



2.4 Financial and economic literacy

| 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?

2.4 Financial and economic literacy

| 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.

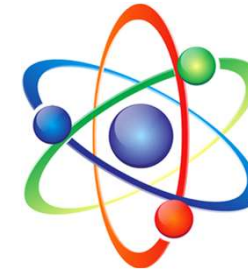
Image Source: freeimageslive, Creazilla

Valuation: Art vs. Science perspective



Art.

Valuation as an **art**



Valuation as a **science**

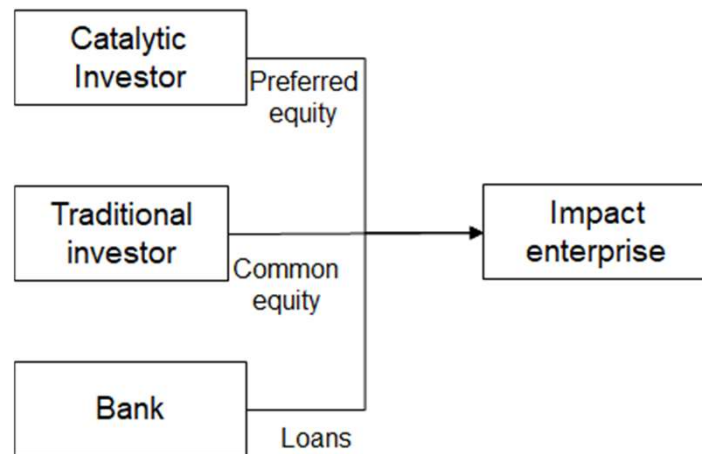
- Every day, we put prices on millions of “assets”. Google is running auctions for every ad it is selling. Airlines are using demand and supply to price their seats. Bond prices as well as option prices are calculated simple formulas including duration, risk or prices of underlying assets.
- A variety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

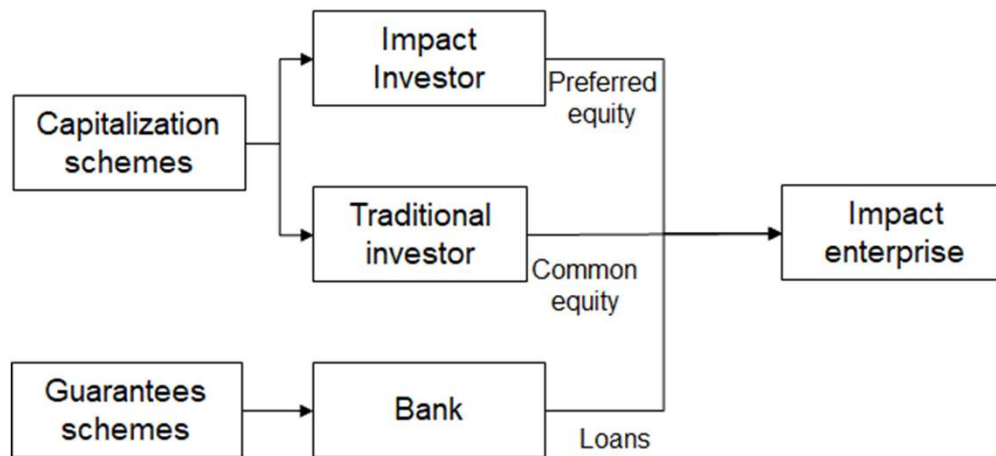
At the capital structure we have different investors



Why is everything so complex: The different layers

2

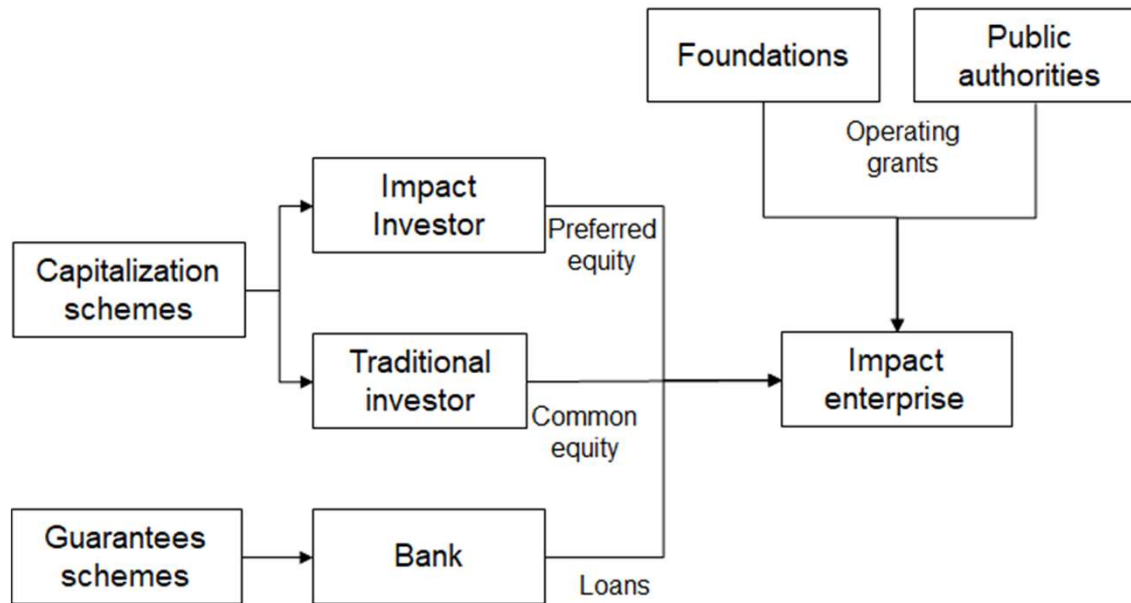
Each of these capital providers has different funding structures (illustrative example)



Why is everything so complex: The different layers

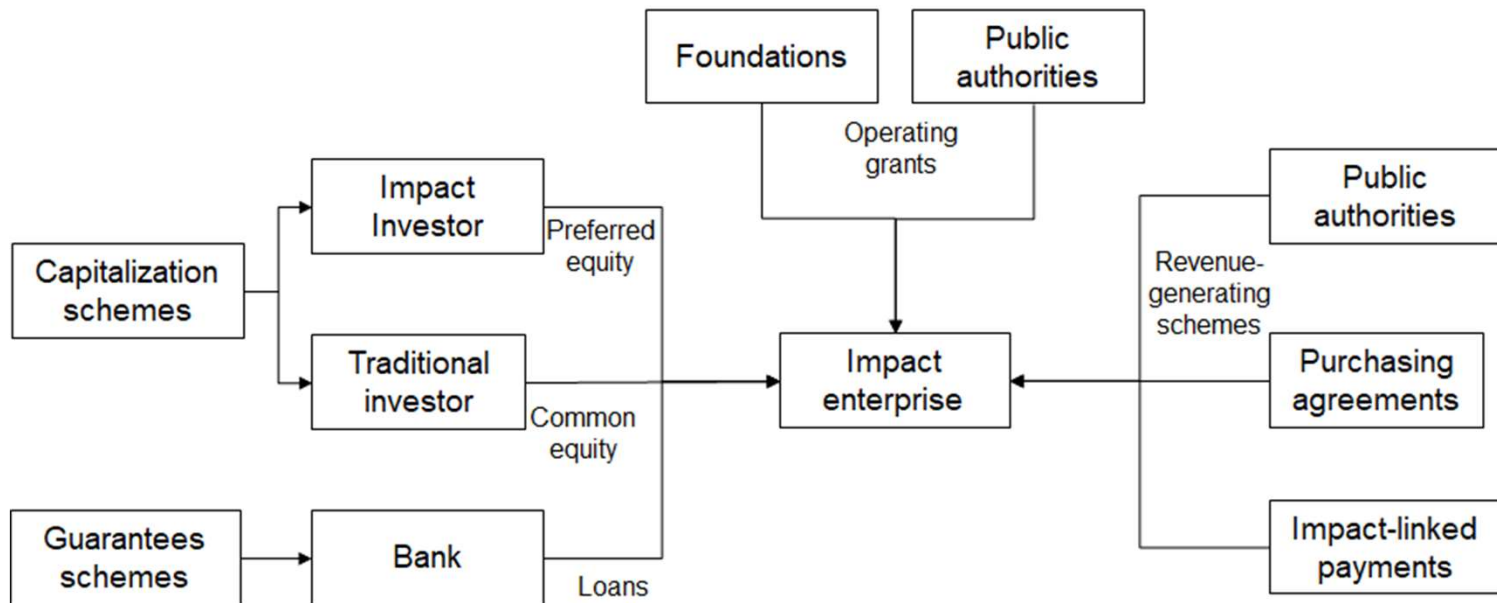
3

Impact enterprises often receive grants to cover their operating costs



Why is everything so complex: The different layers

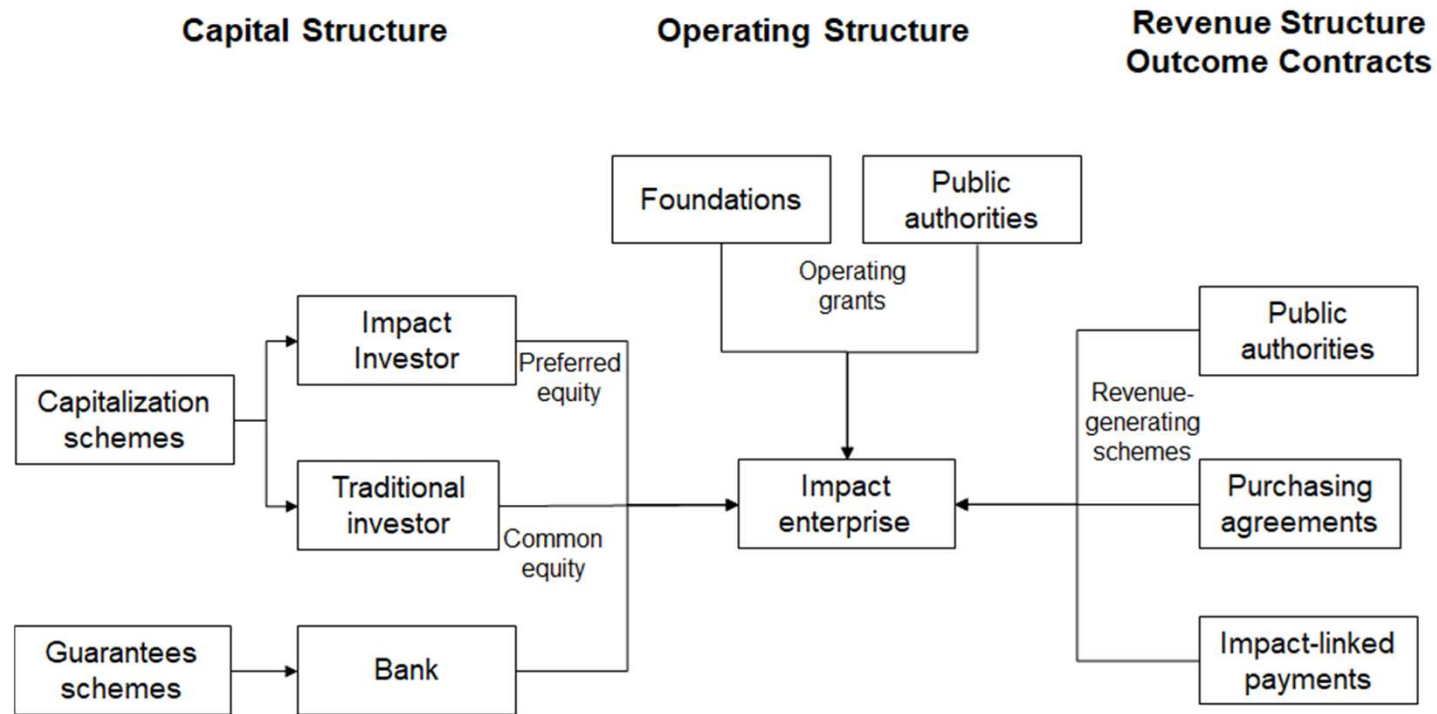
4 Impact enterprises often have access to revenue schemes



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