STREAT

What the hell happened to STREAT Enterprises?

(and other key questions you might be wondering about STREAT's impact investments)

26 June 2019

Dear Reader

Back in 2007 when I was undertaking initial research to set up STREAT I stumbled upon a number of amazing social enterprise 'failure' case studies commissioned by REDF in San Francisco. These case studies became invaluable in informing key decisions Kate and I made during STREAT's start-up. They also helped inspire our commitment to fearless knowledge sharing. Right from our first strategic plan we embedded a key goal to 'Generously share our knowledge to strengthen and grow the social enterprise sector'. And I'm proud that we've continued to share our knowledge – both wins and failures alike. On average, we do over 2,700 hours of social enterprise sector work as a team each year, and nearly 30,000 hours over our first decade. About a third of my own role as CEO has been knowledge sharing, and collectively our team has done more than 500 workshops and presentations, over 80 case studies and research projects, an endless stream of guided tours and visits, and mentoring and assistance to over 200 social entrepreneurs whilst they build their own social enterprises (including a bunch of these being our own team members who have gone on to build their own social enterprise projects over time). For these things I'm proud.

Enough preamble. Let's get down to answering questions you might be asking about STREAT's impact investments. Here goes....

Bec

Rebecca Scott
Co-founder and CEO

1. What's STREAT and why did you want to scale in the first place?

STREAT is a Melbourne-based hospitality social enterprise that was started in 2009 by Kate Barrelle and myself, Bec Scott. We opened our doors to our first homeless and marginalised young people in 2010 because we believed they were being failed by the existing service and welfare systems. We were frustrated that the system was predominantly focussed on providing crisis responses but unable to progress young people into training, jobs and stability. We could see young people barely surviving, when we believed they should be thriving. We were determined to build a social enterprise model to provide support, vocational training and employment pathways to Victoria's most marginalised young people. We wanted the enterprise to be able to scale to address the scale of the need. It feels like we're just getting started. We've now scaled to be operating a portfolio of 10 hospitality businesses – including cafes, kiosks, a catering company, an artisan bakery, and a coffee roastery. These businesses are where we train our young people and also generate the profits to fund their intensive support.

2. How did you end up doing an acquisition using equity investment?

In 2012 the organisation was approached by Alex Shed the CEO of Fair Business, the parent business of the Social Roasting Company. Alex, who was based in Sydney, had decided it was too difficult to run the two cafes and coffee roastery remotely from interstate. He also had some new social enterprise ideas he wanted to move onto instead. He was keen to see the businesses remain as social enterprises, hence the phone call to us. He wanted the businesses sold within three months. As a start-up we knew it would be near impossible to raise $300,000 of grant money in the necessary time (it often takes 6-9 months, and longer if it's a new relationship). So Paul Steele, the CEO of Donkey Wheel, suggested that we try and raise the funds as impact investment instead. Paul rolled up his sleeves to try and help us make the deal happen.

3. How was the equity deal structured?

After many conversations between Paul and our potential investors it became clear there was a strong desire amongst the investors to do the deal as equity rather than debt, particularly as they wanted to create an impact investment market that could operate similarly to the existing capital markets. This was a bit complicated because as an Australian charity structured as a Company Limited by Guarantee we couldn't have shareholders. For this reason we built a subsidiary company STREAT Enterprises Pty Ltd within the parent company STREAT Ltd. We raised $300,000 from impact investors, representing 50% of the shares in the new company, with STREAT Ltd retaining the remaining 50% share. The initial investors were: Donkey Wheel Foundation ($150,000, 25%); Hub and Spokes Pty Ltd (using the business name 'Small Giants' - $50,000, 8.3%); the J & S McKinnon Foundation Pty Ltd ($50,000, 8.3%); together with $50,000 (8.3%) of equity retained by the former owners Fair Business (Australia) Pty Ltd. Not long after the deal was done in 2012 Geoff Harris bought the 8.3% shareholding of Fair Business.
(For more detail on how the deal was structured see the 2012 case study of Social Ventures Australia.)

4. Was the deal hard to do?

I'd personally never done any investment deals before so I didn't have other comparisons (my background prior to building STREAT was in science). But in general terms it felt pretty hard, and other partners and advisors who had done loads of investment deals were also finding it tricky. We certainly spent a LOT of time sitting around tables with lawyers who were scratching their heads. Part of the challenge was that it was a pioneering deal so there weren't precedents, there weren't 'off the shelf' legal docs and templates to use, there weren't obvious governance structures in place, there weren't realistic expectations. There was no playbook. All of this meant that the transaction costs of the deal were ridiculously large for the amount of investment money we were dealing with.

And once the deal was done the ongoing administration costs were exorbitant. Both of these costs were almost crippling for our small start-up organisation.

5. How has STREAT Enterprises performed over time?

Amazingly and terribly. Right from day one the entity started creating enormous social returns. No less than 300 young people had their workplace training, experience and support provided in the two cafes that STREAT Enterprises owned. If I was to rate the social impact created by STREAT Enterprises I'd give it a score of 9/10. Conversely, right from day one the entity had dismal financial returns. It has paid one, below-target dividend in its first year of operation and no dividends in the subsequent three years before the 2016 decision to wind up the entity. This upcoming financial year will be the first time in six years that investors will get a payment. If I was to rate the financial performance of STREAT Enterprises to date I'd give is a score of 1/10. Here's what I wrote to our investors last February:

> *'Right now your money isn't financially worth anything. We know that. We don't down play that. We're sorry. We'll keep striving to fix it. But realistically you're going to be on this journey with us for at least another 5 years.*
> *Right now your money has helped create one of the most socially impactful programs we've seen anywhere. We know that. We're proud of that. We hope you don't downplay that. Realistically you're going to be on this journey with us for at least another 5 years.*
> *We know you're really invested in our work, so thanks for continuing to find ways of supporting and encouraging where you can. At the end of this year we'll be embarking upon our second decade and we remain optimistic that social enterprise models CAN be build to create high social impact whilst being financially sustainable. And we remain committed to proving it.'*

Over the last two years we've seen strong growth of our businesses and in June 2019 we made the first repayment in six years (33% of an investor's initial investment).

(See question 16 about the social returns.)

6. Why were your financial projections so far off?

Our early modelling suggested that STREAT Enterprises might create returns of over 7% p.a in addition to paying a 12% management fee to STREAT to cover the administration and marketing cost (our equivalent of a franchise fee). By way of background, those projections were made when STREAT was just 2 years old. We didn't have a Chief Operating Officer who had spent years in the hospitality industry. We didn't have a Chief Finance Officer. We didn't even have a book-keeper who was capable of such financial modelling. At the time we had two tiny carts on short term monthly casual leasing. We'd never owned or operated a cafe. We'd certainly never operated a coffee roastery. For this reason we needed the help and guidance of partner organisations and mentors to do the modelling and projections. No one doing the modelling had expertise in hospitality. The models were entirely theoretical and not based in years of deep industry knowledge (I know that seems crazy when I put it down in print, but it's true!). In short, we didn't know what we didn't know and the projections were dramatically over-estimated. We didn't ever stand a chance of achieving them. That's now really easy to spot in hindsight with an additional seven years of experience in the hospo industry – but everyone has a PhD in hindsight!

7. Were there other factors that affected the performance of STREAT Enterprises?

Yes, many. In 2018 Swinburne University undertook a detailed case study delving deep into the challenges faced by STREAT Enterprises. After extensive interviews with all of the investors and key deal stakeholders, the researchers found 10 key 'lessons'. These are:

1. Ensure alignment in the priorities of all parties

2. Make sure the strategy is clear
3. Explore the down-side risks for all parties
4. Forecast multiple scenarios
5. Reflect the strategic intent in the modelling
6. Clarify roles and responsibilities of all actors
7. Knowledge and cultural asymmetries hinder alignment
8. Separate the governance and management of each entity
9. Resources are needed for shareholder engagement
10. Be aware of the implications of strategic changes.

(If you'd like to do a detailed exploration of the challenges STREAT Enterprises has faced, along with key lessons to be learnt, see the 2018 Swinburne University case study.)

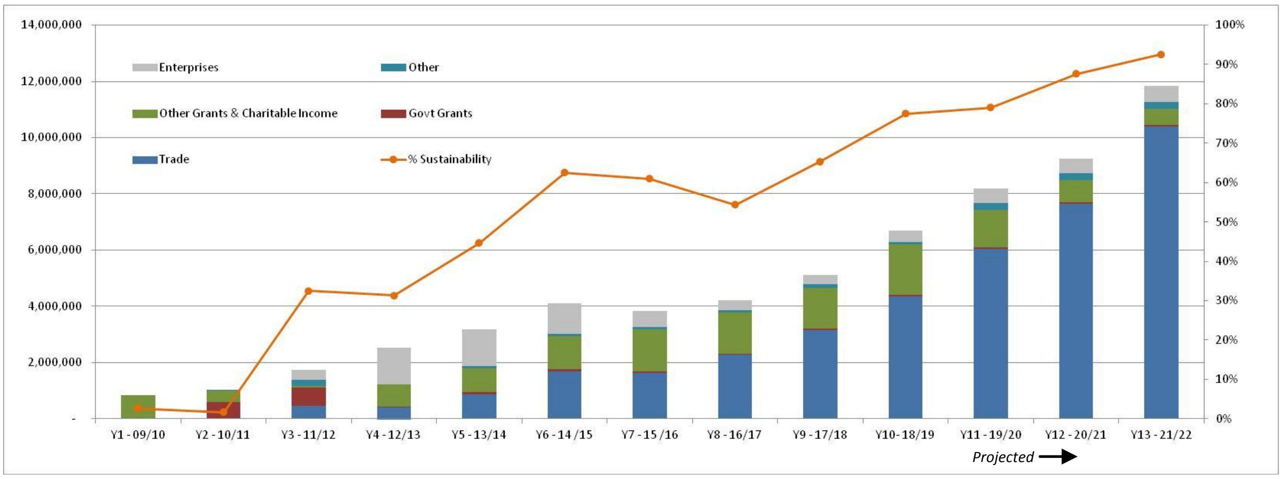
8. If STREAT has been growing so much in the last five years, why couldn't you make any payments?

When STREAT acquired the Social Roasting Company it had annual revenue of $1.2m with 80% of this being from philanthropy and 20% of this being earned revenue from our two little carts. This financial year STREAT has annual revenue of $6.5m, of which 77% is earned business revenue. So yes, we've grown a lot since we started STREAT Enterprises. BUT, the investor returns could only be made from the profits of the three businesses within STREAT Enterprises not from the profits from other sites (and certainly not subsidised from other philanthropic money). That was problematic:

- The Flemington cafe – this was a lovely little suburban cafe that did OK for a few years but then struggled when it got a number of new local competitors. We did a refurb to try and boost it but alas it kept losing money. We sold this cafe in late 2016.
- McKillop Street – we didn't ever want to buy this cafe because it was it was loss-making when the Social Roasting Company had it. Unfortunately Fair Business wouldn't split the businesses up so we hoped we could turn it around. We did finally get the cafe profitable after four years of sweat and tears but the rent was due to go up again. We didn't renew the lease because the site would have gone back into the red. We closed the doors of McKillop in October 2017.
- The coffee roastery – when we closed the other two cafes the coffee roastery was the only existing part of STREAT Enterprises to shoulder the full financial burden. In 2016 we re-located the little 10kg roaster machine from the Flemington cafe and gave it a new larger home at our new Cromwell site to try and scale the business. We've always struggled to compete on price or margins in the highly saturated Melbourne wholesale coffee market, however, as we've steadily grown the number of cafes and kiosks we have around the city we've grown our retail sales directly to consumers and our own internal sales to our own cafes. The roastery is in a strong financial position and we're predicting ongoing growth for the coming years.

By way of background I also want to tell you about a very generous decision made by our investors when we were winding up STREAT Enterprises. Because our Flemington and McKillop cafes had both been loss-making before they were closed they'd had the parent company STREAT Ltd ensuring their cashflow and paying the bills through inter-company loans. When it was decided that STREAT Enterprises should be wound up, all of the investors generously agreed that this loan should be repaid first to ensure that STREAT Ltd was less vulnerable to cashflow issues and was not subsiding STREAT Enterprises. This effectively meant that they were deferring their own repayments and prioritising STREAT. This loan has now been fully paid off across the last two financial years from the roastery profits and this upcoming financial year will be the first time in six years our investors will get a proper return. Their investment is very patient Patient Capital!

Following is a graph that demonstrates STREAT's total revenue growth over time, along with the proportion of STREAT Enterprises revenue within that (grey). You can see that in the early years of 12/13 to 14/15 that the three STREAT Enterprise's businesses made up a very high proportion of overall revenue. You can also see when the proportion drops rapidly as two of the cafes are closed in 15/16 and 16/17.



9. Did you prioritise social impact over financial returns in STREAT Enterprises?

Yes. Again. And again. And again. A purely commercial operator would have cut their losses and moved on from both cafes years earlier, but the sites were purchased to create training opportunities for young people. Because we were still in start-up with only two carts and had few other training opportunities available, we made decisions in favour of creating social impact, even though these were uncommercial in a pure sense. What we repeatedly did wrong was make these decisions without our investors sitting around the table (none of the investors were on our Board), and without the necessary formal communication.

(For more detail on the lessons we learnt with governance structures and formal reporting, see the 2018 Swinburne University case study.)

10. Are you too scared to try impact investment again?

Not, but we're certainly wiser and more cautious. We've subsequently gone on to do a way larger $2.5m impact investment deal in 2015 to build our Cromwell Manor flagship site. This second time we did a debt deal (rather than equity) and it was initially done with $1.25m from NAB and $1.25m from Social Ventures Australia. The full $2.5m was then renegotiated with Westpac once the site was fully operational. The terrific news is that our Cromwell site has allowed us to grow strongly this last couple of years and this upcoming year we'll also start paying down the principle of this $2.5m in addition to the interest. We learnt a LOT of lessons in deal one which we then took into deal two! *(See question 14 regarding this.)*

We anticipate that in the future we'll continue to need impact investment to help scale our business operations, particularly as it's been so hard to find untied funds for scaling *(see question 11).*

11. Why haven't you scaled using government grants or philanthropy instead of investment?

Sigh. Getting the right type of capital at the right time has been the very hardest part of scaling STREAT. And a decade later it still remains my single biggest headache. To survive we've needed to get VERY resourceful each year and use all different types of capital. If I'm honest, most of the time I feel like I'm building a Dr Seuss house with every type of capital precariously balancing a different type of capital. (My funders have a different name for this precarious balancing act, they call it 'leveraging'.) Let me give you an example of trying to build Cromwell Manor, our $6.5m purpose-build hospitality training and business site. The property was generously gifted to us to use for 50 years in early 2013 by Geoff Harris but it took years to secure the right capital to turn it into reality. Our Cromwell Dr Seuss House had 24 key stakeholders and hundreds of individuals who made it possible as outlined below:

- $2.5m property purchased – its use was gifted to STREAT for 50 years at peppercorn rent of $5/year. BLOODY AMAZING! Then for the tricky part...
- $922k philanthropic grant funding (a few big grants but mostly lots of little grants)
- $400k corporate and company pro-bono & low-bono (equipment, labour, landscaping, advice)
- $120k crowdfunding – hundreds of people helped out
- $2.5m impact investment – $1.25m NAB, $1.25m Social Ventures Australia, then the full $2.5m loan was taken over by Westpac
- $0 government grants (Sorry, I'm going to get a bit ranty here. Yes, not one brick of our site was funded by government. Did we forget to ask them for help? What do you think? One senior government stakeholder said 'we really love you but you're a square peg in a round hole'. Another noted that we weren't in a marginal electorate. Another said that social enterprise was currently a low priority for government. Another said it was tricky because our work spanned various government departments and hence we were too hard to fund. Another said it seemed like the kind of initiative the other side of politics would fund. But their counterparts on the other side of politics said exactly the same thing. In short, we've had a decade of pollies coming to STREAT to take selfies but seldomly to offer resources (they currently account for 0.7% of our overall funding, and next year it will be less again).

It will take 12 years to get STREAT to being financially sustainable and across this time it's primarily philanthropists – both big and small alike – who have taken the biggest risks with us (then followed by our various impact investors).

(See question 12.)

12. How do you know what type of capital to use at what time?

I'm not sure if I've already said this, but finding the right capital to scale our work DOES MY HEAD IN! On the whole granters like funding projects not ongoing operational costs, equipment or capital works. They want to fund the 'sexy' stuff and not the stuff that seems boring. For example, every year I've been able to successfully fund the youth team and their direct work with young people, but I've never been able to fund the full business development team – even though they help grow the social enterprise business engine that powers our work with young people. In the same way that it's a better long-term investment to fund preventative programs over crisis responses, it's more logical to fund our business development and growth so we can more quickly become self-sufficient. So year after year we've usually survived by getting super creative and creating our own untied funds. For example, this year we'll fund our business development and capital expenditure with the profits from this year's cookbook, Christmas hampers and crowd-funding campaign. This is the third time we've used this strategy.

To date we've had 13 different sources of capital, each with their own nuances:

Revenue source	Some pros	Some cons
1. Your own personal money & resources (Bootstrapping)	• Shows your commitment or 'skin in the game' • Independence & control of how money is used	• Constrained by how much you have • Could put you at high personal risk • Can fall into trap of under funding or underestimating costs • If using credit cards can get into debt
2. Friends, Fools & Family	• They love you & are committed • May not have to repay, and if do probably at a better rate	• Entangled with relationships and could potentially cause conflict or damage • May lose some control

	• They'll probably also roll up their sleeves	
3. In-kind	• People often prepared to be very generous • Very broad range of skills, goods & services possible • This is as precious as cold hard cash if used correctly	• Need to ensure its aligned correctly • Might not be of the standard you require • Sometimes loaded with expectations
4. Bartering / exchange	• Surrounds you with broader skill sets • Values your skills	• Can be quite limiting • Can distract from the project
5. Philanthropic foundations	• Alignment of your mission to theirs • Doesn't have to be repaid	• Often need DGR • Very low hit rates even when aligned (<20%), so very slow • Often starts very small & grows with performance & trust • Often project based & inflexible • Writing, reporting, acquitting all resource intensive
6. Government grants	• Fed, state & local options • Can be substantial • Doesn't need to be repaid	• Often highly inflexible • Often very risk averse & flows to the traditional players • Often slow to gain, limited and small • Can make you feel beholden or 'gagged' to publicly speak out about issues • Could create partisan issue
7. Fundraising campaigns	• Create great exposure • If run well can provide substantial cash	• Very high costs to run • Often need resources up front to run successfully • If large may take a number of years to be make money • Lots of work required
8. Public donations	• Build a community of support • Can grow over time	• If donations quite small there's a high transaction cost • Only works if you have visibility • The public can be very fickle and trend driven
9. High Net Worth Individuals	• Can be very substantial • HNWIs often well connected to others HNWIs • Possible flexibility • Alignment of values • Appreciation of building a market solution • Often bring additional skills • Might become angel investor	• Often hard to access & strongly relationship-based • If a business person sometimes blinkered to additional challenges of a social enterprise
10. Crowd-funding	• Creates great exposure • Creates and mobilises a community (a huge group hug) • Minimal up front costs • Allows people to sample your wares and hence grow a future customer base	• Often 'all or nothing' • Require savvy social media & online presence • Easy to under estimate your COGs and creates extra expenses • Needs high attention to succeed • Tied to a specific purpose
11. Equity investment (Might be Angel investing during start-up, Venture capital at a later stage)	• Risks are shared between you and your investors (you share the 'upside' and 'downside') • Can be raised faster (compared to grants) • You now have shareholders who have a strong motivation to help your business succeed	• Not possible to get by a company limited by guarantee / charity • Investors now have part ownership stake of your business • You often you need to forego a degree of control • You need to provide a return • Hard to find investors who want a social return and a financial return (and might be willing to accept

	• Investors often bring expertise • Can find strong values alignment (impact investors) • Investors often connected to other potential investors • (It can do wonders in helping you feel less alone!)	lower returns for it) • Highly scrutinised & must justify • There's no liquidity (yet) in social enterprise investment so exiting not easy • Strong relationship nurturing needed • If multiple shareholders need alignment • If need a new structure to obtain it it can create more compliance costs, administration • Often obtained once mature, stable, and cashflow positive (not the case for angels) • Potential complexity for social ents in messaging re profit distribution
12. Debt financing (Numerous types including senior debt, mezzanine debt)	• Always available • You maintain full control of the business • You are due all the returns • Easier to obtain if you've got assets	• Loan must be repaid • The repayment schedule will reduce future cash flows • Payment schedules are often constant, whereas business revenue may fluctuate (particularly in the early days) • A level of risk involved, for you may not be able to repay the loan if the business is not performing well • Financial institutions often very risk averse and slow to take risks on social enterprises • Often require you to have assets
13. Earned business revenue	• The profits from this money can be used more flexibly and are not tied • It helps create ongoing sustainability (provided you keep delivering a product that customers value)	• It can come with high Cost of Goods (COGs) • There's often a huge amount of work required to get it • It relies on customers who may not see the value of your product or service • Your competitors often have far more marketing resources to convince customers they're better

13. How did you now deal with the differing expectations of investors?

One of the things we didn't do well with STREAT Enterprises was clearly define what success looked like for all stakeholders. We clearly defined what financial success looked like in our projections and agreements, but we didn't define what success looked like for our youth impact or the greater impact we hoped to catalyse for Australia's fledgling impact investment market. And as the key person doing most of the communicating I found myself feeling defensive when delivering poor financial news whilst we were simultaneously creating amazing social impact. I felt like I was always trying to paint the bigger picture. But it was actually too late for that because we had different goals right from day one. And the differences in our expectations didn't truly surface until things were going pear-shaped financially.

14. What did you learn from the first deal that you did differently the second time around?

There were a lot of things, but one of the most important differences when we embarked upon our far bigger $6.5m Cromwell development was setting very clear goals that were consistent across all of our stakeholders. (This deal was way bigger and more complex and we really, really couldn't afford to stuff it up.) Although we knew that the different stakeholders would want different things from us, we had one very clear set of goals across nearly all of our various funders. We also had very defined metrics and ways to all objectively measure success. Here's how we defined the project's success the second time around:

Impact goals	Key Performance Indicators	Data source / Measurement tools	Progress
1. Successfully design, build and	• All the necessary funding is secured	• Signed funding & grant agreements in place	• Achieved • $2.5m property gifted and

begin operations at the Cromwell training academy	• The project is delivered on time and STREAT moves into the site within 12 months of securing all capital • The project is on budget and the site is successfully built within the 20% budgeted contingency • The site is fully operational and all new businesses are trading within 3 months of completion	• Signed partner MOUs in place • Board approved project budget • Board approved project timeline • Quantity survey reports	$4.21m of support secured from Aust, Denmark, UK as a mix of philanthropy, pro bono, low bono, impact investment, crowd-funding • The site was built and opened on time and budget
2. Increase the number of young people we can provide support to each year	• Increase our youth numbers from 150/year to 365/year within 3 years • Maintain program retention rates of over 70%	• Input data from STREAT's impact tracking platform • Annual report	• Achieved • We grew youth numbers across our programs from 148 in FY15/16 to 622 in FY17/18 • Our program retention rate averages 78%
3. Increase the vocational training and work pathways offers our young people	• Expand the pathways from 1 to 4 within 3 years	• Number of programs offered	• Achieved • We have added In FY16/17 we added our outreach program with local Police (FY16/17), Bakery (16/17), internal employment (19/20), horticulture (19/20)
4. Enable young people to belong and have a healthy self, healthy job and healthy home	• Create belonging rates of over 90% • Healthy self – 90% of youth engaged have improved well-being • Healthy job – 60% youth employed/in further training 6 months after graduating • Healthy home – 95% of young people have maintained or improved their housing during their course	• Healthy self – Motivation, Emotional stability, Healthy relationships, Problem solving, Social connectedness, Communication skills, Conflict management measured by Outcomes Star, K10, HONOS, SPSI-R) • Healthy job – Employer Feedback Survey, Self Sufficiency Matrix • Healthy home – tools include Self Sufficiency Matrix, How Am I Tracking Questionnaire	• Achieved • Belonging average at 92% • Healthy self – 94% of youth improved their wellbeing. • Healthy job – 81% positive employment or educational outcomes • Healthy home – 97% maintained or improved their housing situation
5. Scale our business operations to the point of financial sustainability	• Expand our own earned revenue from 68% to 95%	• Annual audited financial statements	• Tracking well, will achieve in 21/22 • We were 68% in 15/16, 58% in 16/17, 71% in 17/18, 77% in 18/19. Our targets are 83% in 19/20, 89% in 20/21 and 96% in 21/22
6. Codify our business model to enable future growth	• Full documentation of our model and the necessary systems and processes in place for further scaling	• Estimation of completion of the following: ○ Youth programs (policies and procedures manual, 6 month curriculum, impact measurement framework and system) ○ Hospitality training program (curriculum, workplace checklists) ○ Business operations (Standard Operating Procedures manual for cafes, catering and events processes, order management system, business development collateral) Administration (Human resources manual, rostering system, maintenance program, finance system, budget and finance templates, reporting documents).	• Almost achieved • 90% of our model was codified by 18/19
7. Catalyse greater impact	• Share our learnings through at	• List of activities	• Achieved / achieving

within the social enterprise sector	least 30 avenues each year (case studies, research papers, conferences, speaking engagements, site tours, media) • Catalyse further impact through further growth and replication, capacity building others to establish similar models, network development, and potential diversification of the model to other beneficiary groups, other locations or other industries.	• Board reports • Strategic Plan • Research or project reports	• Participating in or leading over 400 sector activities annually, investing over 2,700hrs/year, 1.3 staff working on this • We've mapped youth disadvantage across every Vic Local Government Area and locations identified for upcoming expansion • In 2017 mapped Victorian hospitality social enterprises (there's over 75) and formed the Socially-Enterprising Foodies Network • Helped found the Social Enterprise Network of Victoria (SENVIC) our peers • Working on new projects for young prisoners, refugees and migrants, and LGBTIQA+ youth • Working with social enterprise peers on developing future precincts • Set up a research and tools web portal to share our materials and research • Employed our first part-time staff member to expand the open innovation projects we catalyse with universities, corporates, non-profits and community members.

15. How do you choose the right impact investors?

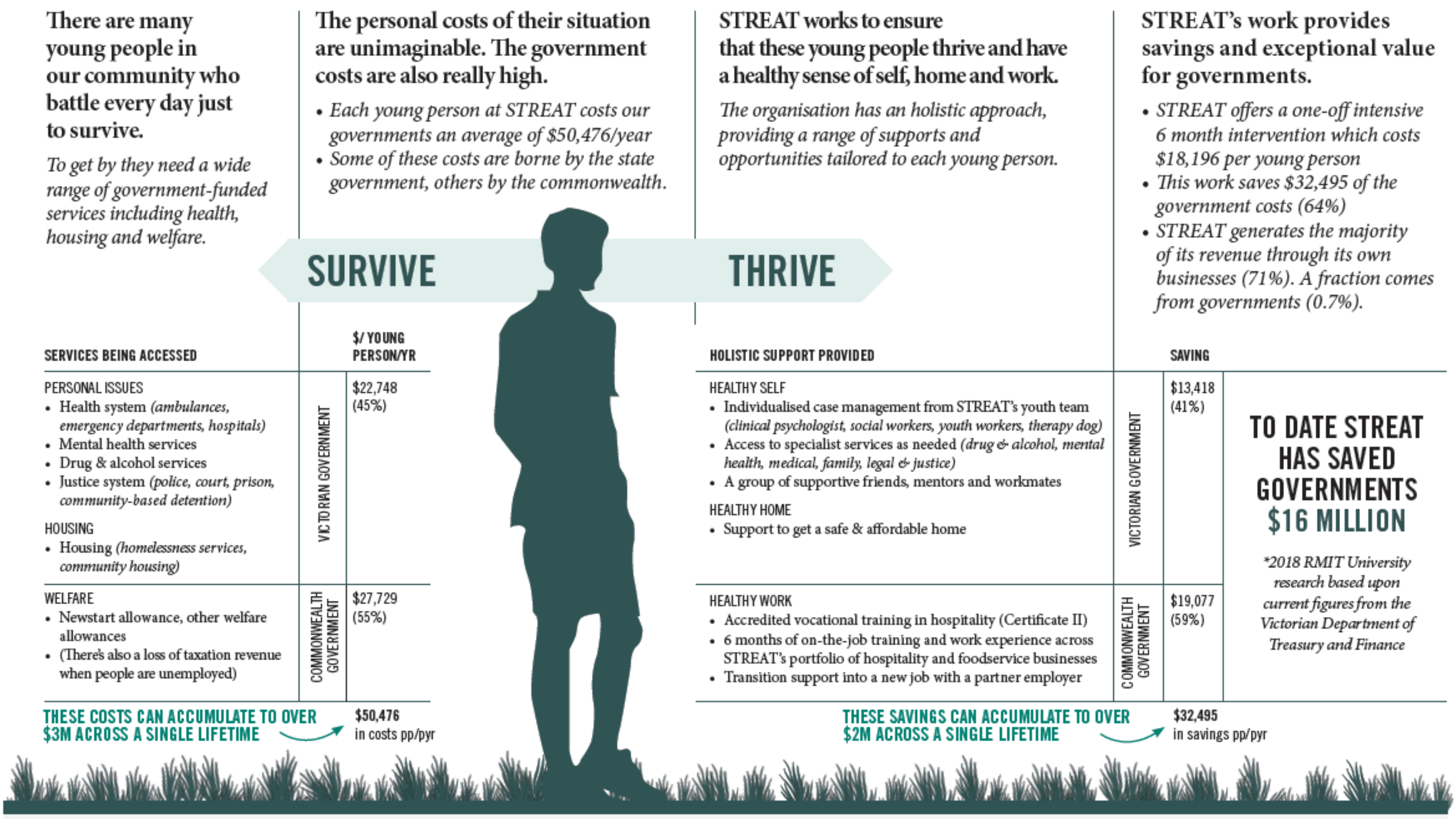
Like any group, impact investors aren't a uniform group. Even amongst our first four impact investors there's an incredibly broad range of views and expectations. Some of our investors I would call 'social first' investors who place a very high value on our social impact, others I would call 'financial first' investors who care more about the financial returns or building the impact investment market than necessarily creating impact for young people. The most critical thing is to spend the time at the front end clearly defining what success looks like for everyone as mentioned earlier. And try to dig right down into things that might be left unsaid. And if you're not ending up with strong alignment then maybe you need to question if you've got the right people at the table. Most importantly never ever be afraid to say 'No' to money from an investor if the fit doesn't feel quite right. It might also be worthwhile to define what your perfect project partner or investor look like. Here's the criteria we use:

1. Share our passion, values and vision – we're all striving for the same goals and outcomes.
2. Inspire us – in the way they work, in the way they partner.
3. Genuinely care about youth homelessness – and more generally making a difference in their community.
4. Are ethical – they have strong personal and business ethics, and are trustworthy.
5. Are likeable and easy to work with – are responsive, flexible, patient.
6. Deliver – they have a track record of strong delivery.
7. Complimentary – we both bring distinctive roles to the partnership, and both create value for each other.

8. Communicate openly and transparently – both in good times and when things aren't going well.
9. Are generous in sharing – their skills, ideas, resources and experiences.
10. Have a strong reputation – they bring credibility to STREAT's work.
11. Resolve issues respectfully – they know how to respectfully disagree and also when to compromise.
12. Love STREAT's work – they are genuinely excited by the work STREAT undertakes and see the value we bring to the table.

16. Is it possible to put a financial value on the social impact you've created and have that factored into the investor returns?

It's too late for the past two deals, but it is kind of possible for any future ones. Last year RMIT University estimated that our young people are each costing the community an average of $50,476/year when they arrive at STREAT, and that our intervention will save $32,495 (64%) of this cost every year. In total they estimate that we've saved the government (community) over $16m between 2010-2018. Here's a brief snapshot of both the costs and savings:



But obviously that's not the whole picture. We also know that from years of our own internal research and also research commissioned externally that there's things missing from this picture. For example, in 2012 Social Ventures Australia demonstrated that whilst our graduates valued their newly found stable homes, accredited vocational training, decreased hospital visits and new jobs, there were other things they valued more – particularly their sense of confidence in their own abilities and their deep sense of belonging and connection. To them, those things were priceless.

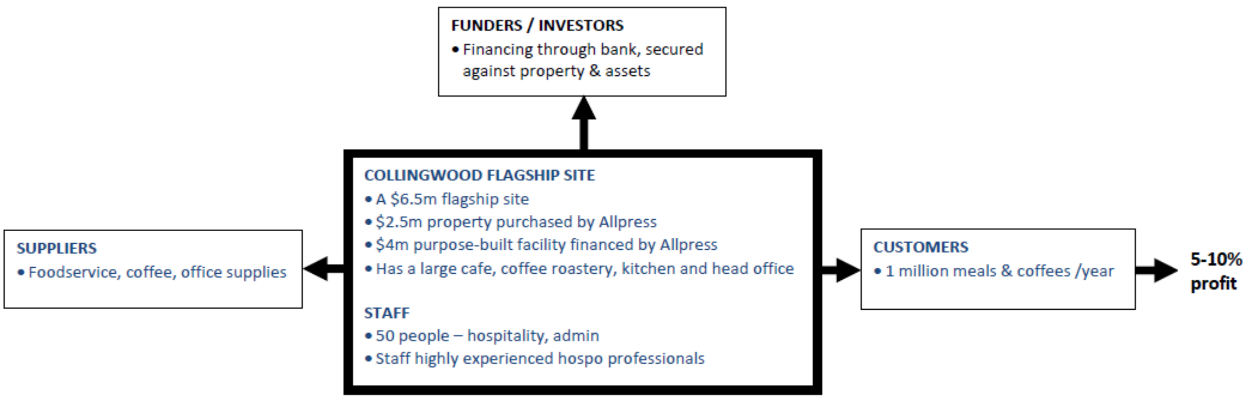
17. Why are your financial returns lower than in other hospitality businesses or other industries?

Social enterprises are way more complex and costly to scale and run. Why?

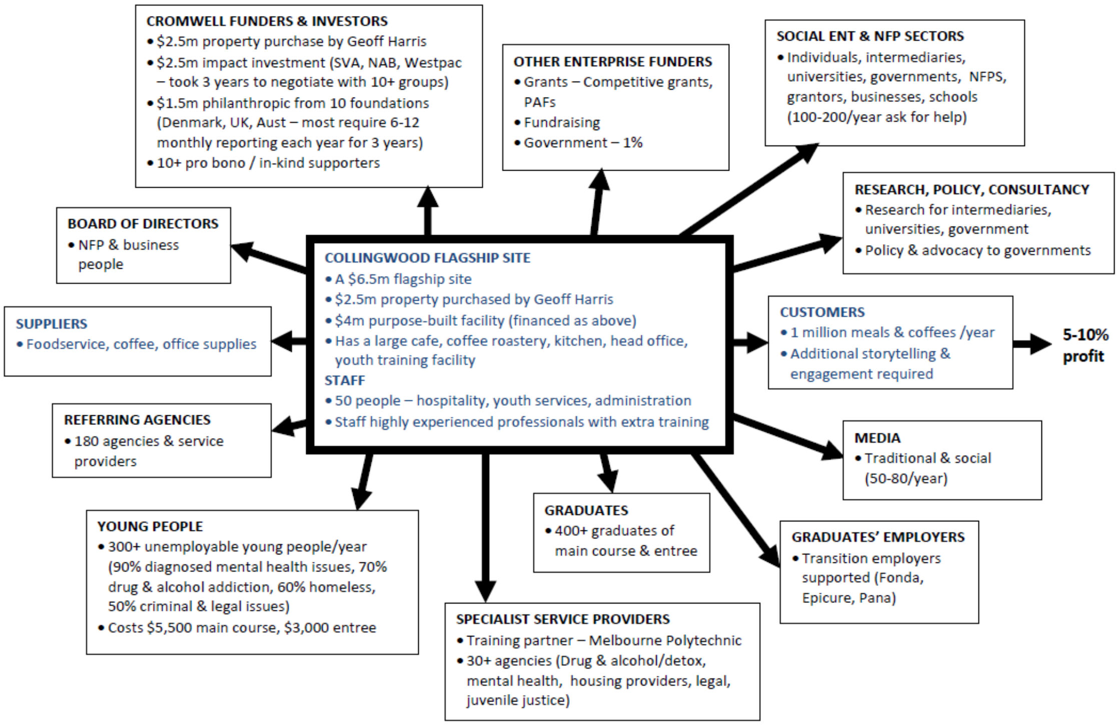
1. We have additional operating overheads due to the social impact we create – we scour the job markets to find the most unemployable people to train and employ. If we were to write our job add for SEEK, it would go something like, 'If you've got a diagnosed mental health problem, or are homeless, or have been imprisoned for years, or you're struggling with drug and alcohol addiction, or you're escaping a family of violence, and you have so many barriers to training and employment that you're unemployable, then you're our perfect employee.' So of course this comes with additional costs at our end. Our neighbouring cafes don't employ psychologists, youth workers, social workers, employment transition professionals or workplace trainers. These additional operating overheads bring about 20% of additional cost to our business.
2. We work in a low-skilled, low-margin industry – because our trainees have often dropped out of school really early due to the challenges they face, or they have low levels of literacy, numeracy or English language skills, STREAT needed to operate in an industry where a young person didn't need to have finished school, TAFE or uni to get a job opportunity. For this reason you'll often see training and employment social enterprises in low-margin industries like hospitality, cleaning, horticulture and landscaping, maintenance and repair, warehousing.
3. We do everything by the book – as you're probably aware from years of media reporting, Fair Work Australia investigations and celebrity chef scandals, the hospitality industry is renowned for overworking people, underpaying staff, paying cash in hand, and not giving their people their proper entitlements. In short, we don't make our profits through being dodgy.
4. We have accountability to so many more stakeholders – our cafe competitors have four major stakeholders: their funders, suppliers, customers and their staff. We have many magnitudes more over and above these as outlined below.

Here's a comparison of STREAT to its hospitality neighbour Allpress who have a similar-sized flagship in Collingwood to ours.

Meet Allpress in Collingwood...



Meet STREAT in Collingwood...



18. Is STREAT Enterprises done and dusted?

Hmmm. Technically yes, but in reality no. When we wound up STREAT Enterprises in 2016 we made a 5-year commitment to pay back our investors' money. We knew it would take a while because we only had one of the three original businesses to grow (the coffee roastery), and we also had to first repay a $160k intercompany loan. But it's taken longer to grow the roastery than expected so after many years of patiently waiting this year we'll finally start repaying our investor's capital. In June 2019 we paid investors back 33% of their capital.

We've made a commitment to our investors that we'll repay their money and that we'll extend our agreement with them for a further five years to achieve this. We all entered into our relationship with integrity and good faith and that's exactly how we plan to proceed.

19. What's your take on the impact investment sector in Australia?

The Australian impact investment sector has taken enormous leaps and bounds this last decade. And it's been really exciting to be part of it. Though it's still pretty lumpy and asymmetrical and there's more impact investment money in the market than social enterprises able to secure it. Some of this asymmetry is because it's a new sector which requires a lot of capacity building to get social enterprises 'investment ready'. Though I believe the social enterprise sector has to do a better job at educating traditional investors about the nuances and additional complexities when you create blended value. We also need to better educate investors about the different types of business models and value creation process within different enterprises. For example, an impact investor might be able to make a 20% return on a green building or renewable energy project but you can't realistically achieve that in the low-margin industries that most training and employment social enterprises work within.

As you'd hope, we have a more mature impact investment sector than a decade ago. We also see a broader spectrum of investors, from 'social first' investors who will forego some of their usual financial returns to create social returns to 'finance first' investors who want strong financial returns. We need the full spectrum of these investors at the table.

20. Are you still friends with your investors?

Hell yeah! We still share a collective dream to transform young lives and to create market mechanisms to help enable this. Our STREAT Enterprises investors are some of my dearest friends. Seven years on they're often who I call when I'm stuck. Or if I've got a hair-brain idea I want to explore. Or I want to get some honest advice. Or I'm looking for a personal introduction to someone in their networks. All of them continue to inspire me with their generosity and personal commitment to use their financial resources to leave the world a better place. They're my heroes.

21. With all the initial hype about STREAT Enterprises are you embarrassed that it didn't work out the way you planned?

I've lost SOOOOOO much sleep over STREAT Enterprises in the last six years, as have a number of our team members. I've also spent so much time going around and around in my head about the ways I could or should have done things differently. There are many things we've learnt that we'd do differently now, but everyone has a PhD in hindsight!

It's certainly fair to say that STREAT Enterprises came very close to collapsing STREAT. But the saying 'What doesn't kill you makes you stronger' is certainly also true of STREAT Enterprises. Not only did we learn a lot of things, but it also refined and strengthened our business model. And we certainly couldn't have done our subsequent $2.5m impact investment deal in 2016 without 'cutting our teeth' on the smaller $300k deal in 2012.

It's also worth noting here that STREAT Enterprises isn't the only thing in our business model that hasn't gone to plan. In fact, we've failed as often as we've succeeded – literally (today we have 10 business units, but we've also closed down 10). If the delivery of our feasibility study had gone to plan by now we'd have been a fleet of themed street food carts across Melbourne's CBD, a bunch of young people running around the streets serving hot beverages out of 'Souperhero jetpacks', and we'd have micro-franchised our model and have young business owners all over the country. Instead, we opened our Hoddle St head office, Spencer St production kitchen, Bourke St head office, Swanston St production kitchen, RMIT kiosk, North Melbourne production kitchen, Flemington cafe, McKillop St cafe, South Melbourne production kitchen, PwC foyer cafe and Westpac pop-up. And then closed them all down over time! There were so many reasons. The rent was too high. We didn't have enough money to refurb. The lease was up. The site was being redeveloped. The site had no customers. The site was being closed down. The site was badly located. The site was being moved. We'd outgrown the site. We were losing too much money. Here's what our failures and evolution looks like!

	Youth support & training	Office	Fed Square	Production kitchen	Melb Central	Melb Uni	Flemington	Roastery	McKillop	RMIT	PwC	Westpac pop-up	Cromwell Manor	RACV	Alphington Farmer's Market	Arup cafe	AMP cafe	ANZ cafe	New opportunities in traim
2008	-	Home in Canberra Moved																	
2009	-	Hot desk Bourke St Moved Hoddle St Moved																	
2010	9	Donkey Wheel opened	2 x food carts	Spencer St opened Moved	Coffee cart opened	Food cart + Coffee cart opened													
2011	16		Closed	Swanston St Opened Moved															
2012	44			North Melb opened Moved		Closed	50 seat Cafe opened	10kg roaster acquired	20 seat cafe acquired										
2013	45			South Melbourne opened Moved	Refurbed to kiosk		50 seat Cafe	10kg roaster			Foyer kiosk		Cromwell Manor brothel bought						
2014	105						50 seat Cafe	10kg roaster		Kiosk opened	Foyer kiosk		Design & approvals						
2015	132	Donkey Wheel Moved					50 seat Cafe	10kg roaster			Foyer kiosk	Pop-up kiosk	Construction						
2016	148	Cromwell HQ opened		Cromwell opened			Closed	Moves		Closed	Closed	Closed	Opens – HQ, training facility, 100 seat cafe, bakery, roastery, catering,event spaces, garden						
2017	346									Re-opened									
2018	662								Closed	New site Re-opened				Foyer kiosk opened	Coffee & bakery opened	Coffee kiosk opened			
2019					Refurbed again												Coffee kiosk opened	Coffee kiosk opened	6+

A final word of thanks...
We're so grateful to our STREAT Enterprises investors and key stakeholders for so generously and honestly contributing to our sector's learning, most recently evidenced by their participation in the Swinburne University case study. Thank you for continuing to grapple with how to change young lives together. Thank you for fearlessly 'jumping off the cliff' with us back in 2012 and then continuing to walk alongside us for so many subsequent years. And thank you for continuing to share a table with us to dream about future ways to create blended social, environmental and financial value together in the future.