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Entrehubs

2.4 Financial and economic literacy

Dr. Olaf M. Rottke

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Morning session (asynchronous)

| Agenda

- 1. Welcome video of your lecturer: Dr. Olaf M. Rottke**
- 2. Why is sustainability / impact relevant for founding?**
- 3. What to know to get a business started?**
- 4. Business Plan Calculation and Additional Sustainability KPIs**
- 5. 2 Case Study examples – Discovering Hands / Healthy engineers**
- 6. Morning assignments**
- 7. Excurs on valuation and social investors (advanced)**

Afternoon workshops in groups (synchronous)

| Agenda

- 1. Meet the lecturer of the day: Dr. Olaf M. Rottke** **1 pm**
- 2. Short introduction to the assignment by the lecturer**
- 3. Split into work groups and join your group in one of the breakout rooms**
- 4. Short ice-breaker to get to know each other**
- 5. Work in your group, preparing the business case** **(1,5 hours)**
- 6. Come back and present your project in the work group** **3 pm**
- 7. Feedback round**

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Learning goals

Develop financial and economic know how

- | Estimate the cost of turning an idea into a valuecreating activity
- | Plan, put in place and evaluate financial decisions over time
- | Manage financing to make sure your value-creating activity can last over the long term
- | Develop your practical business case and present it to investors (role play)
- | Be a potential investor and understand how they evaluate business ideas

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| Why is sustainability / impact relevant for
| the founding process?

- Introduction to SDG- and CSRD-Reporting
- Significance of ESG (Environmental, Social, and Governance)
- Importance for Large Firms
- Relevance for Startups

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| Why is sustainability / impact relevant for
| the founding process?

Introduction to SDG- and CSRD-Reporting

➤ SDGs Overview

- 17 Sustainable Development Goals set by the UN.
- Aimed at addressing global challenges like poverty, inequality, and climate change.



➤ CSRD Overview

- EU directive for reporting on sustainability impacts.
- Mandates transparency in non-financial reporting.



➤ Benefits

- Enhanced transparency and accountability.
- Improved stakeholder trust and engagement.



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| Why is sustainability / impact relevant for
| the founding process?

Significance of ESG / Why ESG Matters

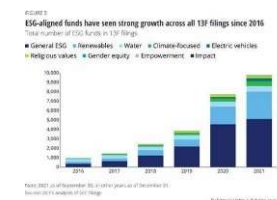
➤ ESG Criteria

- **Environmental:** Climate impact, resource usage.
- **Social:** Employee relations, community engagement.
- **Governance:** Board diversity, ethical practices.



➤ Investor Interest

- Growing preference for ESG-compliant investments
- ESG factors linked to long-term performance.



➤ Risk Management

- Reduces exposure to regulatory and reputational risks
- Enhances long-term sustainability and resilience
- Icon: Shield with a checkmark.



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| Why is sustainability / impact relevant for
| the founding process?

Importance for Large Firms

➤ Competitive Advantage

- Strengthens brand reputation and consumer trust
- Attracts and retains top talent



➤ Regulatory Pressures

- Compliance with global and local ESG regulations
- Avoids fines and legal issues



➤ Examples

- Major companies leading in ESG (e.g., Tesla, Unilever).



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| Why is sustainability / impact relevant for | the founding process?

Relevance for Startups

➤ Embedding ESG Early

- Integrating ESG principles from the start.
- Establishes a sustainable business model



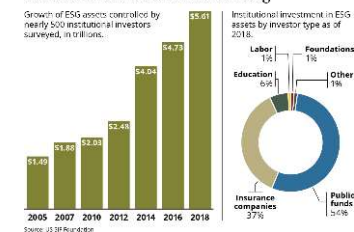
➤ Access to Capital

- Investors favor startups with strong ESG commitments

➤ Innovation and Growth

- ESG focus drives innovation and market differentiation

Institutions embrace ESG investing



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| What to know to get a business started? (1)

- **Get an Overview of entrepreneurship with a focus on sustainability and impact investing.**
- **Importance of creating businesses that are both profitable and socially responsible.**

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| What to know to get a business started? (2)

Step 1 – Ideation

- **Identify a Problem:** Define the social or environmental issue your business will address (e.g., access to clean water, renewable energy).
- **Generate Ideas:**
 - Brainstorm potential solutions to the problem.
 - Consider innovative approaches and technologies.
- **Example:**
 - **Problem:** Lack of clean drinking water in rural areas.
 - **Solution:** Develop a cost-effective water purification system.

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| What to know to get a business started? (3)

Step 2 - Market Research

➤ **Market analysis:**

- Identify your target market and customer needs.
- Analyze market size, growth potential, and trends.

➤ **Competitive Analysis:**

- Analyze competitors and market gaps.
- Identify your unique selling proposition (USP).

➤ **Example:**

- **Target Market:** Rural communities in developing countries.
- **Competitors:** Existing water purification solutions.

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| What to know to get a business started? (4)

Step 3 – Business Plan

➤ Create a Business Plan:

- Define your mission and vision.
- Outline your business model and strategy.
- Include market analysis, organizational structure, product line, marketing and sales strategy, and financial projections.

➤ Example:

- **Mission:** Provide affordable clean water solutions.
- **Business Model:** Sell purification systems and provide maintenance services.
- **Strategy:** Partner with local NGOs and governments to reach remote areas.

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| What to know to get a business started? (5)

Step 4 - Legal Structure

➤ Choose a Legal Structure:

- Options include sole proprietorship, partnership, corporation, or social enterprise.
- Consider tax implications and liability.
- Research local regulations and requirements.

➤ Example: In Germany: gGmbH, foundation

Step 5 – Registration

➤ Register Your Business: Obtain necessary licenses and permits.

- Register with local, state, and federal authorities.
- Ensure compliance with legal and regulatory requirements.
- Example of Registration: Registering gGmbH, foundation

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| What to know to get a business started? (6)

Step 6 - Funding Sources

➤ Identify Funding Sources:

- Bootstrapping: Using personal savings to fund the business.
- Loans: Borrowing money from banks or other financial institutions.
- Grants: Securing non-repayable funds from governments or foundations.
- Impact Investors: Attracting investors seeking financial returns and social/environmental impact.

➤ Example:

- Grants: Obtaining grants from environmental foundations.
- Loans: Securing loans from green banks specializing in sustainable projects.

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| What to know to get a business started? (7)

Step 7 - Building a Team

➤ Assemble Your Team:

- Hire individuals passionate about your mission.
- Build a diverse and skilled team with expertise in relevant areas (e.g., engineering, marketing, finance).
- Foster a collaborative and inclusive culture.

➤ Example:

- Team Members: Engineers, marketers, and field workers committed to clean water solutions.

Step 8 - Product Development

- Develop Your Product:
- Create prototypes and conduct testing.
- Ensure product meets market needs and sustainability goals.
- Continuously improve the product based on feedback.

➤ Example: Developing a solar-powered water purification system to provide clean water in remote areas.

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| What to know to get a business started? (8)

Step 9 - Sustainability Integration

➤ **Integrate Sustainability:**

- Use eco-friendly materials and sustainable production processes.
- Minimize carbon footprint by optimizing logistics and operations.
- Implement waste reduction and recycling programs.

➤ **Example:** Using biodegradable materials in product packaging to reduce environmental impact.

Step 10 - Marketing Strategy

➤ **Develop a Marketing Strategy:**

- Define your value proposition and key messages.
- Use digital marketing, social media, and traditional advertising.
- Leverage partnerships and influencer marketing to reach a wider audience

➤ **Example:**

- Highlighting the environmental benefits of your product in marketing campaigns to attract eco-conscious consumers.

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| What to know to get a business started? (9)

Step 11 - Sales Strategy

➤ Create a Sales Strategy:

- Identify sales channels (e.g., online, retail, direct sales).
- Build partnerships with distributors and resellers.
- Develop a pricing strategy that reflects the value and impact of your product.

➤ **Example:** Partnering with NGOs to distribute water purification systems in rural areas.

Step 12 – Launch

➤ Launch Your Business:

- Plan a launch event to generate excitement and media coverage.
- Use press releases, social media, and influencer endorsements to spread the word.
- Monitor feedback and make necessary adjustments post-launch.

Example: Launch event in a community benefiting from your solution, showcasing real-life impact.

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| What to know to get a business started? (10)

Step 13 - Measuring Impact

➤ Measure and Report Impact:

- Use metrics to track social and environmental outcomes.
- Report results to stakeholders, including investors, customers, and the community.
- Continuously improve based on impact data.

➤ Example:

- Number of households with access to clean water.
- Reduction in waterborne diseases as a result of your solution.

Step 14 – Identify potential Investors

- | | |
|---------------------------------|---|
| • Family Offices: | Wealth management firms investing in sustainable projects. |
| • Foundations: | Organizations providing grants and impact investments. |
| • Venture Capital Funds: | Firms specializing in impact investing, seeking both financial returns and social impact. |

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Business Plan Calculation - Complete Example

Let's build a detailed 5-year financial projection for a hypothetical social enterprise focused on providing clean water solutions. We'll include revenue, COGS, gross profit, operating expenses, net profit, break-even analysis, and cash flow projections.

➤ Financial Projections Overview

- Financial projections help estimate future revenues, costs, and profitability.
- Essential for attracting investors and managing business growth.

➤ Revenue Projections

- Estimate sales based on market research and pricing strategy.
- Example: Selling water purification systems at \$100 each.

Year	Units Sold	Price per Unit	Revenue
1	1,000	\$100	\$100,000
2	2,000	\$100	\$200,000
3	3,500	\$100	\$350,000
4	5,000	\$100	\$500,000
5	7,000	\$100	\$700,000

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Business Plan Calculation - Complete Example (2)

➤ **Cost of Goods Sold (COGS) Calculation:**

- Calculate the cost to produce each unit, including materials, labor, and overhead.
- Example: COGS per unit is \$50.

Year	Units Sold	COGS per Unit	Total COGS
1	1,000	\$50	\$50,000
2	2,000	\$50	\$100,000
3	3,500	\$50	\$175,000
4	5,000	\$50	\$250,000
5	7,000	\$50	\$350,000

➤ **Operating Expenses:**

- Estimate expenses for marketing, salaries, rent, utilities, etc.

Year	Salaries	Marketing	Rent	Utilities	Total Operating Expenses
1	\$20,000	\$5,000	\$3,000	\$2,000	\$30,000
2	\$40,000	\$10,000	\$6,000	\$4,000	\$60,000
3	\$60,000	\$15,000	\$9,000	\$6,000	\$90,000
4	\$80,000	\$20,000	\$12,000	\$8,000	\$120,000
5	\$100,000	\$25,000	\$15,000	\$10,000	\$150,000

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Business Plan Calculation - Complete Example (3)

➤ Net Profit Calculation Calculation:

- Subtract operating expenses from gross profit.

Year	Gross Profit	Total Operating Expenses	Net Profit
1	\$50,000	\$30,000	\$20,000
2	\$100,000	\$60,000	\$40,000
3	\$175,000	\$90,000	\$85,000
4	\$250,000	\$120,000	\$130,000
5	\$350,000	\$150,000	\$200,000

➤ Break-Even Analysis:

- Determine the number of units needed to cover all costs.
- Fixed Costs: Operating expenses excluding variable costs.
- Contribution Margin: Selling price per unit - COGS per unit.

Year	Fixed Costs	Contribution Margin per Unit	Break-Even Point (Units)
1	\$30,000	\$50	600
2	\$60,000	\$50	1,200
3	\$90,000	\$50	1,800
4	\$120,000	\$50	2,400
5	\$150,000	\$50	3,000

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Business Plan Calculation - Complete Example (4)

➤ Cash Flow Projections:

- Estimate cash inflows and outflows to ensure liquidity.
- Include revenues, expenses, loan repayments, and capital expenditures.

Year	Cash Inflows (Revenue)	Cash Outflows (Expenses)	Net Cash Flow
1	\$100,000	\$80,000	\$20,000
2	\$200,000	\$160,000	\$40,000
3	\$350,000	\$265,000	\$85,000
4	\$500,000	\$370,000	\$130,000
5	\$700,000	\$500,000	\$200,000

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Business Plan Calculation - Complete Example (5)

➤ Funding Requirements:

- Initial capital required to cover start-up costs and initial operating expenses.
- Consider both equity and debt financing options.

Year	Funding Needed	Source of Funds
1	\$50,000	Personal savings, grants
2	\$100,000	Loans, impact investors
3	\$150,000	Revenue reinvestment, grants
4	\$200,000	Equity financing, loans
5	\$250,000	Revenue reinvestment

➤ Identify Potential Investors:

- **Family Offices:** Wealth management firms investing in sustainable projects.
- **Foundations:** Organizations providing grants and impact investments.
- **Venture Capital Funds:** Firms specializing in impact investing, seeking both financial returns and social impact.

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5-Year Profit and Loss (P&L) Statement

Year	1	2	3	4	5
Revenue	\$100,000	\$200,000	\$350,000	\$500,000	\$700,000
COGS	\$50,000	\$100,000	\$175,000	\$250,000	\$350,000
Gross Profit	\$50,000	\$100,000	\$175,000	\$250,000	\$350,000
Operating Expenses	\$30,000	\$60,000	\$90,000	\$120,000	\$150,000
- Salaries	\$20,000	\$40,000	\$60,000	\$80,000	\$100,000
- Marketing	\$5,000	\$10,000	\$15,000	\$20,000	\$25,000
- Rent	\$3,000	\$6,000	\$9,000	\$12,000	\$15,000
- Utilities	\$2,000	\$4,000	\$6,000	\$8,000	\$10,000
Net Profit	\$20,000	\$40,000	\$85,000	\$130,000	\$200,000

Break-Even Point (Units):

- Year 1: 600 units
- Year 2: 1,200 units
- Year 3: 1,800 units
- Year 4: 2,400 units
- Year 5: 3,000 units

Funding Needed (and possible financing sources):

- Year 1: \$50,000 (Personal savings, grants)
- Year 2: \$100,000 (Loans, impact investors)
- Year 3: \$150,000 (Revenue reinvestment, grants)
- Year 4: \$200,000 (Equity financing, loans)
- Year 5: \$250,000 (Revenue reinvestment)

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Yearly funding needed calculations

➤ **Year 1: \$50,000**

Purpose: Cover startup costs including initial product development, legal fees, and setting up the office, as well as funding the gap between early operating expenses and initial revenues.

Calculation Basis: Assuming the initial year might not generate enough revenue to cover all operating expenses and initial setup costs.

➤ **Year 2: \$100,000**

Purpose: Expand marketing efforts, hire additional staff, and increase production capacity to meet growing sales.

Calculation Basis: Support expansion as revenue doubles but expenses also increase, ensuring the business can scale without cash flow issues.

➤ **Year 3: \$150,000**

Purpose: Further scale operations, expand market reach, possibly enter new markets or introduce new product lines.

Calculation Basis: Based on continued revenue growth and need for additional resources to support larger operations.

➤ **Year 4: \$200,000**

Purpose: Enhance technological infrastructure, additional product innovation, and possibly scale into new geographic areas.

Calculation Basis: As the business matures, larger investments may be required to maintain competitive advantage and innovate.

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Yearly funding needed calculations

- **Year 5: \$250,000**
Purpose: Consolidate market position, optimize operations, and prepare for sustainable long-term growth. Possibly also reduce dependency on external funding.
Calculation Basis: This would ensure the business is well-funded to operate independently and prepare for potential economic downturns or market changes.
- **Factors Considered in Funding Estimates:** Revenue vs. Expenditure Gap: Each year's funding needs consider how much revenue is being generated versus the expenditures forecasted for that period.
- **Growth Strategies:** Investment into marketing, expansion, and scaling operations which might not be fully covered by generated revenues.
- **Cash Flow Management:** Ensuring the business maintains a healthy cash flow, allowing it to cover operational needs and unexpected expenses.
- These funding estimates are quite general and need to be tailored based on actual business performance, market conditions, and strategic decisions. For a real-world application, a detailed cash flow analysis is necessary to refine these estimates further and ensure they align with specific business needs and financial planning strategies.

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Additional Sustainability KPIs

Key performance Indicators (KPIs) to Measure Sustainability Impact

KPI	Year 1	Year 2	Year 3	Year 4	Year 5
Units Sold	1,000	2,000	3,500	5,000	7,000
People Provided with Clean Water	5,000	10,000	17,500	25,000	35,000
Reduction in Waterborne Diseases	1,000	2,000	3,500	5,000	7,000
Carbon Emissions Saved (tons)	50	100	175	250	350
Water Saved (liters)	100,000	200,000	350,000	500,000	700,000
Waste Reduced (kg)	500	1,000	1,750	2,500	3,500

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Detailed Explanation of Sustainability KPIs

- **Units Sold:** Number of water purification systems sold annually.
- **People Provided with Clean Water:** Estimation: Each unit provides clean water to 5 people.
- **Reduction in Waterborne Diseases:** Estimated reduction based on the number of people receiving clean water (assuming 20% decrease).
- **Carbon Emissions Saved:** Reduction due to decreased need for boiling water or using other carbon-intensive purification methods. Estimated at 0.05 tons per unit sold.
- **Water Saved:** Amount of water saved by using efficient purification methods, reducing waste. Estimated at 100 liters per unit sold.
- **Waste Reduced:** Reduction in plastic waste by providing a sustainable purification solution. Estimated at 0.5 kg per unit sold.

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| What to know to get a business started?

Summary:

- **Recap of steps to found a sustainable and impactful business.**
- **Importance of aligning business goals with social and environmental impact.**
- **Encouragement to take action and make a difference.**

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| Case Study example – discovering hands

CASE STUDIES, FINALISED, PROJECTS

Discovering Hands

POSTED ON 20. OCTOBER 2015



Ashoka Fellow Frank Hoffmann pioneered a diagnostically superior breast examination method by training blind women as skilled diagnosticians.

Social impact: Their superior sensitive touch enables blind women to detect breast cancer earlier than the average doctor. At the time of the first financing round raised with the help of FASE, 10,000 women had been examined and 38,000 were planned for the next five years to come.

Investment: Supported by FASE, Discovering Hands successfully raised growth capital for the national rollout from a social venture capitalist and a bank in 2014. Meanwhile, a second financing round for scaling existing markets and entering new geographic regions was secured, again with the help of FASE.

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| Case Study example – discovering hands

(File: Case study example_discovering hands_case_fa-se.pdf)

Read the case study answering the following questions:

- What is the financing of the company?
- What are the main success factors (unique selling point) from your perspective?
- Can you find something about the company now?
- What would you copy from this case?

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| Case Study example – Healthy Entrepreneurs



BLOG, CASE STUDIES

Social enterprise success studies: Healthy Entrepreneurs

POSTED ON 24. JULY 2023

No doubt, raising a new financing round is a big success for any social enterprise. But what exactly happened after the round? Was it easier to close a follow-on financing? Could hybrid finance play a supporting role? To investigate how innovative forms of finance can help a social enterprise grow and thrive, we have asked some of our clients about their major achievements since our collaboration. What were their most important updates on business models, products, investors and strategies? And how have the impact projections materialized? Enjoy our new **Social Enterprise Success Stories** series, which continues with a pioneer for basic healthcare to isolated communities: [HEALTHY ENTREPRENEURS](#)

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| Case Study example – Healthy Entrepreneurs

Healthy Entrepreneurs: Providing basic healthcare where no one else will go

The social problem:

- In large parts of the world, people living in rural communities often lack trusted information on health-promoting practices and cannot access affordable health products and services.
- Poor knowledge of causes and symptoms lead to avoidable infectious diseases such as Zika, Mers, and Ebola, and to low adherence to treatment of chronic diseases such as hypertension and diabetes.
- There is a low availability of health centers and high travel costs to get to the nearest ones.
- The high dependency on the local black market for medicines causes the use of cheaper but counterfeit medicines (30-60% of all available medication).

The solution:

- Healthy Entrepreneurs offers a franchise model for basic health services: The social enterprise identifies qualified health workers (“Community Health Entrepreneurs”, CHE), enables them to become micro-entrepreneurs, gives training, start-up credit, and equipment, while managing the full supply chain.
- Among other benefits, the solution has proven to double the CHE’s income and lead to 55% in cost savings in health expenditure for rural families. It contributes to essential employment in rural and remote areas, especially for female entrepreneurs.

Proof of Concept:

- Healthy Entrepreneurs is working today with more than 18,000 micro-entrepreneurs in 7 countries, reaching around 18 million people in rural areas across Africa.

Scaling:

- To scale operations in Kenya and Uganda, the social enterprise was looking for growth capital in 2019/2020 and successfully secured a hybrid financing round with support from FASE in 2020. A follow-on financing round (again hybrid) was closed in 2022.

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| Case Study example – Healthy Entrepreneurs

(File: Success-Study-Healthy-Entrepreneurs-5-2023-compr.pdf)

Read the case study an again answering the following questions:

- What is the financing of the company?
- What are the main success factors (unique selling point) from your perspective?
- What would you copy from this case?

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| Morning assignments

- **Alternative 1: select a business case of the financial agency for social entrepreneurship (<https://fa-se.de/en/case-studies/>)**

Analyse (as in the beforehand slides), e.g.

- their market position
- Their future revenue potential (non-financial)

- **Alternative 1: Valuation Exercise**

Calculate a simple (social) business case to build a business plan

(Museum Case, next slides)

Assignment 1: Valuation Exercise

Museum

- | A few social enterprises are operating museums (e.g., Museum in the Dark or Holocaust memorials).
- | It is a relatively „easy“ business model with entrance fees, rental expenses and staff costs.



Valuation Exercise

Museum

- | Please value the following business case and develop a simple calculation for 5 years:
 - | Visitors:
 - | Year 1: 100 per day
 - | Year 2: 150
 - | Year 3: 200
 - | Year 4: 250
 - | Year 5: 300
 - | Revenues per visitor: €35 in revenues (entrance fee, shop, food)
 - | Costs of Goods Sold: €5 per visitor
 - | Employees: 10 employees each with €50,000 annual costs
 - | Rental expenses: 10% revenue share for the owner of the property
 - | Marketing: 5% of Sales
 - | 2% Annual Growth Rate for the Revenues
- | When will it be breakeven? What can be changed as different scenarios?

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| Excurs on valuation and social investors

- **For those already more experience - in the following slides some information about social investors in Europe**
- **Why is valuation relevant as well for social enterprises?**

Why do we speak about valuation of social ventures?

1

The field of impact investing is developing fast

- Most impact investment funds were established in the past decade and have less than a 10-year performance record. The Social Business Initiative (SBI) was instrumental in providing more capital to the sector.
- Early pioneers operated with funds ranging from 5 to 10 million €. These funds were small and not really sustainable but demonstrated the feasibility of the concept. There was more flexibility in the use of financing instruments.
- Large institutional investors were becoming major capital providers and demanded higher professional standards and impact-related performance payments
- The growth of the funds underscores the need for improved decision-making processes and comprehensive documentation of investments

Why do we speak about valuation of social ventures?

1

The field of impact investing is developing fast: German example

Fund Manager	HQ	Focus	Volume current fund	Year of Creation
Ananda	Munich	Social and environmental impact	€108 MM (Ananda Impact Fund IV)	2009
BonVenture	Munich	Social and environmental impact	€50 MM (BonVenture IV)	2003
European Social Innovation and Impact Fund (ESIIF)	Berlin	Social and environmental impact	€13 MM (ESIIF I)	2020
Red Stone & Enjoy Venture	Berlin	Social and environmental impact	€50 MM Target Size (Human Impact Capital (HIC) Fund I)	2023
Revent	Berlin	Social and environmental impact	€50 MM Target Size (Revent Ventures I)	2020
PlanetA	Hamburg	Green Technology	€150 MM (Planet A Ventures)	2020
World Fund	Berlin	Climate Technology	€350 MM Target Size (World Fund I)	2021

Why do we speak about valuation of social ventures?

2

The growing importance of equity investments.

- In general, we can say that banks provide **debt capital** and impact investment funds provide **equity capital**. Obviously, there are overlaps as some funds provide loans or mezzanine capital and some banks provide equity-like financing instruments
- Investment funds have always focused on equity and equity-like investments but require improved analysis as valuation levels are increasing. In 2010, it was common to see investments between €250,000 and €500,000. These valuation levels are much less common nowadays and we see investment rounds of a few million to hundreds of millions. Consequently, valuation **errors are much more costly**
- A **rigorous** due diligence process is thus a requirement for all funds

Valuation from an investor's perspective

A **low** valuation offer:

- + Allows investors to acquire larger stake at lower price
- Lack of interest from other investors may signal low confidence in company's prospects



Image Source: WannaPik

Valuation from an investor's perspective

A **low** valuation offer:

- + Allows investors to acquire larger stake at lower price
- Lack of interest from other investors may signal low confidence in company's prospects

A **high** valuation offer:

- + More liquidity inflow and capital buffer
- + Less dilution of the founding / management team
- Raises performance expectations, potentially lowering investor returns
- Hinders future investments, risking venture survival and increases the possibility of a potential investment loss



Image Source: WannaPik

Valuation from an entrepreneur's perspective

Entrepreneurs should see the fundraising process as a repeat game with the investors.

A high valuation at the beginning is equivalent to ambitious business plan which lead to high or even unrealistic performance expectations.

- Pressurise founders
- Hinder future fundraising as investors prefer higher valuations in each round.
- Change in market conditions may affect its market position & growth trajectory



Image Source: WannaPik

Valuation: Art vs. Science perspective



Valuation as an **art**

- The basic truth is that nobody really knows the exact value of any asset. Meme stocks and meme coins are a good example for this phenomenon
- Market changes, customer preferences, and competitors affect future cash flows
- Key aspects are subject to personal interpretation such as management quality, brand strength, or market positioning
- Sometimes it also depends on the acquisition price of the seller.

Image Source: freeimageslive, Creazilla

Valuation: Art vs. Science perspective



Valuation as an **art**



Valuation as a **science**

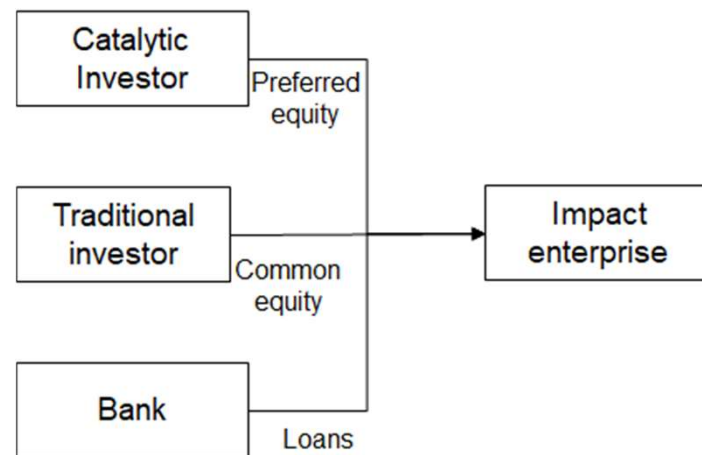
- Every day, we put prices on millions of “assets”. Google is running auctions for every ad it is selling. Airlines are using demand and supply to price their seats. Bond prices as well as option prices are calculated simple formulas including duration, risk or prices of underlying assets.
- A variety of methods and techniques exist to determine the value of an asset

Image Source: freeimageslive, Creazilla

Why is everything so complex: The different layers

1

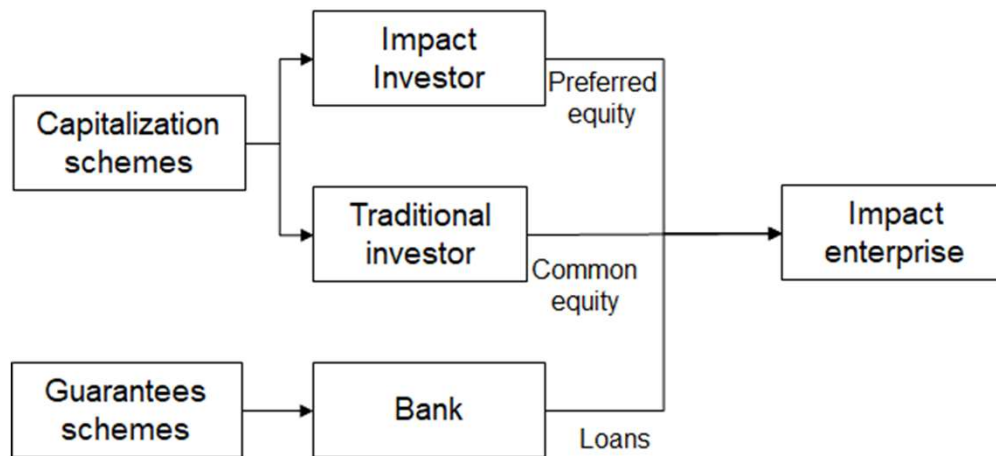
At the capital structure we have different investors



Why is everything so complex: The different layers

2

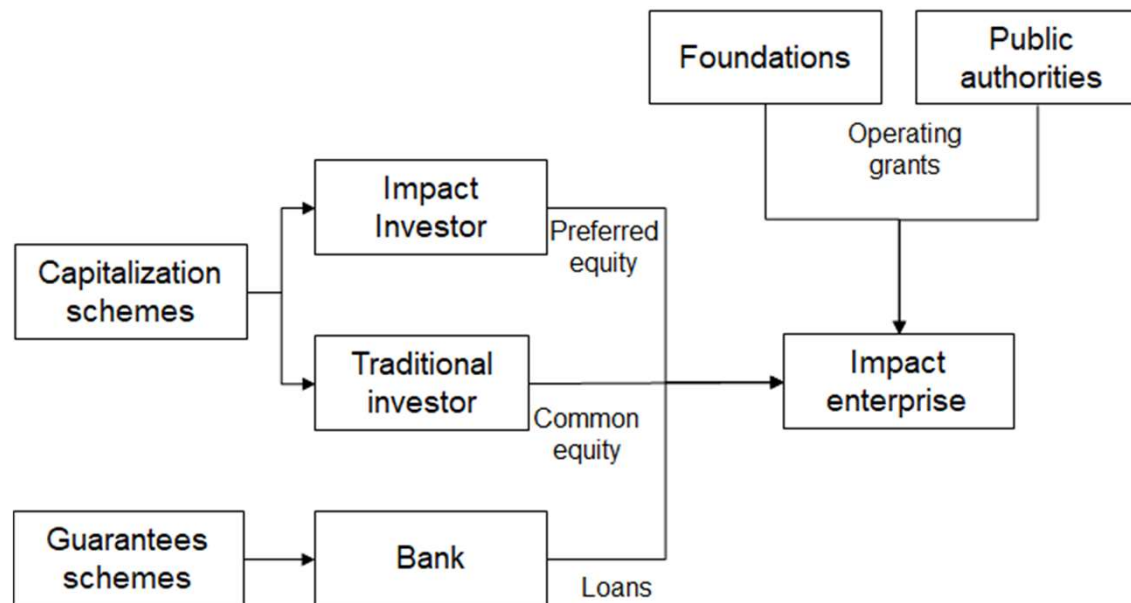
Each of these capital providers has different funding structures (illustrative example)



Why is everything so complex: The different layers

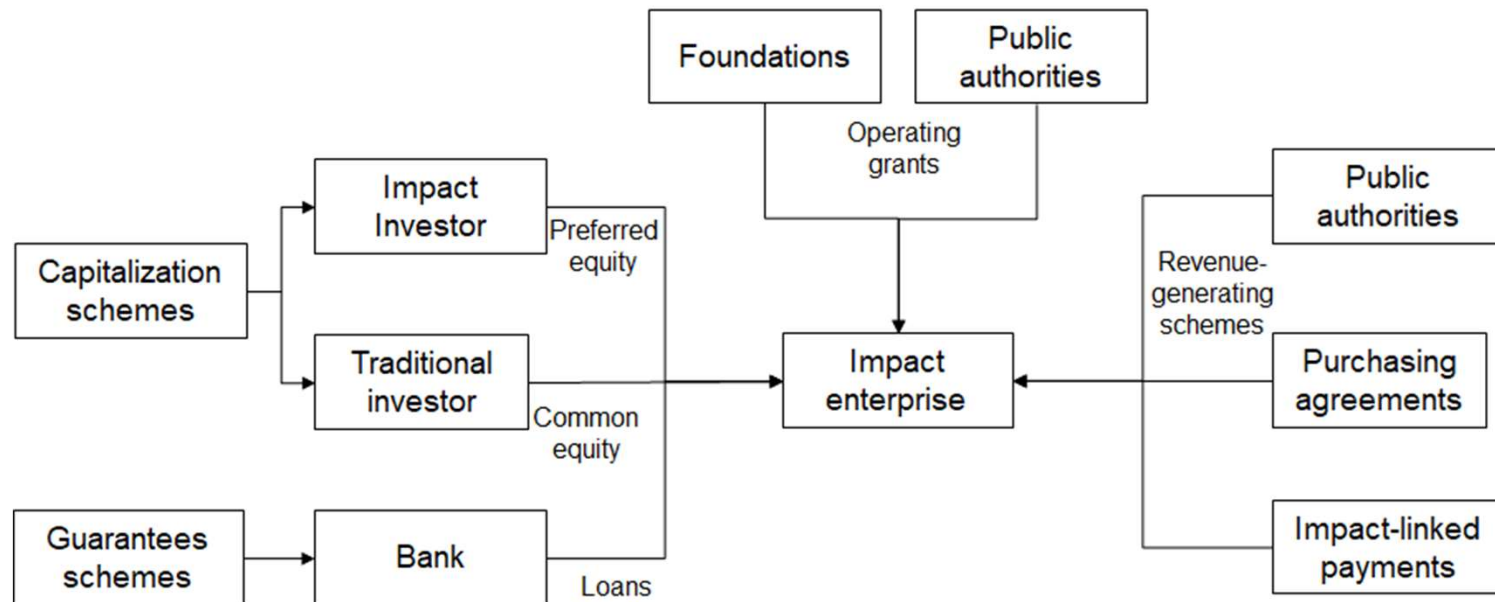
3

Impact enterprises often receive grants to cover their operating costs



Why is everything so complex: The different layers

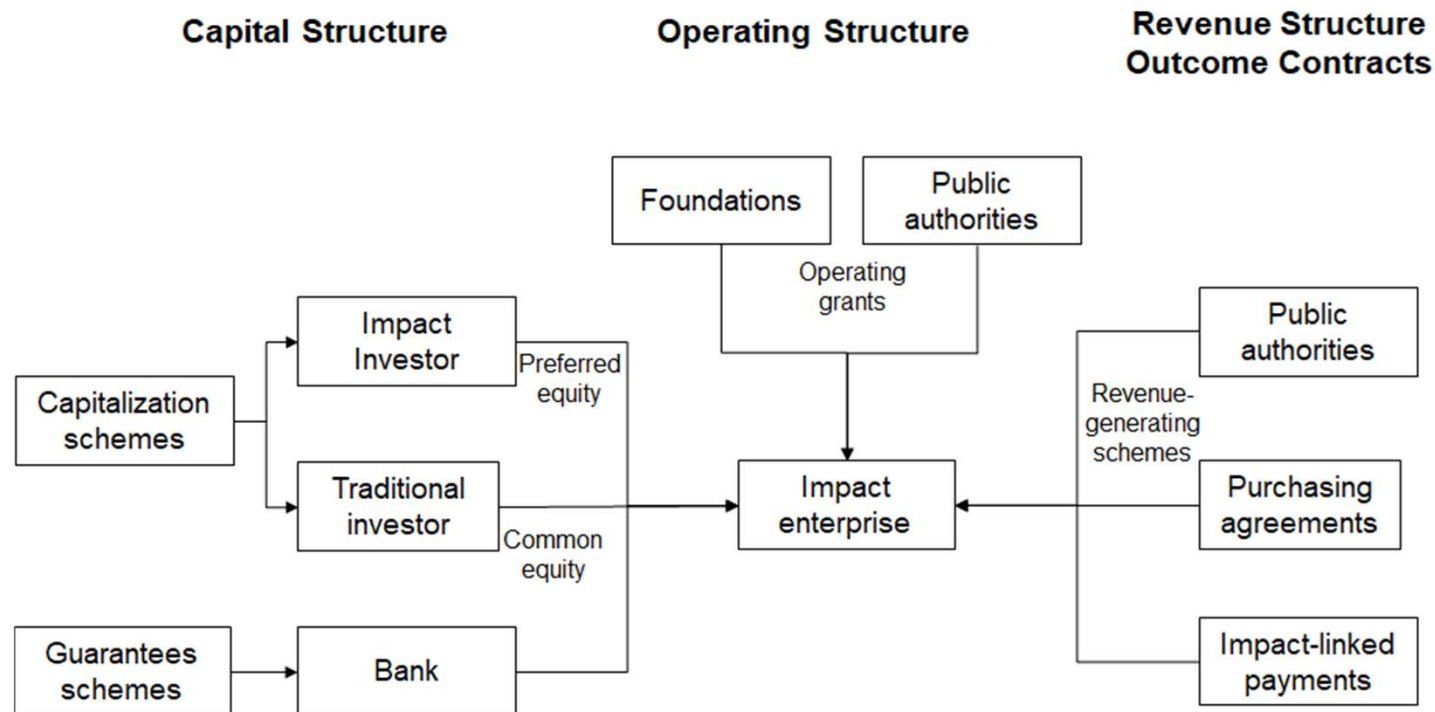
Impact enterprises often have access to revenue schemes



Why is everything so complex: The different layers

5

There can be conflicts across the different layers



"Fair" valuation today

- There is no difference between regular and impact ventures
- The impact is not considered in the valuation
- There might be some pass-on effects from the capital owners.

"Fair" valuation tomorrow

- Going beyond a narrow view on financial performance by integrating the impact model
- Taking account of positive and negative externalities
- Generating and using impact data to better measure and define terms



BYOC

Assignment: Bring your own (impact) case

This can be a venture you're involved in, or one that you have supported/invested in.

Please make sure you can introduce the venture and bring the following (of course, anonymous):

- P&L statement (or some key figures like revenues, costs and profitability)
- Balance sheet (or some key figures like financial debt, equity and assets)

You can use the model in the afternoon session as an assignment

Morning session (asynchronous)

| Agenda

1. Welcome video of your lecturer: Dr. Olaf M. Rottke
2. Why is sustainability / impact relevant for founding?
3. What to know to get a business started?
4. Business Plan Calculation and Additional Sustainability KPIs
5. 2 Case Study examples – Discovering Hands / Healthy engineers
6. Morning assignments
7. Excurs on valuation and social investors (advanced)

Thank you, see you at 1 pm

