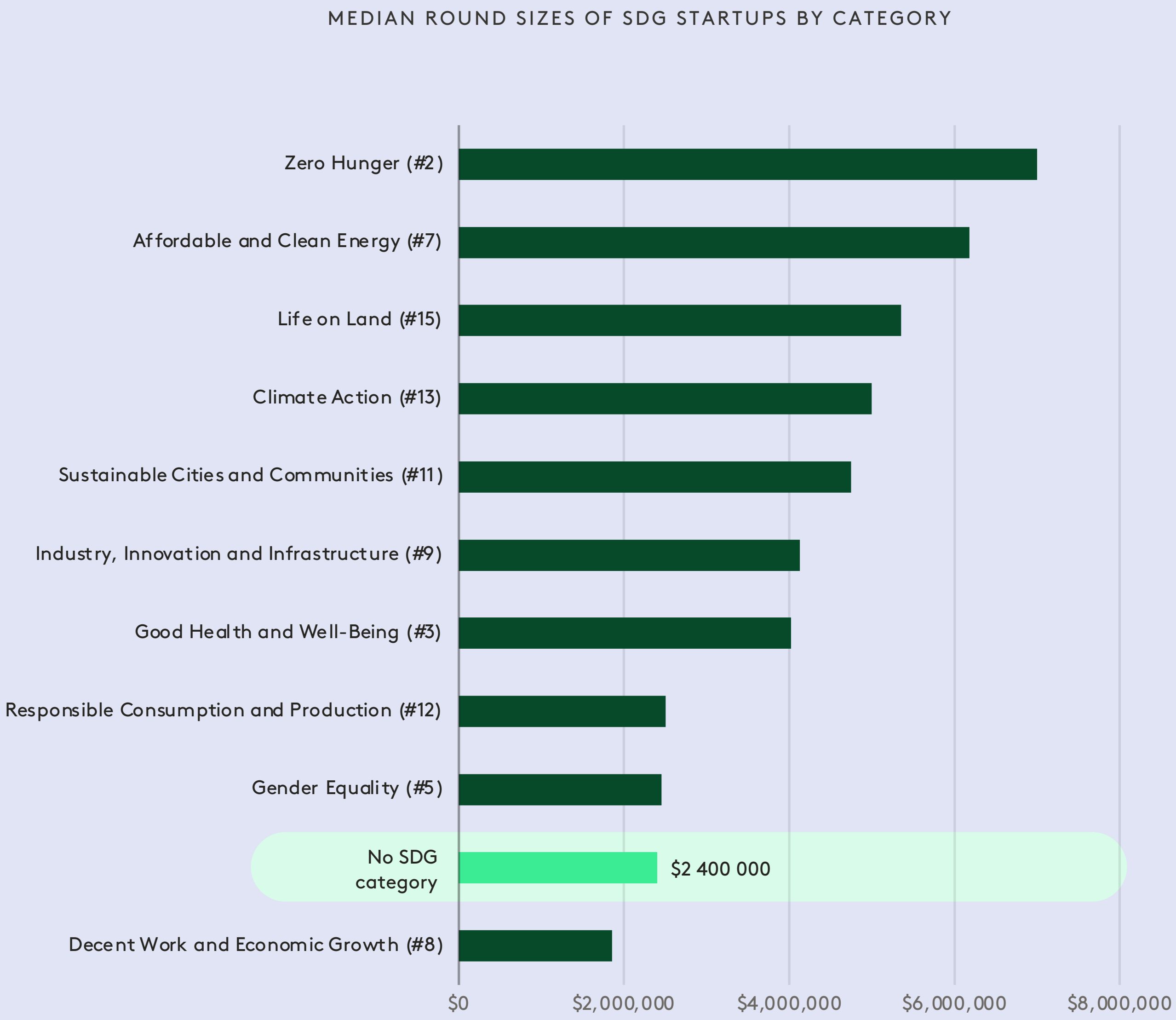

SDG relevant companies raise 2-3x larger rounds than others

Typically, the average venture rounds of SDG relevant companies are larger than for non-SDG relevant companies.

The largest median rounds are related to SDG #2 Zero Hunger ($7 M), SDG #7 Affordable and Clean Energy ($6,2 M), SDG #15 Life on Land ($5,4 M) and SDG #13 Climate Action ($5,0 M).

In contrast SDG #8 Decent Work and Economic Growth ($1,9 M) typically raised smaller rounds.

Data: SDGs based on Dealroom.co, Funding based on NGP Capital Platform Q

Largest rounds from 2021

Company	SDGs	Description	HQ	Round Size
northvolt	#7 Affordable and Clean Energy #9 Industry, Innovation and Infrasturcture	Manufacturer of lithium-ion batteries for electric vehicles	Sweden	$ 2.7 B
CFS	#7 Affordable and Clean Energy #13 Climate Action	Designer and builder of fusion energy systems	U.S.	$ 1.8 B
IONITY	#7 Affordable and Clean Energy #11 Sustainable Cities and Communities	Electric Vehicles charging network	Germany	$ 791 M
REDWOOD MATERIALS	#12 Responsible Consumption and Production #13 Climate Action	Lithium ion batteries recycling, producing battery materials for mobility and storage systems	U.S.	$ 700 M
ro	#3 Good Health and Well-Being #5 Gender Equality	Healthcare technology company building a patient-centric healthcare system	U.S.	$ 500 M
Solugen	#6 Clean Water and Sanitation #9 Industry, Innovation and Infrasturcture #13 Climate Action	Producer of high-performance chemicals from plant-derived substitutes	U.S.	$ 357 M
CITYBLOCK	#3 Good Health and Well-Being #10 Reduced Inequalities	Tech-driven healthcare provider for those in underserved communities	U.S.	$ 352 M
FUTURE MEAT	#13 Climate Action	Producer of cultivated meat	Israel	$ 347 M
octopus energy	#7 Affordable and Clean Energy	Supplier of renewable energy	U.K.	$ 300 M
VOLTA	#11 Sustainable Cities and Communities #13 Climate Action	Manufacturer and services provider for zero-emissions electric trucks	Sweden	$ 260 M
lyra	#3 Good Health and Well-Being #5 Gender Equality	Provider of mental health benefits for employees	U.S.	$ 235 M

Data: SDGs based on Dealroom.co, Funding based on NGP Capital Platform Q

Conclusion

Climate change has become a global political priority and an everyday reality for us all. At the same time, there is a recognition that sustainable change and the interconnected crises of climate change, Covid-19, conflict, poverty and inequality will not be solved, unless governments, businesses, NGOs, civil society, innovators and investors work together in a coherent way.

As a result, climate change and other global issues are getting the attention of the world's investors, and investment in companies who identify with one or more of the UN's Sustainable Development Goals (SDGs), has more than doubled over the last two years.

That rise is being seen across the world's major markets and extends far beyond the fiefdoms of impact investors - as new partnerships between the world's investors and a new generation of entrepreneurs create new and innovative solutions to the world's problems, and large institutional investors require their investment partners to report on ESG and add SDG relevant measures to their investment activities.

This report covers funding trends up to 2021 and the investment climate in 2022 is already looking a lot different. But if this data shows us anything, it is that SDG relevant startups offer investors a robust, long-term option and hope for the future.

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At NGP Capital, we believe that the era of binary differentiation between impact and non-impact is coming to an end for investors and entrepreneurs alike. As seen in the data within this report, SDG relevant startups offer investors a robust, long-term option and hope for the future.

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