Presenting Financials: What Investors Want to See

Big Bang!

Business Model

- How will you make money?
  - Revenues
  - Who are the customers for your product/service?
  - Why do they want it - “Value Proposition”?
- How much will it cost to generate your revenues?
  - Expenses: COGS, CAPEX, and OPEX
- How much revenue can you make and how quickly?
  - Cost of Capital
Lifecycle of a new venture

The “Bottom Line”

- Even if “finance” and “accounting” aren’t your forte, every entrepreneur must understand the basics of the “bottom line”
  - Revenues & Margins
  - Expenses
  - Pricing – This is an art, not a science. Experiment.
  - Profitability
  - Financial Planning (Pro-Forma Statements/Projections)
  - Return on Investment (ROI)
Definitions: Revenue & Margins

- **Revenue**
  - Money coming into the business
- **Cost of Goods Sold (COGS)**
  - What it costs to make your products
- **Gross Margin**
  - \( \frac{\text{Revenue} - \text{COGS}}{\text{Revenue}} \)
Definitions: Expenses

- Fixed costs
  - *Don’t change with time*
  - Capital Expenses (CAPEX)
  - Salaries/Overhead
- Variable costs
  - *Change with volume/time*
  - Operating Expense (OPEX)
  - COGS
  - Salaries & Bonuses

Definitions: Profitability

- Net Income
  - Revenues minus all expenses
- EBITDA
  - *Earnings Before Interest, Tax, Depreciation and Amortization*
  - Useful for valuation comparisons
- Cash Burn – Rate of Consumption
  - How much cash you lose each month/quarter
  - Indicative of cash flow issues
Plan Your Business and Start

- Determine what will be done, when and by whom
- Assemble Core Team and Pick a Law Firm
- Focus on Sales and Engineering/Product Development
- Set Realistic Goals in Six (6) Month Increments
- Define Five (5) to Ten (10) Critical Performance Metrics
  - Instrument Your Business
- **Target and Court Strategic Partners**
  - Land a Paying Customer with a Simple Product

Build Your Network

- LinkedIn, Trade Shows, Personal Social Networks
- Meet with People
- Meet with Strategic Partners
- Meet with Prospective Customers
- Meet with Friendly Investors
- Meet with Similar Companies in Adjacent Sectors
- Meet with Competitors
Definitions: Pro-Forma Statements

- Pro-Forma Statements
  - "Best Guess" predictions
  - Allows for better product and financial planning
  - Designed to show the impact of certain choices or assumptions

How Much Capital will You Need?

- How much funding do you need?
- Look closely at your expenses
  - Create an Excel file and enter the following expenses
  - Delete the rows you don't need (that aren't significant)
  - Add categories that are specific to your business
  - Add time periods across the top
  - Start making assumptions...

### Income Statements - P&L
- Looks at revenue, expenses, and burn rates

<table>
<thead>
<tr>
<th>INCOME</th>
<th>EXPENSES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Sales</td>
<td>Cost of Goods Sold (COGS)</td>
</tr>
<tr>
<td>Returns/Refunds</td>
<td>Salaries &amp; Wages</td>
</tr>
<tr>
<td>Net Sales (Gross Sales less Returns)</td>
<td>Sales Commissions</td>
</tr>
<tr>
<td>GROSS PROFIT (Net Sales less COGS)</td>
<td>Professional Services</td>
</tr>
<tr>
<td>EXPENSES</td>
<td>Rent</td>
</tr>
<tr>
<td>Cost of Goods Sold (COGS)</td>
<td>Maintenance</td>
</tr>
<tr>
<td>Salaries &amp; Wages</td>
<td>Equipment Rental</td>
</tr>
<tr>
<td>Sales Commissions</td>
<td>Furniture/Equipment Purchase</td>
</tr>
<tr>
<td>Professional Services</td>
<td>Insurance</td>
</tr>
<tr>
<td>Rent</td>
<td>Utilities</td>
</tr>
<tr>
<td>Maintenance</td>
<td>Telephone</td>
</tr>
<tr>
<td>Equipment Rental</td>
<td>Internet</td>
</tr>
<tr>
<td>Furniture/Equipment Purchase</td>
<td>Office Supplies</td>
</tr>
<tr>
<td>Insurance</td>
<td>Shipping &amp; Handling</td>
</tr>
<tr>
<td>Utilities</td>
<td>Marketing &amp; Advertising</td>
</tr>
<tr>
<td>Telephone</td>
<td>Travel &amp; Subsistence</td>
</tr>
<tr>
<td>Internet</td>
<td>Entertainment</td>
</tr>
<tr>
<td>Office Supplies</td>
<td>Taxes</td>
</tr>
<tr>
<td>Shipping &amp; Handling</td>
<td>TOTAL EXPENSES</td>
</tr>
<tr>
<td>Marketing &amp; Advertising</td>
<td>NET PROFIT (Net Sales less Total Expenses)</td>
</tr>
</tbody>
</table>
Definitions: J-Curve

- Capital required to reach "Break Even"

Capitalize Your Business

- Identify Appropriate Private and Professional Investors
- Deeply Research Your Target List
- Know Your Business Intimately
- Support All Assumptions with Real-World Examples
- Know Your Dashboard By Heart
- Remain Open to New Ideas
Fanciful Path to CFBE

Business Value

Proof of concept

Beta Customer

Commercial Launch

Cash Flow Break Even

Definitions: Return on Investment (ROI)

• Score of profitability in relation to capital invested over time

• Calculated as (Profitability less Investment) \( \div \) Investment
  
  • Investors often use ROI to evaluate the “efficiency” of an opportunity, or to compare opportunities
  
  • A high ROI means the profitability compares favorably to the size of the investment
  
  • ROI is also something entrepreneurs must assess regarding technology/capital expenditures
Revenue Models

<table>
<thead>
<tr>
<th>Revenue Model</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Unit Sales</strong></td>
<td>Sell a product or service to customers (wholesale, retail, or direct).</td>
</tr>
<tr>
<td><strong>Advertising Fees</strong></td>
<td>Sell opportunities to distribute messages (viewers, readers, listeners, or others)</td>
</tr>
<tr>
<td><strong>Franchise Fees</strong></td>
<td>Sell and support a replicable business for others to invest in, grow, and manage</td>
</tr>
<tr>
<td><strong>Utility Fees</strong></td>
<td>Sell goods and services on a per-use basis</td>
</tr>
<tr>
<td><strong>Subscription Fees</strong></td>
<td>Charge a fixed price for providing access to your goods or services</td>
</tr>
<tr>
<td><strong>Transaction Fees</strong></td>
<td>Charge a fee for referring, enabling or executing a transaction</td>
</tr>
<tr>
<td><strong>License Fees</strong></td>
<td>Sell the rights (exclusive or non-exclusive) to use patent- or copyright-protected IP</td>
</tr>
</tbody>
</table>

Distribution Models & Strategic Partners

- OEMs
- System Integrators
- Direct Sales
- Manufacturer’s Representatives
- Resellers
- Multi-tier (Distributors->Resellers->Users)
- Retail Stores (can be single or multi-tier)
- Online
Cost Impacts of Distribution Model

- OEMs, System Integrators absorb most of the cost of customer acquisition
- Direct Sales can be expensive, only works for high value sales
- Manufacturer's Representatives need marketing support
- Resellers/Retailers need substantial marketing support – they are order-takers not sales people
- Online requires substantial web marketing expense

Be Patient, Focused and Persistent

- It Takes a Long Time to Find Ideal Investors
- Focus on The Dashboard and Building the Business
- Start with SIMPLE PRODUCTS
- Your Financials will Present Themselves
- Your Assumptions will Become Supported
- Your Team’s Credibility will Materialize Organically
- Investors will Seek You Out