



EUROSTARS™

Funding excellence  
in innovation

Financial Viability  
Guidelines for companies





This document presents the methodology of Eurostars-2 to determine the financial viability of potential applicants to the program.

*The ESE provides this tool to Eurostars applicants to carry out their financial viability check for their own information. The results generated by this tool are not legally binding. Due to the methodology used, the boundary economic situation and the business elements are not considered. The ESE does not give any warranty or other assurance, and may not be held liable in any way, as to the results, its accuracy, completeness, or appropriateness for any particular purpose.*



## **CONTENTS**

INTRODUCTION TO THE FINANCIAL VIABILITY CHECK.....	4
Objective.....	4
FINANCIAL VIABILITY METHODOLOGY.....	4
Background.....	4
Common Methodology.....	5
First step: Self-assessment of the financial viability check.....	5
Financial ratios.....	6
Balance sheet and Profit & Loss account templates.....	7
Scoring system.....	8
Results and messages.....	9
Online visualisation of the Financial Viability Check.....	10
Second step: In-depth financial viability assessment by NFBs.....	11



## **INTRODUCTION TO THE FINANCIAL VIABILITY CHECK**

### **Objective**

The Eurostars Programme offers all companies interested in applying for funds the opportunity to assess their financial viability. The aim of the financial viability check is to provide a first look to the financial strength of each company and indicate whether they have solid financial basis or need to discuss with their NFB preferably before applying whether they are eligible for funding due to their financial situation.

The indicators and ratios used in this check are the outcome of the Eurostars Common Financial Viability Working Group composed of financial experts from across Eurostars members. In addition, insights were collected from all Eurostars National Funding Bodies (NFBs) through a questionnaire on their national procedures used to check the financial viability of their respective companies. Therefore, this check is the result of a common agreement on what information is most relevant to pre-assess the financial viability of SMEs looking to participate in the Eurostars programme.

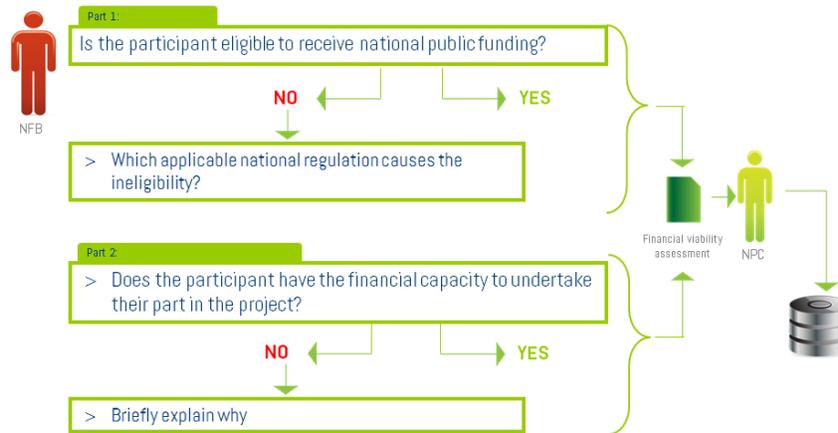
## **FINANCIAL VIABILITY METHODOLOGY**

### **Background**

The verification of the financial viability of a company to carry out and finance their proposed part of the project is an integral part of the evaluation stage and must be assessed before the project application is evaluated by Independent Evaluation Panel (IEP).

The financial viability assessment is not an assessment of the viability of a participant – it is an assessment of the participant's ability to finance the activities it declares in the application form, with consideration to the public funding available based on the national funding rules.

The financial viability assessment is not an eligibility criterion. It only gives an indication of the financial situation of the companies. The final decision of the financial viability of a company to participate in the Eurostars project will be based on national criteria. In turn, national criteria are not considered 'common', therefore 'negative' assessments do not result necessarily in the ineligibility of a project, but negative assessment could be one of the determining factors for the IEP evaluation. Currently the financial viability assessment performed can be broken into two distinct parts:



- > **Part 1: Is the participant eligible to receive national public funding?**  
This question is answered ‘yes’ or ‘no’ according to the national applicable regulations applied by the funding body within the context of Eurostars. In the event of a negative answer, the party responsible for completing the assessment must clearly state why the participant cannot access national funding. This must be based upon established national legislation, which is directly referred to when completing the assessment.
- > **Part 2: Does the participant have the financial viability to undertake their part in the project?** This question is answered ‘yes’ or ‘no’. In the event of a negative answer, the party responsible for completing the assessment must clearly state the reasons why.

### Common Methodology

According to the needs presented by the National Funding Bodies and in order to implement a faster, leaner process, a two-step methodology is proposed:

- > 1<sup>st</sup> Step: Self-assessment of the financial viability check (to be performed preferably before applying for Eurostars funds)
- > 2<sup>nd</sup> Step: In-depth financial viability assessment

### First step: Self-assessment of the financial viability check

The financial self-assessment is a noncompulsory step in the process. It consists of an online tool available through the Eurostars public website. As Eurostars has SMEs as its main target, this first financial viability assessment step is only meant for SMEs since checking financial ratios in higher education organisations, research centers and large companies can be quite complex. For start-ups since in most cases there are no objective financial ratios available yet, these organisations usually cannot provide the information requested in this check. They are strongly advised to get in contact with their NFB to check their financial viability for funding. The self-assessment is a simple analysis of the financial viability of the SME



participants based on a number of financial ratios and it is independent of the type of funding (loan or grant), the project budget and the percentage of expected public funding.

The self-assessment tool will be accessible at any time on the Eurostars website<sup>1</sup> for information purposes only, so any interested SME can perform a pre-check (before or after submitting the application) in order to have a preliminary, non-binding result about their financial viability.

### ***Compliance with General Data Protection Regulation***

The potential Eurostars applicants using this tool will provide the figures anonymously, and neither the figures entered, nor the result of the self-assessment will be available for the ESE or the NFBs and it will not be recorded or stored<sup>2</sup>. Nevertheless, the applicants will have the chance to download the results of the pre-self-assessment in pdf format and present it to their NFB for further discussion, or attach it within the annex section of their application form.

### ***Financial ratios***

The financial viability self-assessment is composed of five financial ratios based on financial figures containing within the balance sheet or profit & loss account: Solvency, Liquidity, Net and Gross Profitability and Financial Autonomy.

$$\begin{aligned} \text{Solvency} &= \frac{\text{Total Liabilities}}{\text{Equity}} \quad \longrightarrow \quad \text{Equity} = \text{capital} + \text{reserves} \\ \text{Liquidity}^3 &= \frac{\text{current assets} - \text{inventories} - \text{debtors} > 1\text{year}}{\text{current liabilities}} \\ \text{Net Profitability} &= \frac{\text{Net Operating Profit (NOP)}}{\text{Turnover}} \\ \text{Gross Profitability} &= \frac{\text{Gross Operating Profit (GOP)}}{\text{Turnover}} \\ \text{Financial Autonomy} &= \frac{\text{Interest}}{\text{Gross Operating Profit (GOP)}} \end{aligned}$$

In order to have a more realistic overview of the applicant's financial viability, these ratios will be calculated taking into consideration the two most recent closed financial years (weighted 70% for year N,

<sup>1</sup> <https://www.eurostars-eureka.eu>

<sup>2</sup> EUREKA Network is fully committed to GDPR compliance.

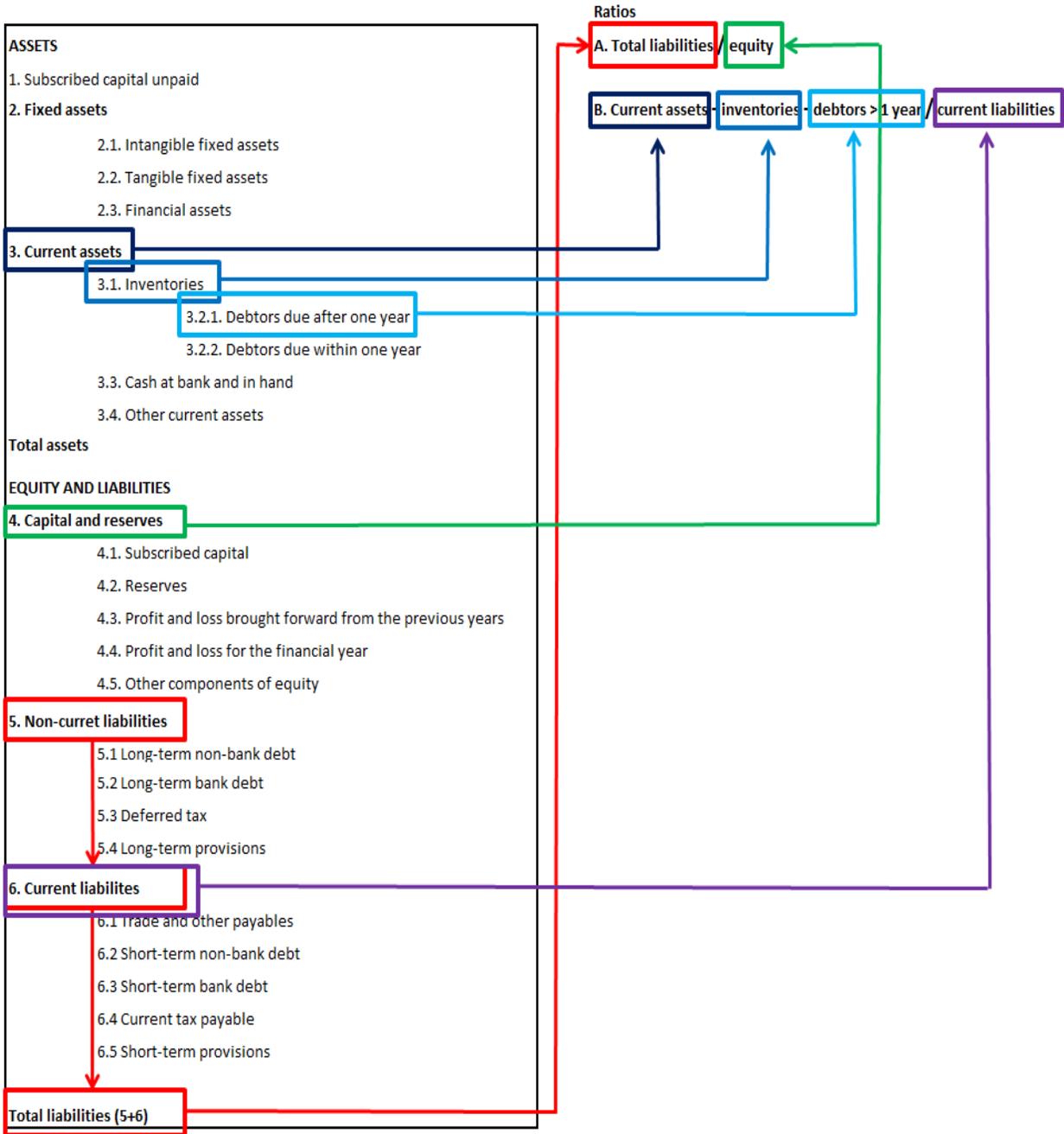
<sup>3</sup> Turkish companies must insert "0 (zero)" in the item "Debtors due after one year".



30% for year N-1). The financial information provided may not be older than 2 years<sup>4</sup> for an accurate assessment to be achieved.

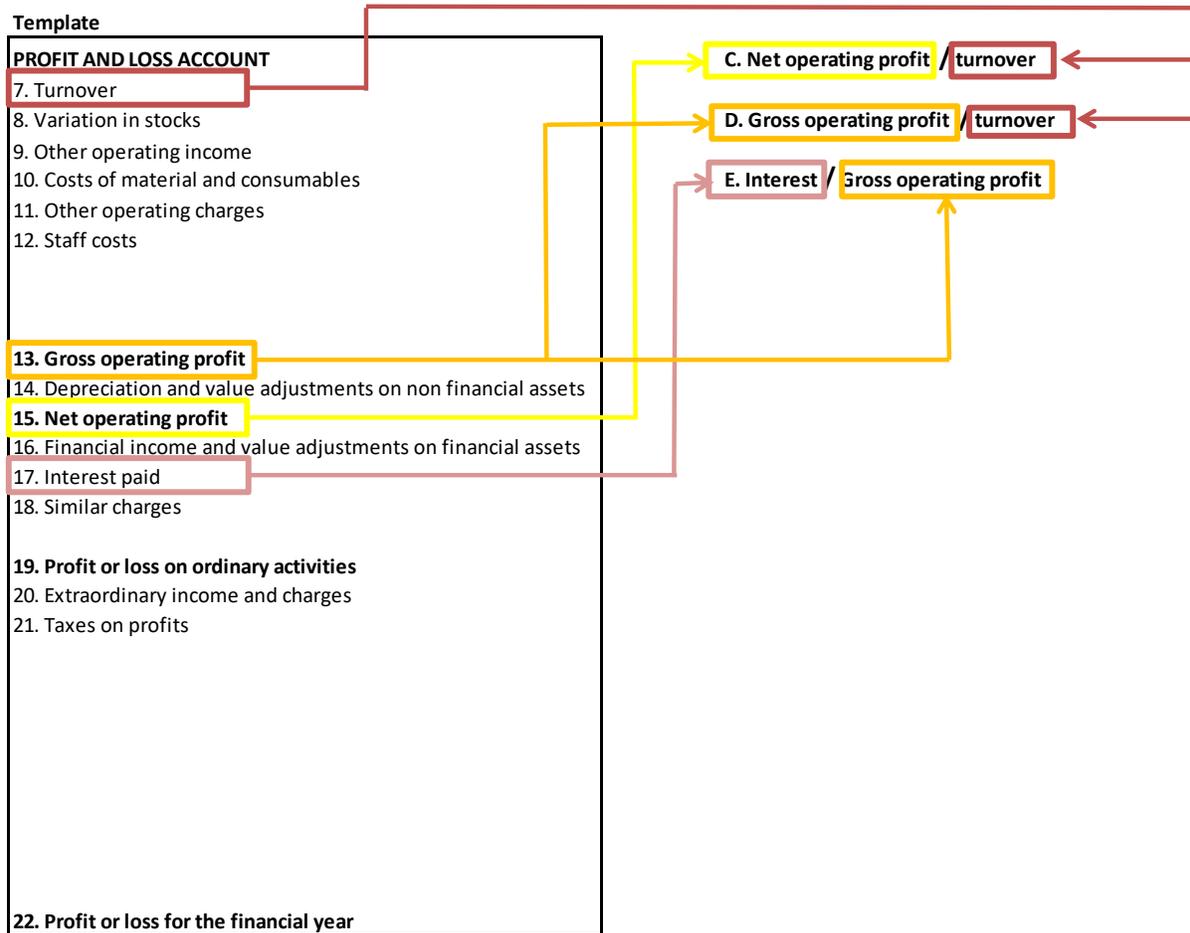
**Balance sheet and Profit & Loss account templates**

> **Balance sheet**



<sup>4</sup> In case the definite figures from the previous year are not available yet, preliminary figures can also be inserted.

> Profit & Loss account



**Scoring system**

A scoring system on a scale of 0 - 2 is established. The qualification for each financial ratio will be given according to the thresholds defined:

Ratio	0	1	2
Solvency	$i < 0$ or $i > 6$	$6 \geq i \geq 4$	$0 < i < 4$
Liquidity	$i < 0,5$	$0,5 \leq i \leq 1$	$i > 1$
Net Profitability	$i < 2\%$	$2\% \leq i \leq 4\%$	$i > 4\%$
Gross Profitability	$i < 5\%$	$5\% \leq i \leq 15\%$	$i > 15\%$
Financial Autonomy	$i < 0$ or $i > 0,4$	$0,4 \geq i \geq 0,3$	$0 < i < 0,3$

where  $i$  represents the result of the financial ratio



**Results and messages**

The result is obtained by summing the individual qualifications (0,1 or 2) calculated for each financial ratio.

	Total score	Qualification
Final Result	0	Bad
	1-4	Weak
	5-7	Acceptable
	8-10	Good

The information provided to SMEs after completing the self-assessment will comprise the total score (0-10) and the score obtained in each of the 5 financial ratios.

The results obtained in this check are not binding, and whatever your result we recommend checking with your NPC your financial suitability to participate in the Eurostars-2 programme.

*Companies in the European Union and within the European Economic Area that are undertaking in difficulties are not eligible to receive public funding. Companies from other countries in a difficult financial situation may also not be eligible for funding according to their national regulations.*



Online visualisation of the Financial Viability Check

Welcome to the Eurostars Common Financial Viability Assessment Tool !  
Currency is Euro

Year N-1      Year N

Closing date (mm/dd/yyyy)    dd/mm/yyyy    dd/mm/yyyy

Duration (in months)    \_\_\_\_\_    \_\_\_\_\_

**BALANCE SHEET**

**ASSETS**

	Year N-1	Year N
1. Subscribed Capital unpaid	0.00	0.00
2. Fixed Assets	0	0
2.1 Intangible Fixed Assets	0.00	0.00
2.2 Tangible Fixed Assets	0.00	0.00
2.3 Financial Assets	0.00	0.00
3. Current Assets	0	0
3.1 Inventories	0.00	0.00
3.2.1 Debtors due after one year	0.00	0.00
3.2.2 Debtors due within one year	0.00	0.00
3.3 Cash at bank and in hand	0.00	0.00
3.4 Other current assets	0.00	0.00
<b>TOTAL ASSETS (1 + 2 + 3)</b>	0	0

**EQUITY AND LIABILITIES**

	Year N-1	Year N
4. Capital and reserves	0	0
4.1 Subscribed capital	0.00	0.00
4.2 Reserves	0.00	0.00
4.3 Profit and Loss brought forward from the previous years	0.00	0.00
4.4 Profit and loss for the financial year	0.00	0.00
4.5 Other components of equity	0.00	0.00
5. Non-Current Liabilities	0	0
5.1 Long-term non-bank debt	0.00	0.00
5.2 Long-term bank debt	0.00	0.00
5.3 Deferred tax	0.00	0.00
5.4 Long-term provisions	0.00	0.00
6. Current Liabilities	0	0
6.1 Trade and other payables	0.00	0.00
6.2 Short-term non-bank debt	0.00	0.00
6.3 Short-term bank debt	0.00	0.00
6.4 Current tax payable	0.00	0.00
6.5 Short-term provisions	0.00	0.00
<b>TOTAL LIABILITIES (4 + 5 + 6)</b>	0	0

**PROFIT & LOSS ACCOUNTS**

	Year N-1	Year N
7. Turnover	0.00	0.00
8. Variation in stocks	0.00	0.00
9. Other Operating Income	0.00	0.00
10. Costs of material and consumables	0.00	0.00
11. Other Operating Charges	0.00	0.00
12. Staff Costs	0.00	0.00
13. Gross Operation profit (GOP)	0	0
14. Depreciation and value adjustments	0.00	0.00
15. Net Operating Profit (NOP)	0	0
16. Financial income and value adjustments or non financial assets	0.00	0.00
17. Interest paid	0.00	0.00
18. Similar Charges	0.00	0.00
19. Profit or Loss on ordinary activities	0.00	0.00
20. Extraordinary income and charges (+/-)	0.00	0.00
21. Taxes and profits	0.00	0.00
22. Profit or loss for the financial year	0.00	0.00

**SIMULATION RESULTS**

INDICATOR	FIGURE	QUALIFICATION
Solvency	0.00	0.00
Liquidity	0.00	0.00
Net Profitability	0.00	0.00
Gross Profitability	0.00	0.00
Financial Autonomy	0.00	0.00
<b>RESULT</b>	Score	

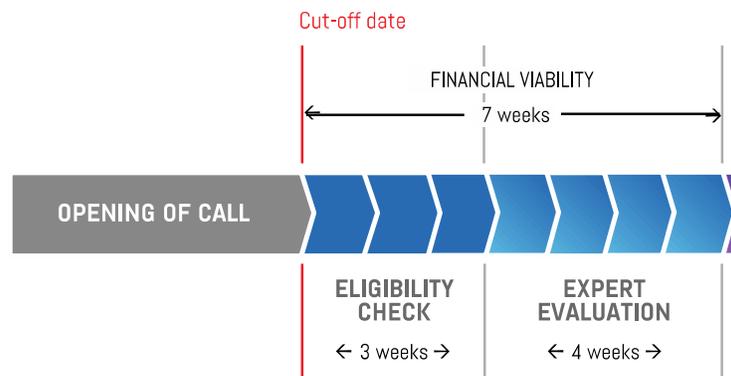


## Second step: In-depth financial viability assessment by NFBs

Checking the real financial situation of an entity is not an easy task as there are a lot of variables involved. It is not only the previous financial figures but the forecasted ones, as well as links to other companies, the commitment of the owners, the activity and financial commitment of the company in other ongoing projects, etc. Regardless of all these elements, one very important aspect that must be considered is the level of risk that NFBs are able to take on behalf of their governments and taxpayers.

Specific rules and further funding information for each country can be found in the Eurostars webpage<sup>5</sup>.

The financial viability checks by the NFBs are performed within the first weeks after the Submission Deadline. The NFBs are responsible for assessing each applicant company from their home country. The results are communicated to the EUREKA Association and brought to the IEP to be taken into consideration together with the Application form and the reports from the three remote experts when deciding on a project's quality and ranking position.



The Financial Viability Self-assessment tool can be accessed via [www.eurostars-eureka.org](http://www.eurostars-eureka.org) or in the link below:

<https://viability.eurostars-eureka.eu/>

For further information on this issue, do not hesitate to contact your NFB.

<sup>5</sup> <https://www.eurostars-eureka.eu/countries/#countryname>