

Finance for Business Plans



Presentation begins at 9am

Please turn off cell phones and pagers

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STIRLING MERCANTILE
CORPORATION

Agenda

- 9:00 – intros and background, formatting
- 9:30 – structure, assumptions
- 10:30 – break
- 10:45 – examples
- 11:15 – Q&A
- 11:45 – wrap-up



Tell me what you do

- One sentence - what you sell, to whom and why they should buy.
 - We sell [hardware/software] that helps [our target market] [save money or make money]

“We make software that helps gas companies account for their production more accurately”

“We sell bandwidth to businesses that is more reliable and costs less than it does from telcos”



Financial Models

“Plans are useless, but planning is indispensable”

- Dwight D. Eisenhower

- Not intended to be carved in stone
- Represents your plan, expected to change



Purpose

- Explain how the company scales
- Estimate how much capital will be required
- Shows you can plan to be fiscally responsible



Scope

- Run out 60 months
- First two years for cash flow
- Last three for size of opportunity
- Show prior actuals if you have them



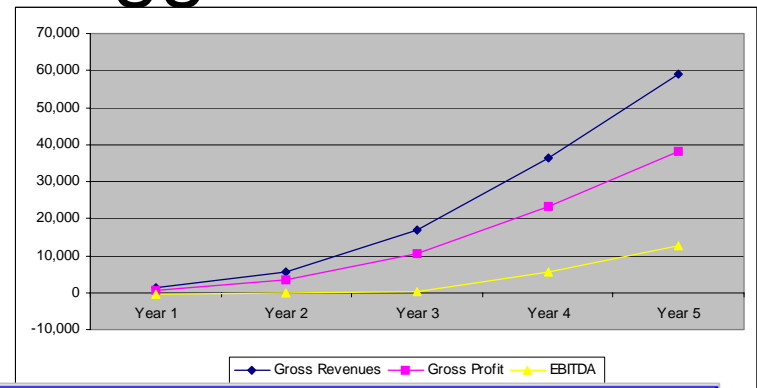
Workbook Layout

- Have all spreadsheets in the same workbook
- Try to limit it to a handful of tabs
- Colour coding tabs can help
- Compress expenses to 3 or 4 categories



Formatting Suggestions

- Use a **different** colour for triggers
- Add simple graphs
- Provide ratios



Projected Income Statement Analysis

(\$000's)

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
New Sales	78	342	1,044	2,232	3,492
Cumulative Sales	78	342	1,044	2,232	3,492
Growth		438%	305%	214%	156%
Revenues					
Software Sales	780 65%	3,420 63%	10,440 62%	22,320 61%	34,920 59%
Hardware and install	390 32%	1,710 32%	5,220 31%	11,160 31%	17,460 30%
Monthly Maintenance	36 3%	271 5%	1,097 7%	3,036 8%	6,619 11%
Gross Revenues	1,206 100%	5,401 100%	16,757 100%	36,516 100%	58,999 100%

Bottom Up vs. Top Down

- Market = 100,000,000
- We will get 5%
- At a price of \$2,000
- We will sell \$10,000,000

Incredible!

- Sales cycle = 60 days
- Sales training = 60 days
- We will hire 20 effective sales people...
- ...who will sell 21 per month
- At a price of \$2,000
- We will sell \$10,000,000

Credible!



Assumptions

- Separate tab
- Include most trigger cells on the same page for investor adjustment
- First Things First
 - Highlight key assumptions



Sales Growth

- Add a realistic monthly figure for growth in the first 18 to 24 months
- Multiply that by your prices(s) to generate revenue
- Scale it up in the last 3 years



Price

- Support your price based on competition
- Get client validation, in writing if possible
- Consider how your price may change going forward



Total Revenue

- At critical mass, revenues should be significant
- Don't reverse engineer with unrealistic assumptions for sales growth
- Find a way to get to \$30 to \$50 million in 5 to 7 years, with defensible assumptions, ie:
 - Expand your markets
 - Add value for a higher price



Expenses

- Spend a lot of time on being accurate about your cost of sales and profit margin
- Spend very little time getting the expenses right, unless your business is different
- Showing losses in the first 2 years is ok, assuming you have the cash to do so



Cash Flows

- Must detail working capital requirements
- Must show how much money the company will need and when
- Can be simply added to the bottom of the income projection



Cap Table

- Not required, but good practice
- Show pre-money, post money and fully diluted with the investment you are seeking
- Include an ESOP of about 15% and room for directors



Cap Table Sample

	Investors	Pre-money		
		Shares	Ownership	Value
1	Founders	8,000,000	89.82%	\$1,616,000
2	F&F&E	750,000	8.42%	\$151,500
3	Old Directors	157,000	1.76%	\$31,714
	Options			
4	ESOP			
5	New Directors			
	New Investors			
6	Lead			
7	Other New \$			
		8,907,000	100.00%	\$1,799,214
	Price per share	\$0.20		



Cap Table Sample

	Investors	Pre-money			Post-money, fully diluted				Vest?
		Shares	Ownership	Value	Investment	Shares	Ownership	Value	
1	Founders	8,000,000	89.82%	\$1,616,000		8,000,000	37.61%	\$2,400,000	Vested
2	F&F&E	750,000	8.42%	\$151,500		750,000	3.53%	\$225,000	Vested
3	Old Directors	157,000	1.76%	\$31,714		157,000	0.74%	\$47,100	Vested
	Options								
4	ESOP					2,900,000	13.63%	\$870,000	Vesting
5	New Directors					300,000	1.41%	\$90,000	Vesting
	New Investors								
6	Lead				\$2,000,000	6,666,667	31.34%	\$2,000,000	Vested
7	Other New \$				\$750,000	2,500,000	11.75%	\$750,000	Vested
		8,907,000	100.00%	\$1,799,214	\$2,750,000	21,273,667	100.00%	\$6,382,100	
	Price per share		\$0.20			\$0.30			



Valuation

- Start-ups are very hard to value rationally
 - Not based on investments previously made or discounted cash flows
 - Based on ROI to the investor and incentive for management/founders
- Be realistic
- Usually \$1 to \$3 million



Format for the Presentation

- One slide for assumptions
 - Identify the key variables, likely price and take-up
- One slide for results
 - Include ratios
- One slide for deal structure or closing cap table



Assumptions

	Year 1	Year 2	Year 3	Year 4	Year 5
New Sales	78	342	1,044	2,232	3,492
Cumulative Sales	78	420	1,464	3,696	7,188
Prices (\$CAD000s)					
Software Sales	10.0	10.0	9.5	9.0	8.5
Hardware and install	5.0	5.0	5.0	5.0	5.0
Monthly Maintenance	0.10	0.10	0.10	0.10	0.10
Direct Operating Expenses					
Direct sales commissions	10%	10%	10%	10%	10%
Partner selling costs and commissions	30%	30%	30%	30%	30%
Hardware and install costs	40%	40%	40%	38%	36%
Selling, General and Administrative					
General & administration		12%	10%	8%	8%
Research & development		25%	25%	20%	15%
Selling, marketing and partnerships		30%	25%	20%	20%



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(\$000's)

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<i>Growth</i>		438%	305%	214%	156%
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Monthly Maintenance	36 3%	271 5%	1,097 7%	3,036 8%	6,619 11%
Gross Revenues	<u>1,206 100%</u>	<u>5,401 100%</u>	<u>16,757 100%</u>	<u>36,516 100%</u>	<u>58,999 100%</u>
<i>Growth</i>		448%	310%	218%	162%
Direct Operating Expenses					
Direct sales commissions	78 6%	342 6%	1,044 6%	2,232 6%	3,492 6%
Partner selling costs and commissions	234 19%	1,026 19%	3,132 19%	6,696 18%	10,476 18%
Total	<u>468 39%</u>	<u>2,052 38%</u>	<u>6,264 37%</u>	<u>13,392 37%</u>	<u>20,952 36%</u>
Gross Profit	<u>738 61%</u>	<u>3,349 62%</u>	<u>10,493 63%</u>	<u>23,124 63%</u>	<u>38,047 64%</u>
<i>Growth</i>		454%	313%	220%	165%
Selling, General and Administrative					
General & administration	226 19%	648 12%	1,676 10%	2,921 8%	4,720 8%
Research & development	525 44%	1,350 25%	4,189 25%	7,303 20%	8,850 15%
Selling, marketing and partnerships	275 23%	1,470 27%	4,189 25%	7,303 20%	11,800 20%
Grants (expense recoveries)	0 0%	0 0%	0 0%	0 0%	0 0%
Total	<u>1,026 85%</u>	<u>3,468 64%</u>	<u>10,054 60%</u>	<u>17,528 48%</u>	<u>25,370 43%</u>
<i>Growth</i>		338%	290%	174%	145%
EBITDA	<u>-288 -24%</u>	<u>-119 -2%</u>	<u>439 3%</u>	<u>5,596 15%</u>	<u>12,678 21%</u>



Examples



SS Tips

- Drag across 2 columns to build sales ramp
- Paste picture link
 - Paste pic next to assumptions
 - Resize and fit to any columns



Summary

- Be very clear about your key assumptions, usually price and sales ramp
- Keep the model simple – compared to an operational model you can build post funding



Thank You

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