Spotlight

NUMERIS NEWSLETTER - ISSUE 3

Valuing Startups in Climate Finance

Introduction

There are two main sub-categories of climate finance based on different aims. **Mitigation finance** is investment that aims to reduce global carbon emissions, while **adaptation finance** aims to respond to the consequences of climate change.

Globally, there is a much greater focus on mitigation, accounting for over 90% of spending on climate.[1] Intergovernmental Panel on Climate Change Renewable energy is an important growth area for mitigation investment and has growing policy support. From solar and wind to ocean energy, there is tremendous potential for both green and blue energy in Africa. Leveraging these resources can create a more sustainable and resilient energy landscape.

From our attendance of the Africa Green Energy Summit 2025(AGES25) held in February 2025, there is a notable focus on sustainability, potential impact on economic growth, market trends in this sector, and the power of collaboration in shaping the future of energy in Africa.

What methods are employed in startup valuation?

With regards to startups, it is important to distinguish between **pre-money** and **post-money** valuation.

The pre-money valuation simply refers to the value of the company before the financing round. Conversely, the post-money valuation will account for the new investment(s) after the financing round.

Post-Money Valuation = **Pre-Money Valuation** + **Financing Raised**

We classify the various methods applied into two: pre-revenue and post revenue methods.

Pre-Revenue Valuation Methods:

1. The Berkus Method

Assesses early-stage startups based on qualitative factors: idea, prototype, management, partnerships, and market. It is useful for quick estimates but may oversimplify complexities. In Africa, valuations often adjust downward due to market challenges.

2. The Scorecard Method

Compares startups to similar firms, assigning weighted scores to factors like team, market, and traction. This method is more comprehensive than the Berkus method, but requires expertise and may introduce bias.

3. The Risk Factor Summation Method

Adjusts valuation based on identified risks, making it useful for comprehensive risk assessment. However, it relies on qualitative judgments which may introduce bias. African startups face additional valuation adjustments due to political and regulatory risks.

4. The Venture Capital Method

Focuses on projected exit value and determines current worth by working backward, hence is preferred by VCs. This method overlooks operational complexity and assumes a strong exit strategy.

Post-Revenue Valuation Methods:

1. Discounted Cash Flow (DCF) Method

Enterprise value depends on accurate forecasts of future performance, both for a defined period and indefinitely, with free cash flows discounted to the present using an appropriate rate.
It is customisable but challenging for startups with unstable revenue and high inherent risk.

2. The Relative Valuation Method

Uses market comparables (comparable companies or precedent transactions) to determine value. This is based on the premise that assets and firms that

[1] Intergovernmental Panel on Climate Change

share similar risk and reward characteristics should trade similarly.

Effective in dynamic markets but limited by the difficulty of finding direct peers for startups in terms of size, growth stage, or market positioning.

3. The First Chicago Method

Combines DCF and relative valuation, weighting different scenarios by probability. Well-suited for unpredictable early-stage startups but complex and prone to subjectivity in assigning probabilities.

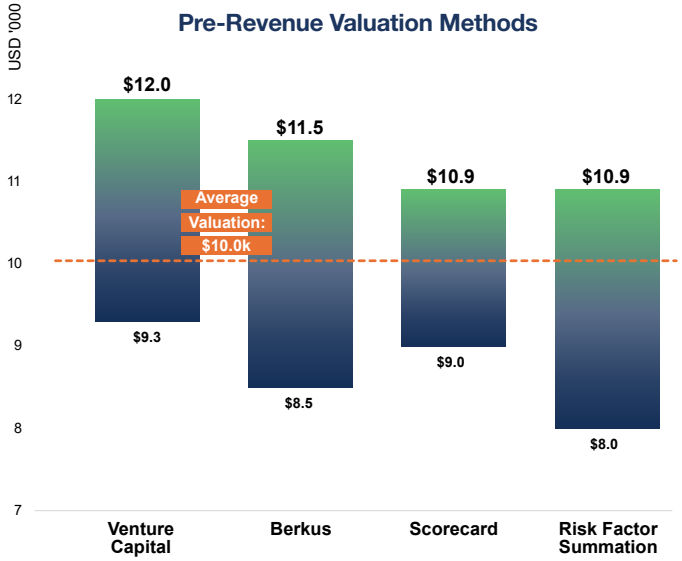
Valuation Reporting & Presentation

It is recommended to employ multiple valuation methods and present the results in a way that shows a range of values. This corroborative approach helps to sense check the results from each approach and make up for the individual weaknesses in each method.

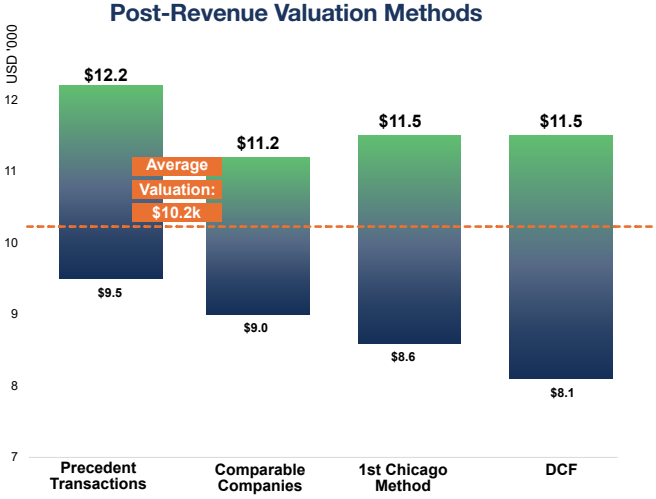
Valuations are frequently presented in the form of a football field chart that clearly outlines the value yielded by each approach.

The following charts show what would typically be expected from applying various pre- and post-revenue valuation methods, and highlights which would give the highest and lowest value.

Football Field Chart 1:
Pre-Revenue Valuation Methods



Football Field Chart 2:
Post-Revenue Valuation Methods



Valuation vs. Traction Matrix

This is a framework that outlines a startup's valuation, and the level of traction gained over time – from the idea phase to revenue generation – assigning business value based on market performance.

The backing provided climate finance makes startups more competitive relative to their peers and reduces perceived environmental and regulatory risk.

This matrix consists of four quadrants describing various scenarios of a startup's development:

- Low Traction/High Value

There is significant investor confidence and a strong management team, but the business model is yet to be tested, which makes the startup riskier.

- Low Traction/Low Value

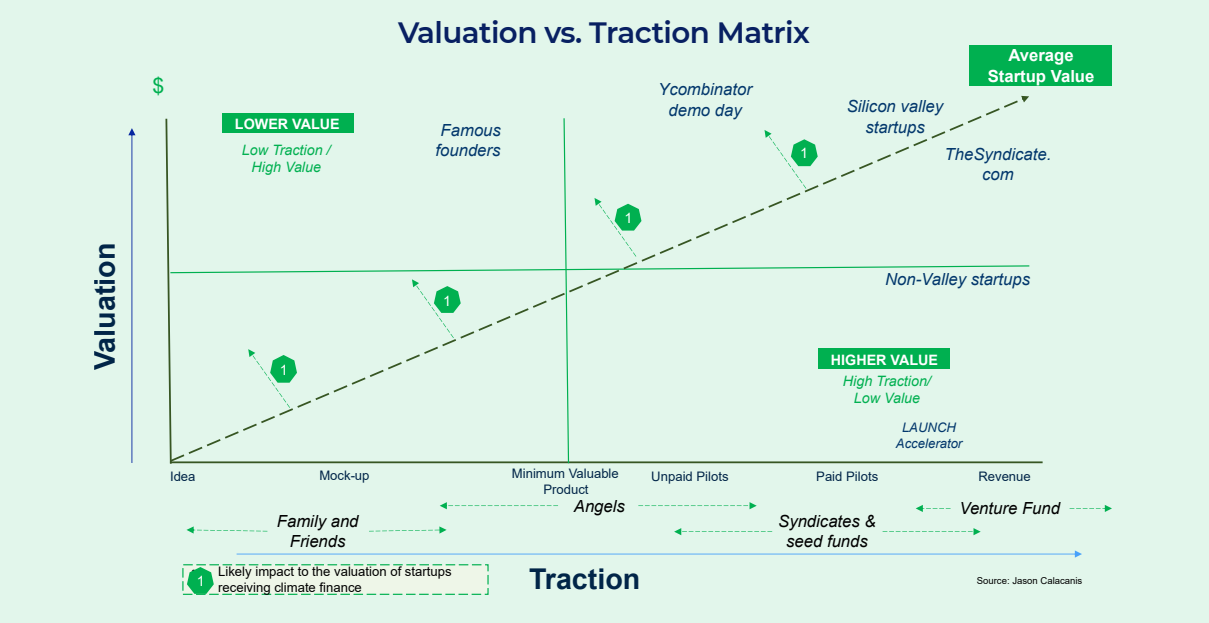
This applies for startups with no significant revenues or user base for their products.

- High Traction/Low Value

The startup has high growth potential owing to significant progress made from idea to revenue generation, although the market has not yet been validated.

- High Traction/High Value

Startups here are already revenue generative, have a strong product-market fit, and are typically close to scaling. Their early revenues are significant due to user adoption, and growth prospects are strong.



Which best practices can be employed to improve the accuracy of valuations in the climate finance space?

BEST PRACTICE	DESCRIPTION
Risk Factor-Based Valuation	Adjusts valuation based on regulatory, financial, and market risks.
Market Potential & Societal Impact	Considers environmental benefits alongside financial metrics.
Scenario Analysis	Uses different models to assess potential market and policy shifts
Impact Metrics in Valuation	Includes carbon reduction, sustainability impact, and efficiency gains.
Collaboration with Experts	Engages scientists, policymakers, and industry leaders for deeper insights.

Conclusion

It is important that each startup be considered independently with careful consideration given to its unique strengths and limitations. For example, startups have limited peers which limits employing a relative valuation that compares firms based on size, performance or other factors.

Practitioners should be rigorous in their analysis and ensure a comprehensive understanding of the business.

Stay connected with our LinkedIn page for valuable insights, updates, and discussions on valuation and financial modelling, ensuring you stay informed on the latest trends and expert perspectives in the field.

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