case 1-428-872
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Gautam Kaul

Acumen Fund: Valuing a Social Venture (B)

After thoroughly reviewing the investment proposal for ZHL, Acumen Fund's Investment Committee sent the following response back to Brian Trelstad and Varun Sahni:

> The Investment Committee feels that the financial projections for ZHL are too optimistic. Firm valuation needs to take into consideration 'real world' projections, levels of operating uncertainty, and management flexibility (e.g. management can make incremental investments according to different states of the world). Until these issues are accounted for, we do not feel comfortable authorizing an investment in ZHL.

Though Trelstad and Sahni felt that their initial assessment of ZHL was reasonable, they agreed that the financial projections were a bit optimistic and other factors could be accounted for in firm valuation. (As with many social ventures, the founders may have had too optimistic of an outlook on the future.)

Sahni went back to work on the numbers with his associate, Vikram Raman. They revised the original financial projections downward and decided to use an alternative valuation method to discounted cash flows (DCF) that would include the value of management flexibility. That is, management had the flexibility to decide each year whether to purchase ambulances according to a schedule or not.

After rerunning the numbers, Sahni and Raman arrived at a strikingly different firm valuation than the original. Trelstad reviewed the analysis, and after much thought, agreed that the new valuation more accurately portrayed ZHL.

Trelstad and Sahni then resubmitted the proposal to the Investment Committee, confident that the new numbers were more realistic.

Note: This case assumes the same facts in *Acumen Fund: Valuing a Social Venture (A)* (WDI Publishing Case#: 1-428-788), except for the underlying financial and operating data. The following appendices show the modifications made to the original data.

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