

Customizable Platform Service for ESG Accounting and Reporting

Strategic Business Opportunity

Customizable platform service for mid-cap, large and multinational enterprises integrating IFRS/GAAP accounting, mandatory financial reporting, ESG/SRI reporting and ESG disclosure into a holistic straight-forward process.

Introduction

Sustainable finance and investments experience unprecedented levels of customer demand with ESG funds increased 15% in 2020. Experts estimate growth of more than 30% till 2025 of all assets under management. Financial providers are investing into intensive product development with 330 new ESG funds created only last year.

These money inflows on financial markets support new levels of demand for ESG projects. Green bonds market launched in 2013 from \$3bn and then effectively doubled each year. When pandemic first hit economy and society, large-scale effects became evident in spring last year, there were speculations of reducing demand for ESG. But instead, the market experienced unprecedented growth. Green bond issuance hit \$279bn in 2020. Sustainable bonds and sustainable loans market last year increased 72% reaching \$742bil. Overall, the green and social bonds market topped \$2tr in 2020.

EU areas (including the UK) are in dominant positions leading this growth. Both EU and UK regulators accelerated adoption of regulatory requirements for enterprise, asset managers and investors. Growing number of countries are making Net Zero commitments while more than 60 global banks introduced financial restrictions on fossil fuels financing. Another important development is a rise of shareholder activism focusing on ESG topics.

Sustainability disclosure regulation and standards seem to consolidate at a rate comparable to the growth of the ESG market. There is a growing evidence of convergence at ESG accounting and standards. Earlier announcement that GRI will work together with CDP, CDSB, IR and SASB was followed by recent news that IFRS foundation is starting well prepared consultations with above organizations to merge annual integrated reporting with sustainability reporting. This will feasibly lead corporates and investment forms a bit closer to the world of coherent, consistent information across financial, environmental, social, human and leadership aspects.

Opportunity

As described above, in the next decade financial reporting will be holistically integrated with ESG reporting to provide a comprehensive view of company operations, impact and opportunities to all types of stakeholders and investors. SaaS accounting platforms are in a unique position to leverage existing customer relationships and technological innovation to develop new opportunities extending mandatory financial accounting service with ESG accounting and ESG disclosure service.

The opportunity is to service three customer groups that all are greatly affected by growing ESG and carbon regulations, strong interest into sustainable finance at investment markets and dramatic changes of the interest to sustainability at society and consumers - public enterprise, private companies and investment firms. Sample services include:

- Mandatory and voluntary ESG reporting and disclosure.
- Consolidated accounting covering both financial and ESG reporting.
- Carbon emissions tracking through the value chain
- Supply chain management and tracking
- Impact / outcome reporting
- Measuring purpose
- Sustainability-linked loans, green and social bonds

For public companies ESG reporting and disclosures is becoming increasingly important to provide vital information to customers, regulators, private equity vehicles, asset managers, asset owners, activist investors, ESG rating agencies, collective engagement groups, investment and corporate banks. Private companies more and more require ESG reporting to connect to investors with sustainability concerns, ESG-themed funds, get access to sustainability-linked loans, issue green and social bonds. Regulators are broadly increasing regulatory pressure on investment firms to consolidate and provide ESG reporting across all investment portfolios.

Sustainable finance (sustainable loans, sustainable bonds, etc.) can be cheaper than mainstream alternatives and that shall be highlighted as a key advantage for the customer. But that will require reliable ESG accounting to report project outcomes. Other customer benefits include compliance with existing and emerging regulatory requirements and better positioning at consumer and labour markets. One important possibility for multinational corporations is that some structured (green / social) fixed income products may be attached to separate projects or subsidiaries within the diversified organization. The latter will require a specialized ESG reporting process with impact-oriented accounting.

As mentioned above, SaaS accounting platforms can market ESG-related reporting as a quick and cost-effective way to respond to growing mass of ESG regulation and investment market requirements. This can become a unique feature to convert potential customers into a subscription-style service model and enable "stickiness" of the platform offering for existing clients.

It is important to provide corporate customers a way to cover all aspects of ESG reporting and disclosure, setting process and integrated reporting for mandatory financial reporting, value-oriented (financially concerned) stakeholders, values-oriented (environment and social impact concerned) stakeholders, and regulators.

Key benefits of the integrated financial and ESG reporting offering for clients are:

- Keep straightforward relationship between financial and non-financial reporting
- Saving costs on ESG reporting and disclosure preparations
- Overcompliance evidence for regulatorily bodies
- Reusable best practises among peers and sectors
- Scalable and controllable reporting preparation process
- Measurements across supply ecosystem and value chain

- Part of climate risk / ESG risk mitigation investments
- Sustainability brand positioning at consumer and labour markets
- Better alignment with investors needs
- Controllable and fact-based conversations with investment stewardship and engagement teams
- Reliable base for ESG oriented targets for executive remuneration
- Base for impact-oriented strategies and investments
- Fundamental base for climate change risk mitigation
- Early adoption of accounting tools for highly-possible carbon tax introduction

Opportunity Estimates

Product development requires initial investment around £5.7M with instalments distributed over three years and £1.25M product uplift every 3 years, followed by legacy adaptation costs £750k closer to the end of the product life cycle.

Sales revenues consist of platform subscription fee, customer customization project and configuration maintenance fee.

Sales efforts will start with early adopters at developed markets with a clear need to respond to the regulatory and investments community pressure. Customers are expected to stick to the platform with an average renewal rate around 85%. Early sales efforts will result at approximately 2-6 new clients per year. During years 5-13 the product will be marketed across all developed markets and sales reaching 10-12 new clients every year. At later stages sales will focus on less mature or developing markets and companies that usually tend to be late adopters of existing solutions. New customers acquisition will fall to 4-8 per year till around year 16. After that the product will be decommissioned from the active product line.

Subscription revenue estimated at £117k per year for each active customer. In addition to platform subscription fee, customers will be charged for platform customization and maintenance services. Customization services will be provided to adapt the product to the particular customers' needs. Average nominal price per project is between £600k - £700k (with mean value £650k) and target margin is 40%. Projects services to be provided both to new onboarded customers and existing customer base (targeting subsidiaries, group entities, etc.) with 85% probability. Major upgrades at existing accounts are estimated every 3 year.

Maintenance services are to update customer configurations following emerging minor regulatory and technical requirements. Maintenance fee is estimated at 11% of the project value per year.

The investment project will come into operational profit at year 3 and reach breakpoint at year 6. NPV in 20 years and a discount rate 5% is estimated at £82Mio and IRR 37%. Details of calculations are in the attached Excel file.

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Expenditures	Initial product investments					Product uplift 1
Capital Investments	£ 1,200,000	£ 2,250,000	£ 2,250,000			£ 1,250,000
Sales Expenses	£ 100,000	£ 250,000	£ 250,000	£ 500,000	£ 500,000	£ 500,000
Marketing Expenses	£ 50,000	£ 200,000	£ 200,000	£ 200,000	£ 200,000	£ 200,000
Other Attributable Costs	£ 150,000	£ 150,000	£ 150,000	£ 150,000	£ 150,000	£ 150,000
Administrative Expenses	£ 150,000	£ 250,000	£ 250,000	£ 250,000	£ 250,000	£ 250,000
<i>Expenditures (£)</i>	<i>£ 1,650,000</i>	<i>£ 3,100,000</i>	<i>£ 3,100,000</i>	<i>£ 1,100,000</i>	<i>£ 1,100,000</i>	<i>£ 2,350,000</i>

Platform Services	Early Adopters					
Opened clients	0	1	2	5	6	10
Active enterprise customers	0	0	1	3	7	12
Gross Sales	£ -	£ -	£ 117,000	£ 351,000	£ 819,000	£ 1,404,000
Operational Expenses	£ -	£ 250,000	£ 250,000	£ 500,000	£ 500,000	£ 500,000
<i>Platform Revenue</i>	<i>£ -</i>	<i>-£ 250,000</i>	<i>-£ 133,000</i>	<i>-£ 149,000</i>	<i>£ 319,000</i>	<i>£ 904,000</i>

Implementation Services

Customization Services	Customer projects	0	1	2	5	7	12
	Gross Sales	£ -	£ 650,000	£ 1,300,000	£ 3,250,000	£ 4,550,000	£ 7,800,000
	Direct Costs	£ -	£ 390,000	£ 780,000	£ 1,950,000	£ 2,730,000	£ 4,680,000
	Net Revenue	£ -	£ 260,000	£ 520,000	£ 1,300,000	£ 1,820,000	£ 3,120,000
Maintenance Services	Projects maintained	0	0	1	3	7	12
	Gross Sales	£ -	£ -	£ 71,500	£ 214,500	£ 500,500	£ 858,000
	Direct Costs	£ -	£ -	£ 57,200	£ 171,600	£ 400,400	£ 686,400
	Net Revenue	£ -	£ -	£ 14,300	£ 42,900	£ 100,100	£ 171,600
<i>Services Revenue (£)</i>	<i>£ -</i>	<i>£ 260,000</i>	<i>£ 534,300</i>	<i>£ 1,342,900</i>	<i>£ 1,920,100</i>	<i>£ 3,291,600</i>	

<i>Profit or Loss (£)</i>	<i>-£ 1,650,000</i>	<i>-£ 3,090,000</i>	<i>-£ 2,698,700</i>	<i>£ 93,900</i>	<i>£ 1,139,100</i>	<i>£ 1,845,600</i>
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	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11
Expenditures			Product uplift 2			Product uplift 3
Capital Investments			£ 1,250,000			£ 1,250,000
Sales Expenses	£ 500,000	£ 500,000	£ 500,000	£ 500,000	£ 500,000	£ 350,000
Marketing Expenses	£ 200,000	£ 200,000	£ 200,000	£ 200,000	£ 200,000	£ 150,000
Other Attributable Costs	£ 150,000	£ 150,000	£ 150,000	£ 150,000	£ 150,000	£ 150,000
Administrative Expenses	£ 250,000	£ 250,000	£ 250,000	£ 250,000	£ 250,000	£ 250,000
<i>Expenditures (£)</i>	<i>£ 1,100,000</i>	<i>£ 1,100,000</i>	<i>£ 2,350,000</i>	<i>£ 1,100,000</i>	<i>£ 1,100,000</i>	<i>£ 2,150,000</i>

Platform Services	Early Majority		Late Majority			
Opened clients	12	12	12	10	10	10
Active enterprise customers	19	27	34	40	43	46
Gross Sales	£ 2,223,000	£ 3,159,000	£ 3,978,000	£ 4,680,000	£ 5,031,000	£ 5,382,000
Operational Expenses	£ 500,000	£ 500,000	£ 500,000	£ 500,000	£ 500,000	£ 500,000
<i>Platform Revenue</i>	<i>£ 1,723,000</i>	<i>£ 2,659,000</i>	<i>£ 3,478,000</i>	<i>£ 4,180,000</i>	<i>£ 4,531,000</i>	<i>£ 4,882,000</i>

Implementation Services

Customization Services	Customer projects	17	18	23	25	26	30
	Gross Sales	£ 11,050,000	£ 11,700,000	£ 14,950,000	£ 16,250,000	£ 16,900,000	£ 19,500,000
	Direct Costs	£ 6,630,000	£ 7,020,000	£ 8,970,000	£ 9,750,000	£ 10,140,000	£ 11,700,000
	Net Revenue	£ 4,420,000	£ 4,680,000	£ 5,980,000	£ 6,500,000	£ 6,760,000	£ 7,800,000
Maintenance Services	Projects maintained	21	33	44	57	70	82
	Gross Sales	£ 1,501,500	£ 2,359,500	£ 3,146,000	£ 4,075,500	£ 5,005,000	£ 5,863,000
	Direct Costs	£ 1,201,200	£ 1,887,600	£ 2,516,800	£ 3,260,400	£ 4,004,000	£ 4,690,400
	Net Revenue	£ 300,300	£ 471,900	£ 629,200	£ 815,100	£ 1,001,000	£ 1,172,600
<i>Services Revenue (£)</i>		<i>£ 4,720,300</i>	<i>£ 5,151,900</i>	<i>£ 6,609,200</i>	<i>£ 7,315,100</i>	<i>£ 7,761,000</i>	<i>£ 8,972,600</i>

<i>Profit or Loss (£)</i>	<i>£ 5,343,300</i>	<i>£ 6,710,900</i>	<i>£ 7,737,200</i>	<i>£ 10,395,100</i>	<i>£ 11,192,000</i>	<i>£ 11,704,600</i>
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	Year 12	Year 13	Year 14	Year 15	Year 16	Year 17
Expenditures			Product uplift 4			Legacy adaptation
Capital Investments			£ 750,000			£ 750,000
Sales Expenses	£ 350,000	£ 350,000	£ 250,000	£ 250,000	£ 250,000	£ 100,000
Marketing Expenses	£ 150,000	£ 150,000	£ 150,000	£ 150,000	£ 150,000	£ 50,000
Other Attributable Costs	£ 150,000	£ 150,000	£ 150,000	£ 150,000	£ 150,000	£ 150,000
Administrative Expenses	£ 250,000	£ 250,000	£ 150,000	£ 150,000	£ 150,000	£ 150,000
<i>Expenditures (£)</i>	<i>£ 900,000</i>	<i>£ 900,000</i>	<i>£ 1,450,000</i>	<i>£ 700,000</i>	<i>£ 700,000</i>	<i>£ 1,200,000</i>

Platform Services			Laggards			
Opened clients	9	8	7	6	4	0
Active enterprise customers	48	49	49	48	46	43
Gross Sales	£ 5,616,000	£ 5,733,000	£ 5,733,000	£ 5,616,000	£ 5,382,000	£ 5,031,000
Operational Expenses	£ 500,000	£ 500,000	£ 250,000	£ 250,000	£ 250,000	£ 150,000
<i>Platform Revenue</i>	<i>£ 5,116,000</i>	<i>£ 5,233,000</i>	<i>£ 5,483,000</i>	<i>£ 5,366,000</i>	<i>£ 5,132,000</i>	<i>£ 4,881,000</i>

Implementation Services

Customization Services	Customer projects	31	31	33	33	31	29
	Gross Sales	£ 20,150,000	£ 20,150,000	£ 21,450,000	£ 21,450,000	£ 20,150,000	£ 18,850,000
	Direct Costs	£ 12,090,000	£ 12,090,000	£ 12,870,000	£ 12,870,000	£ 12,090,000	£ 11,310,000
	Net Revenue	£ 8,060,000	£ 8,060,000	£ 8,580,000	£ 8,580,000	£ 8,060,000	£ 7,540,000
Maintenance Services	Projects maintained	96	108	119	130	139	145
	Gross Sales	£ 6,864,000	£ 7,722,000	£ 8,508,500	£ 9,295,000	£ 9,938,500	£ 10,367,500
	Direct Costs	£ 5,491,200	£ 6,177,600	£ 6,806,800	£ 7,436,000	£ 7,950,800	£ 8,294,000
	Net Revenue	£ 1,372,800	£ 1,544,400	£ 1,701,700	£ 1,859,000	£ 1,987,700	£ 2,073,500
<i>Services Revenue (£)</i>		<i>£ 9,432,800</i>	<i>£ 9,604,400</i>	<i>£ 10,281,700</i>	<i>£ 10,439,000</i>	<i>£ 10,047,700</i>	<i>£ 9,613,500</i>

<i>Profit or Loss (£)</i>	<i>£ 13,648,800</i>	<i>£ 13,937,400</i>	<i>£ 14,314,700</i>	<i>£ 15,105,000</i>	<i>£ 14,479,700</i>	<i>£ 13,294,500</i>
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	Year 18	Year 19	Year 20
Expenditures			
Capital Investments			
Sales Expenses	£ 100,000	£ 100,000	£ 100,000
Marketing Expenses	£ 50,000	£ 50,000	£ 50,000
Other Attributable Costs	£ 150,000	£ 150,000	£ 150,000
Administrative Expenses	£ 150,000	£ 150,000	£ 150,000
<i>Expenditures (£)</i>	<i>£ 450,000</i>	<i>£ 450,000</i>	<i>£ 450,000</i>

Platform Services

Opened clients	0	0	0
Active enterprise customers	37	32	28
Gross Sales	£ 4,329,000	£ 3,744,000	£ 3,276,000
Operational Expenses	£ 150,000	£ 150,000	£ 150,000
<i>Platform Revenue</i>	<i>£ 4,179,000</i>	<i>£ 3,594,000</i>	<i>£ 3,126,000</i>

Implementation Services

Customization Services	Customer projects	29	27	25
	Gross Sales	£ 18,850,000	£ 17,550,000	£ 16,250,000
	Direct Costs	£ 11,310,000	£ 10,530,000	£ 9,750,000
	Net Revenue	£ 7,540,000	£ 7,020,000	£ 6,500,000
Maintenance Services	Projects maintained	148	151	152
	Gross Sales	£ 10,582,000	£ 10,796,500	£ 10,868,000
	Direct Costs	£ 8,465,600	£ 8,637,200	£ 8,694,400
	Net Revenue	£ 2,116,400	£ 2,159,300	£ 2,173,600
<i>Services Revenue (£)</i>		<i>£ 9,656,400</i>	<i>£ 9,179,300</i>	<i>£ 8,673,600</i>

<i>Profit or Loss (£)</i>	<i>£ 13,385,400</i>	<i>£ 12,323,300</i>	<i>£ 11,349,600</i>
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NPV	£82,351,616.17
IRR	37%

Average Project Value (£)	£650,000
Average Licence Value (£)	£117,000

Customization Services Margin	40%
Maintenance Services Margin	20%

Yearly Renewal Rate	85%
Maintenance (of project)	11%