

By: Business Valuation International Ltd. – BVInt

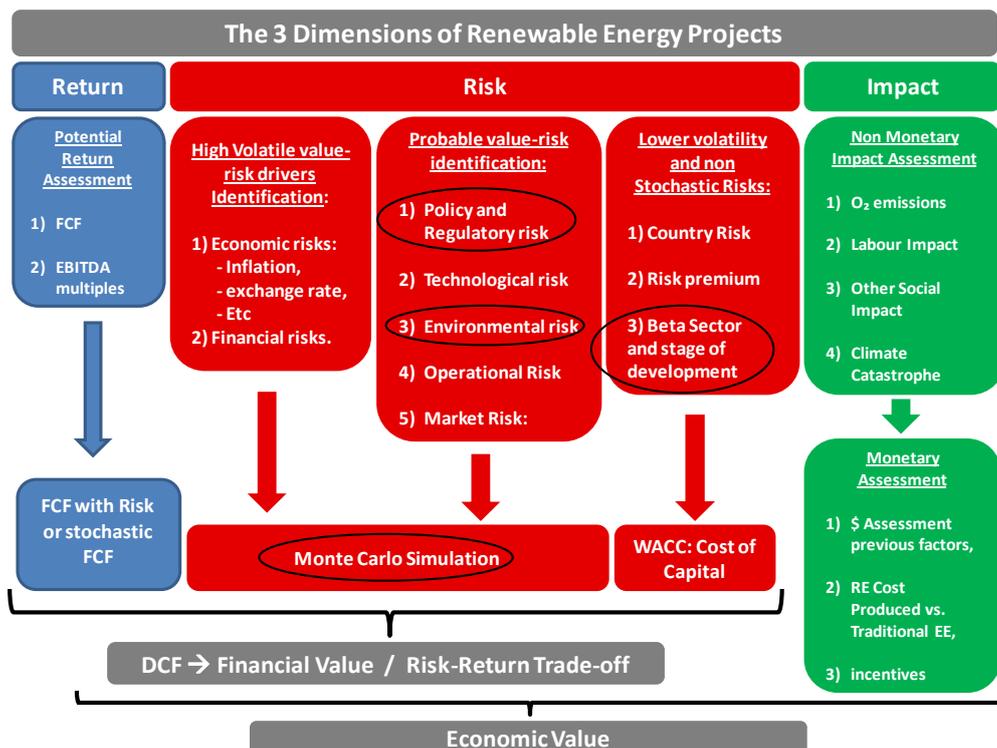


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Global sustainability has been defined as the ability to “meet the needs of the present without compromising the ability of future generations to meet their needs”.

Therefore, investment added at the concept of sustainability must add one more set of considerations for an investment: social and environmental, in addition to those of risk and return. Considering a new dimension is one of the most challenging aspects for valuation professional. This challenge opens a new way of understanding the traditional risk/return trade off by creating a New Efficient Frontier. At Business Valuation International Ltd. (BVInt), we have developed new valuation methodologies aiming at capturing Investors appetite.

The figure shows how we work. In the case of Renewable Energy, there are new important drivers like whether and government incentives which risk profile might show high levels of volatility. In our opinion these drivers as well the oil prices make the use of Monte Carlo simulation in MUST in our valuations.



In addition, due to the rapid technological progress and the regional differences in terms of incentives, makes the use of multiples much more difficult. We consider the use of DCF for each project a MUST due to the fact that each stage presents different levels of risks.

This issue opens another tridimensional aspect for valuation in this sector: We need to use a tridimensional regression analyses for comprehensive and realistic cash flow models. These three stages are defined as follows:

- Installed capacity,
- Non-installed capacity and,
- Capacity in early-stage pipeline

All three with different drivers affect the enterprise value significantly and therefore the use of tridimensional CAPM was proposed:

$$EV = \alpha + \beta_1 \cdot MW_{\text{installed}} + \beta_2 \cdot MW_{\text{non installed}} + \beta_3 \cdot MW_{\text{early stage}}.$$

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