



“Valuations of Projects, Financial Management and Projections”



Agenda

- ❖ **About Ortus Africa Capital**
- ❖ **Expectations**
- ❖ **Why do we do Valuations**
- ❖ **How do we do Valuation + Case Studies**
- ❖ **Venture Valuation Methods + Case Studies**
- ❖ **Role of financial management and projections to support valuations**
- ❖ **Key Takeaways**
- ❖ **Q&A Session**

About Ortus Africa Capital

- Founded in 2019, headquartered in Kampala, Uganda; we are advisory and investments firm.
- We guide and advise on investment decisions across different asset classes with a focus on Africa. This includes advisory and investments in Venture Capital, Private Equity, Real Estate, Infrastructure, Credit, Commodities, Special Situations, Securities & Trading.
- Ortus Africa Capital oversees dedicated venture and credit investment vehicles that invests in startups and SMEs within the education, health, agriculture, manufacturing, climate/energy, transport and logistics and fintech sectors in Africa.

What We Do

Advisory

Ortus Africa Capital advises governments, enterprises and investors as they operate in Africa. Our advisory services include ; Corporate Finance, Infrastructure & Real Assets, Strategy and Operations, Tax & Investments.

Investments

Ortus Africa Capital provides investment opportunities and exposure for African and Global investors with a focus on alternative asset classes and investment strategies including; Venture, Credit, Absolute Return, Infrastructure and Real Assets.

Industries & Sectors

We have developed expertise across different sectors and industries like; financial services, consumer and retail, transport and logistics, energy and natural resources, industrial products, financial services, life sciences and health care, government and public sector, technology, media and telecommunications. construction and infrastructure, real estate.

Expectations

Question 1: What do you know about project/ business valuations?

Question 2: Why do you need to do a project/business valuation?

Question 3: Do you know any venture capital valuation methods?



Why do we do a Business Valuation?



**Sell a
business**



Raise money



IPO



**Tax
Requirement**



Exit planning



**Avoid
Bankruptcy**



**Acquire a
business**



**Make investment
recommendations
(buy/sell/hold)**



**Internal
business
decisions
making**



**Valuing
Employee
Options and
Compensation**



Litigation

Business Valuation: What is it?

A business valuation is a general process of determining the economic value of a project, whole business or company unit. Business valuation can be used to determine the fair value of a business for a variety of reasons.

Valuation is based on expected future performance not past performance and involves:



An analysis of the financial history and prospects of the business, project or asset



Forecast the future operations of the business, project or asset



Analysis of the industry



Analysis of the economic environment



Applying acceptable valuation methods



There are various valuation methodologies which may arrive at differing values for a business, project or asset.

Business Valuation Methods

Income Approach	Valuation based on discounted cash flow methods
Asset Approach	Valuation based on tangible assets of the business
Comparable Approach	Valuation based on multiples of peer publicly listed companies or based on similar transactions
<i>Berkus</i>	<i>Valuation based on the assessment of 5 key success factors</i>
<i>Risk Factor Summation</i>	<i>Valuation based on base value adjusted for 12 standard risk factors</i>
<i>Scorecard</i>	<i>Valuation based on a weighted average value adjusted for a similar company</i>
<i>First Chicago</i>	<i>Valuation based on weighted average of 3 valuation scenarios</i>
<i>Venture capital</i>	<i>Valuation based on the ROI expected by the investor</i>

Business Valuation Methods – Asset Approach

Asset Approach

- Asset Approach is also known as the **Net Assets Value (NAV) Method**. Focuses on a company's net asset value (NAV), or the fair-market value of its total assets minus its total liabilities, to determine what it would cost to recreate the business.
- Involves identifying what it would cost to recreate the startup today to deliver the product or service being provided including hardware requirements, developer time and inputs, payment for subscriptions and licenses, filing for patents.**
- Having determined these costs, which are the assets, any liabilities or debts owed would need to be deducted from the assets to arrive at a net asset value (NAV) and is usually thought of as a base or floor valuation.
- The limitation is that net asset value is based on accounting numbers, which are historic in nature; **may not deal with intangibles assets.**

Example 1: Target Net Assets Value (NAV)

000 USD		31-May-15
Assets		
Cash and equivalents		23,230
Government securities		17,950
Balances due from other Banking institutions		5,736
Loans and advances to customers		85,420
Other assets		3,271
Property and equipment		3,907
Unquoted equity investment		20
Total assets		139,535
Liabilities		
Deposits from customers		114,216
Other liabilities (Salaries, Suppliers, Rent, Marketing)		3,245
Total liabilities		117,461
Shareholders' equity		
Share capital		8,607
Share premium		2,432
Retained earnings		7,235
Regulatory reserve		2,994
General provisions		805
Total shareholders' equity		22,073
Total equity and liabilities		139,535
Net Asset Value		22,073

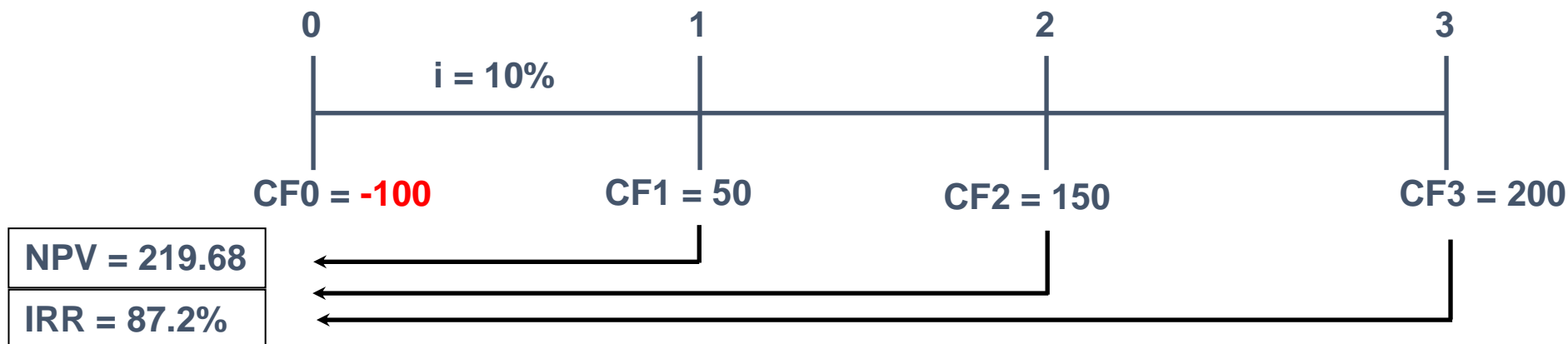
Income Approach: Defining Key Valuation Terms

Net Present Value (NPV)

- Net present value is the value of the stream of project cash flows presented in today's currency.
- Net present value (NPV) is the difference between the present value of cash inflows and the present value of cash outflows over a period of time.
- NPV is used in capital budgeting and investment planning to analyze the profitability of a projected investment or project.
- A positive net present value implies that value will be added, i.e. the actual rate of return is greater than the cost of capital or discount rate used.

Internal Rate of Return (IRR)

- The internal rate of return (IRR) represents the interest rate in which the net present value (NPV) of a project's expected total cash flows, both positive and negative, sum to zero. The IRR of a project is used as a benchmark; if the IRR of a specific project is higher than a company's required rate of return, the firm accepts the project. If, however, the IRR of a project is calculated to be below a company's required rate of return, the company does not move forward with the project.
- IRR is the realised rate of return if the forecasted future cash flows materialise as expected.



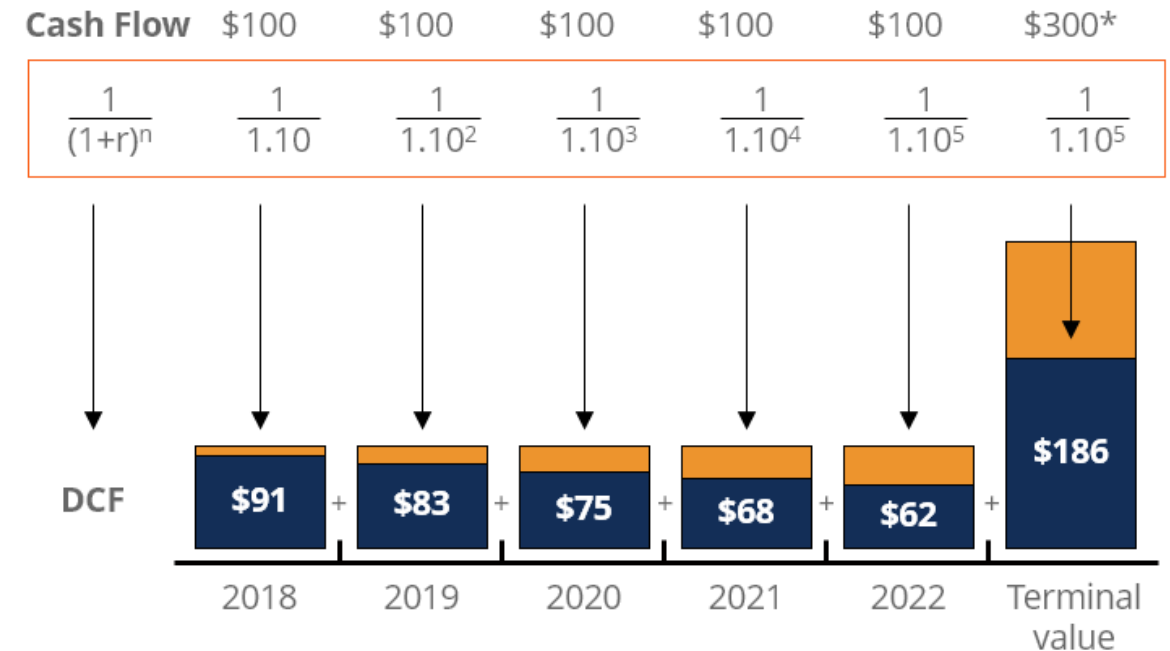
Business Valuation Methods – Income / DCF Approach

Income approach/ Discounted Cash Flow (DCF) approach

- The income approach converts future cash flows into a single present (discounted) amount, while reflecting current expectations about such future cash flows.
- Value derived from the amount of income (cash flow) the company is expected to generate in the future.
- Unlike the asset approach, takes into account potential income or cash flows. **Based on the simple idea that we prefer to receive \$1 today that \$1 a year from now, this method projects a stream of future earnings, cash flow, or asset values and then discounts them to present value.**
- *In using the DCF, discount the Free Cash Flows Forecasts (FCFF) [to debt or equity investors] at the appropriate discount rate(s) [cost of debt or cost of equity]. The present value of all the discounted cash flows plus the value of idle assets will be the business value of the company. The equity value of the company will be the enterprise value less the debt of the company.*
- Greater reliance on DCF method may be more prudent in assessing business value ranges for the Company as a 'going concern'.

Example 2:

Discounted Cash Flow Formula



DCF Value = \$565 million

* Value of FCF beyond 2022

Source: <https://sutton.substack.com/p/discounted-cash-flow-dcf>

Source: <https://corporatefinanceinstitute.com/resources/financial-modeling/dcf-model-training-free-guide/>

Business Valuation Methods – Comparables Approach

Comparables Approach: use of either comparable market multiples or comparable transactions

Market Multiples: Consider relevant multiples to derive the market value of the Company.

- Examine commonly used multiples of similar companies to extrapolate the market value of the Company.
- Review of comparable companies; come up with comparable metrics based on industry data; and profile comparable companies used in computing the valuation.
- Examples of the market multiples include:
- Price/Earnings (P/E) ratio: The market value per share is computed by multiplying normalized maintainable earnings per share by the appropriate P/E ratio.
- Enterprise Value/Sales (EV/Sales): EV/Sales ratio compares the enterprise value of a company with the turnover attained over a specific period, usually a financial year. Enterprise value (EV) measures total company value. EV can be viewed as what it would cost to acquire the firm:
- Price to sales (P/S) ratio: compares the market value per share of a company with the turnover attained over a specific period, usually a financial year.

$$EV = \text{Equity Value} + \text{Total Debt} - \text{Cash}$$

Transaction Multiples: consider prices achieved in recent acquisitions of comparable companies.

- The transaction multiples were derived from a number of transactions for companies in a similar industry/sector in similar geographies.
- For valuation, determine timeline for transactions to be considered.
- For comparable companies, consider revenues close to target company being valued, indicates similarity in size – reduce need for further adjustments to valuation e.g. for size
- This method may have limited applicability due to the availability of recent transactions in the sectors and geographies.

Comparables Approach – Key Questions

1. Which are the comparable companies to my company?
2. What are the key metrics used for valuing companies in my industry/sector?
3. How reliably can I estimate Users, Sales, EBITDA, Net Profit, Customer Life Time Value, Gross Merchandise Value, etc. for my company?
4. Which are the recent transactions completed in my industry/sector and in my geography?

Case Study – Comparables Approach

Example 3: Angel/Pre-seed SAAS Startup

(1) Month	Sep	Oct	Nov	Dec	Jan	Feb
(2) Period	1	2	3	4	5	6
(3) Actual/Forecast	A	A	A	A	F	F
(4) Sales (USD)	921	1,000	1,711	2,105	2,368	3,158
(5) Monthly Compound Growth Rate				28%	24%	25%
(6) Implied Annual Recurring Revenue (ARR), 12 month basis				39,058	30,142	44,402
(7) Valuation Proposed (SAFE)				300,000		
(8) Implied Sales Multiple>>>For SAAS Companies, P/Sales ratio of 4X to 10X applies				7.68		
(9) Investment				5,000		
(10) Stake				1.67%		

Case Study – Comparables Approach

Example 4:

Comparable company / Transaction	Selected			
	P/E	EV/Sales	EV/EBITDA	MV/PBT
Comparable company 1	5.4x	0.1x	1.7x	4.0x
Comparable company 2	10.0x	0.1x	2.5x	8.9x
Comparable company 3	9.5x	0.5x	4.3x	7.2x
Comparable company 4	6.6x	0.0x	0.4x	-30.4x
Comparable company 5	n/a	0.9x	n/a	0.0x
Comparable company 6	13.7x	0.5x	10.6x	20.9x
Comparable company 7	15.9x	0.5x	7.3x	9.1x
Comparable company 8	28.8x	0.5x	12.6x	-27.2x
Comparable company 9	22.2x	2.3x	14.5x	16.1x
Comparable company 10	n/a	0.1x	0.0x	-32.6x
Mean	10.8x	0.6x	9.9x	13.3x
Median	10.0x	0.5x	9.8x	11.2x
Average	10.4x	0.6x	9.9x	12.2x
Size discount	12.4%	12.4%	12.4%	12.4%
Multiple after size discount	9.1x	0.5x	8.7x	10.7x
Marketability discount	6.9%	6.9%	6.9%	6.9%
Multiple after marketability discount	8.5x	0.4x	8.1x	10.0x
Subject company financial metric (UGX	6,525,583	48,295,031	9,827,165	9,439,630
Implied enterprise value (UGX 000)	22,266,923	21,675,381	79,149,286	61,272,156
Add: Net debt	33,006,744	33,006,744	33,006,744	33,006,744
Implied equity value (UGX 000)	55,273,667	54,682,125	112,156,030	94,278,900
Implied equity value (USD 000)	17,059	16,877	34,615	29,098

Case Study – Comparables Approach

Example 5: Flutterwave

Date	15/08/2016	15/10/2018	21/01/2020	01/03/2021	16/02/2022	CAGR
Days between rounds		791	463	405	352	
Number of businesses served				290,000	900,000	113%
# Txns		60,000,000	107,000,000	140,000,000	200,000,000	40%
GPV		2,000,000,000	5,400,000,000	9,000,000,000	16,000,000,000	69%
Funding Round	Seed	Series A	Series B	Series C	Series D	
Amount (\$m)	230,000	20,000,000	35,000,000	170,000,000	250,000,000	
Cummulative capital raised	230,000	20,230,000	55,230,000	225,230,000	475,230,000	
Investors	Zillionize, Y Combinator, Rayyan Islam, Palm Drive Capital, Lynett Capital, Green Visor Capital, Golden Palm Investments, Data Collective, Courtney Broadus, Arab Angel Fund Management	Y Combinator, Plug and Play, Greycroft, Glynn Capital Management, Green Visor Capital, Loftyinc Capital Management, Raba Capital, Mastercard, FinTech Collective, CRE Venture Capital, 4DX Ventures	Greycroft, e.Ventures, Visa, Green Visor Capital, CRE Venture Capital	Avenir Growth Capital, Tiger Global Management, DST Global, Early Capital Berrywood, Green Visor Capital, Greycroft Capital, Insight Partners, PayPal, Salesforce Ventures Worldpay FIS, 9yards Capital	B Capital Group, Alta Park Capital, Whale Rock Capital and Lux Capital, Glynn Capital, Avenir Growth, Tiger Global, Green Visor Capital and Salesforce Ventures	
Valuation (\$m)				1,000,000,000	3,000,000,000	
Multiple of Invested Capital				4.4	6.3	
Transactions Multiple				7.1	15.0	
GPV Multiple				0.11	0.19	
Number of Businesses Multiple				3,448	3,333	
Revenue Growth, CAGR				226% (3 Year)	100% (12 months)	

[Source: Digest Africa Data and Analysis, www.digestafrica.com]

Role of financial management and projections to support valuations

01

Perceive an unbiased view of your company's economic status and the path it will likely take in the future

02

Prepare for expenses and revenue based on supply and demand patterns in the market.

03

Establish goals by developing intentional commitments for long-term success.

04

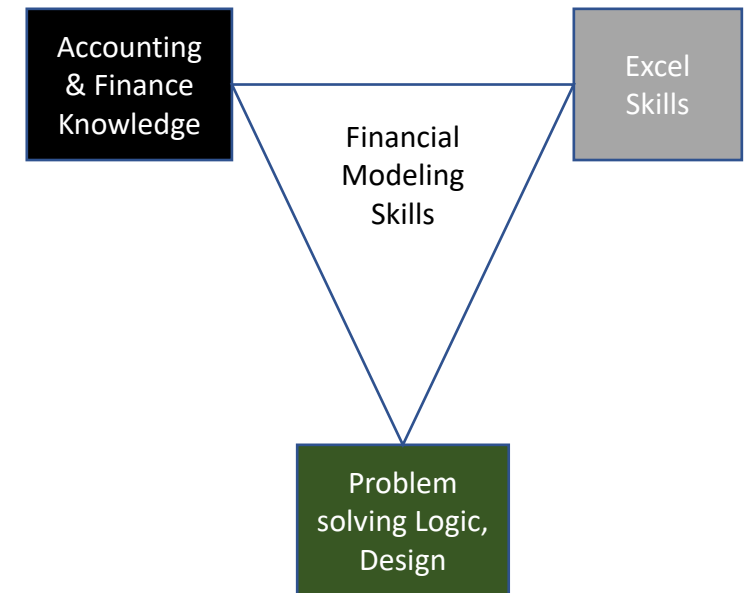
Set up points of achievement to ensure your business is growing as predicted.

05

Compare the development of the market with the rate at which your business is flourishing.

06

Reveal growth deviations from your projections early on to efficiently mitigate any concerns.



Financial management and Projections: Planning, considerations and assumptions

- The typical timeframe for a financial model is 2 to 3 years, forecast monthly detail for first 2 years
- What are you planning toward?
 - Initial funding round or eventual liquidity event?
 - Building company to sell? – Shorter term focus, but be careful
 - Building company to become public (IPO)? – Not near as realistic or even desirable these days
 - Building for the long term and see what happens?
- Build model so that you perform data entry of variables in specific categories such as;
 - Headcount
 - Operating Expenses (Departments / cost structure)
 - Capital Expenditures
 - Revenues
 - Cost of Goods Sold (forces Inventory needs)
- That, in turn, feed into the 3 main financial statement templates of:
 - Income Statement
 - Balance Sheet
 - Cash Flow Statement

Questions to ask.

- What tools do these employees need to do their job?
 - Where are you going to put them? Revenues via Direct Sales team or Partners?
 - What type / how many employees do you need to build your company and product or service?
 - How long to stay?
 - What physical environment are you going to create?
 - What data / telecom infrastructure will you need?
 - What kind of Marketing efforts will you need to gain mindshare in your industry / segment?
- How much will the Sales team travel? Do they need to?
- ALL these assumptions are “big ticket” costs that affect your initial and ongoing cash needs

Financial management and projections: Developing projections

Example 6:

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	
1	© Corporate Finance Institute. All rights reserved.											Historical Results		Forecast Period	
2	Online Company Inc Model			2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	
43	LIVE SCENARIO														
45	Revenue Growth (% Change)								10.0%	10.0%	10.0%	9.0%	8.0%	7.0%	
46	Cost of Goods Sold (% of Revenue)								42.0%	43.0%	44.0%	45.0%	46.0%	46.0%	
47	Marketing, Advertising & Promotion (% of Revenue)								17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	
48	General & Administrative (\$000's)								15,000	15,000	15,000	15,000	15,000	15,000	
49	Depreciation & Amortization (% of PP&E)								20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	
50	Interest (% of Debt)								10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	
51	Tax Rate (% of Earnings Before Tax)								28.0%	28.0%	28.0%	28.0%	28.0%	28.0%	
52	Accounts Receivable (Days)								18	18	18	18	18	18	
53	Inventory (Days)								80	90	100	100	100	100	
54	Accounts Payable (Days)								37	37	37	37	37	37	
55	Capital Expenditures (\$000's)								15,000	15,000	15,000	15,000	15,000	15,000	
56	Debt Issuance (Repayment) (\$000's)								-	-	(20,000)	-	-	-	
57	Equity Issued (Repaid) (\$000's)								-	-	-	-	-	-	
58	Payment of Dividends								-	-	-	-	200	200	
61	Income Statement														
63	Revenue	102,007	118,086	131,345	142,341	150,772	165,849	=I63*((1+J45))	200,678	218,739	236,238	252,774			
64	Cost of Goods Sold (COGS)	39,023	48,004	49,123	52,654	56,710	69,657	78,447	88,298	98,432	108,669	116,276			
65	Gross Profit	62,984	70,082	82,222	89,687	94,062	96,193	103,987	112,379	120,306	127,568	136,498			
66	Expenses														
67	Marketing, Advertising & Promotion	26,427	22,658	23,872	23,002	25,245	28,194	31,014	34,115	37,186	40,160	42,972			
68	General & Administrative	10,963	10,125	10,087	11,020	11,412	15,000	15,000	15,000	15,000	15,000	15,000			
69	Depreciation & Amortization	19,500	18,150	17,205	16,544	16,080	7,504	9,003	10,203	11,162	11,930	12,544			
70	Interest	2,500	2,500	1,500	1,500	1,500	3,000	3,000	1,000	1,000	1,000	1,000			
71	Total Expenses	59,390	53,433	52,664	52,066	54,237	53,699	58,017	60,318	64,348	68,090	71,515			
72	Earnings Before Tax	3,594	16,649	29,558	37,622	39,825	42,494	45,970	52,062	55,958	59,478	64,983			
74	Taxes	1,120	4,858	8,483	10,908	11,598	11,898	12,872	14,577	15,668	16,654	18,195			
75	Net Earnings	2,474	11,791	21,075	26,713	28,227	30,596	33,099	37,484	40,290	42,824	46,788			

1. Historical results and assumptions
2. Start the income statement
3. Start the balance sheet
4. Build the supporting schedules
5. Complete the income statement and balance sheet
6. Build the cash flow statement
7. Perform the DCF analysis
8. Add sensitivity analysis and scenarios
9. Build charts and graphs
10. Stress test and audit the model

Image: CFI's Building a Financial Model in Excel Course.

Financial management and projections: Financial Modelling Best Practices

1. Excel tips and tricks

It's very important to follow best practices in Excel when building a model, which outlines the following key themes:

- Limit or eliminate the use of your mouse (keyboard shortcuts are much faster)
- Use a blue font for hard-codes and inputs (formulas can stay black)
- Keep formulas simple and break down complex calculations into steps
- Ensure you know how to use the most important Excel formulas and functions
- Use INDEX and MATCH instead of VLOOKUP to query data
- Use the CHOOSE function to build scenarios

2. Formatting

It's important to clearly distinguish between inputs (assumptions) in a financial model, and output (calculations). This is typically achieved through formatting conventions, such as making inputs **blue** and formulas **black**. You can also use other conventions like shading cells or using borders.

3. Model layout and design

It's critical to structure a financial model in a logical and easy to follow design. This typically means building the whole model on one worksheet and using grouping to create different sections. This way it's easy to expand or contract the model and move around it easily.

The main sections to include in a financial model (from top to bottom) are:

1. Assumptions and drivers
2. Income statement
3. Balance sheet
4. Cash flow statement
5. Supporting schedules
6. Valuation
7. Sensitivity analysis
8. Charts and graphs

Summary; Key Takeaways

- Business valuation determines the economic value of a business or business unit.
- Business valuation can be used to determine the fair value of a business for a variety of reasons, including selling a business, raising capital and assessing employee options.
- Several methods of valuing a business: asset approach; income approach; and comparables approach
- To complete a valuation, important to keep good financial management practices and derive financial projections,
- Financial modeling skills are required: 1) Accounting & Finance Knowledge; 2) Excel Skills; and 3) Problem solving Logic, Design



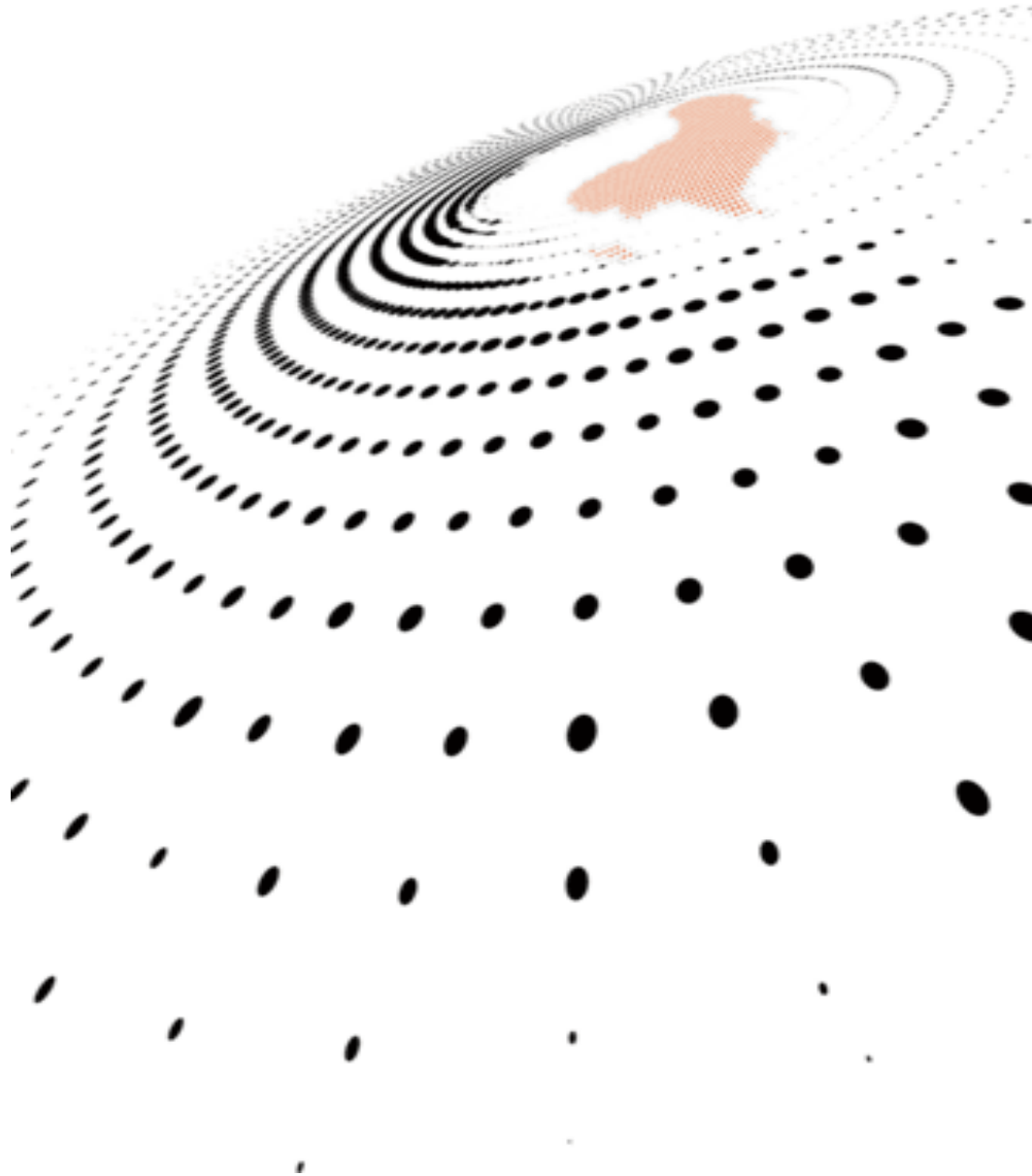
Resources

1. <https://www.bswllc.com/resources-articles-back-to-basics-the-fundamentals-of-business-valuation/>
2. <https://www.bcms.com/gb/en-gb/article/basics-business-valuation-what-matters-and-why/>
3. <https://www.investopedia.com/terms/b/business-valuation.asp#:~:text=The%20Basics%20of%20Business%20Valuation&text=A%20business%20valuation%20might%20include,evaluators%20C%20businesses%2C%20and%20industries./>
4. <https://medium.com/@kennethlegesihow-to-value-your-startup-part-2-ccaad4c37c1b/>
5. <https://medium.com/@kennethlegesihow-to-value-your-start-up-part-1-ac5bca77b2f5/>
6. <https://www.hgexperts.com/expert-witness-articles/business-valuation-fundamentals-6656/>
7. <https://www.duffandphelps.com/insights/publications/valuation/business-valuation/>
8. <https://www.startups.co/articles/startup-valuation-methods/>
9. <https://www.forbes.com/sites/mariannehudson/2015/03/06/the-art-of-valuing-a-startup/#445c3ebf1d73/>
10. <https://berkonomics.com/?p=1214/>
11. <http://blog.gust.com/startup-valuations-101-the-venture-capital-method/>
12. <http://billpayne.com/wp-content/uploads/2011/01/Scorecard-Valuation-Methodology-Jan111.pdf/>
13. <http://blog.gust.com/valuations-101-the-risk-factor-summation-method/>
14. <https://www.ijbel.com/wp-content/uploads/2019/01/BUS-24.pdf>
15. <https://sutton.substack.com/p/discounted-cash-flow-dcf>
16. <https://corporatefinanceinstitute.com/resources/financial-modeling/dcf-model-training-free-guide/>
17. <https://digestafrica.com/>




Q&A

Thank You



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Appendices

Business Valuation Techniques – The Venture Capital Method

Venture Capital Approach is a derivative of the NPV method that takes the perspective of the investor

- Important to understand Pre- and Post-Money Valuation:
 - ❑ The two fundamental concepts in venture capital investments are pre-money (PRE) valuation and post-money (POST) valuation.
 - ❑ A venture capital firm makes an investment (INV) in an early-stage start-up company.
 - ❑ The post-money valuation of the investee company is: **PRE + INV = POST**
 - ❑ The ownership proportion of the venture capital (VC) investor is: **Ownership = INV / POST**

- Case Study:
 - ❑ Consider a Startup called SpiffyCalc seeking financing from a VC Fund, Vulture Ventures. The founders of SpiffyCalc expect to be able to sell the company for \$25 million in four (4) years. Currently, they need to raise \$3 million. Vulture Ventures considers this a risky business and wants to apply a discount rate of 50% to be adequately compensated for the risk they are taking. The founders of SpiffyCalc want to be able to own 1 million shares. Based on this information, determine:
 - i) the Post-Money Valuation;
 - ii) the Pre-Money Valuation;
 - iii) the Ownership Fraction (VC Fund/Founders);
 - iv) VC Fund number of shares; and
 - v) the Price of Shares

Business Valuation Techniques – The Venture Capital Method

Venture Capital Approach

Case Study [CFA Institute Curriculum]:

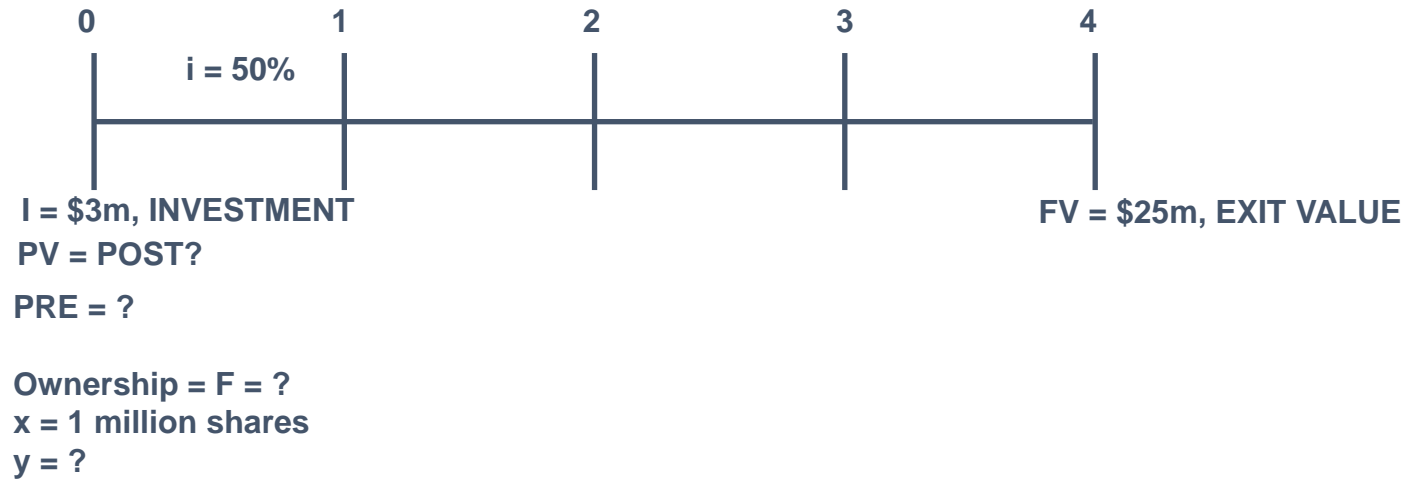
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- ii) the Pre-Money Valuation;
- iii) the Ownership Fraction (VC Fund/Founders);
- iv) VC Fund number of shares; and
- v) the Price of Shares

Business Valuation Techniques – The Venture Capital Method

Venture Capital Approach

Answer:



Define:

V = terminal value = \$25 million;

t = time to exit = 4 years;

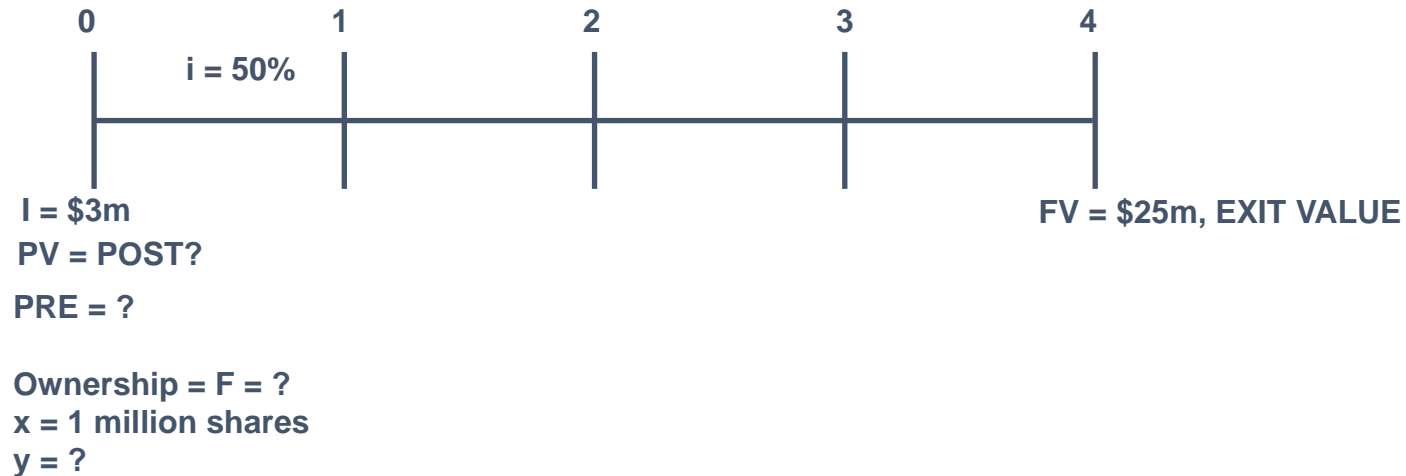
I = amount of investment = \$3 million;

r = discount rate used by investors = 50%;

x = number of shares owned by Founders = 1 million shares

Case Study – The Venture Capital Method

Venture Capital Approach



Using, $FV_n = PV (1 + i)^n$; $FV = \$25 \text{ million}$; $i = 50\%$; $n = 4 \text{ years}$. Compute $PV = \$4,938,272$. Therefore, $POST = \$4,938,272$

Using, $PRE + INV = POST$; $PRE + \$3,000,000 = \$4,938,272$; Compute $PRE = \$1,938,272$

Using, $Ownership = INV / POST$; $Ownership = \$3,000,000 / \$4,938,272 = 60.75\%$. Required Ownership = 60.75%

Let $y = \text{number of VC Fund number of shares}$; Therefore, $y/(x+y) = \text{Ownership}$; $y/(1,000,000 + y) = 60.75\%$; Compute $y = 1,547,771 \text{ shares}$

The price of shares is thus given by $\$3 \text{ million} / 1,547,771 = \1.94