

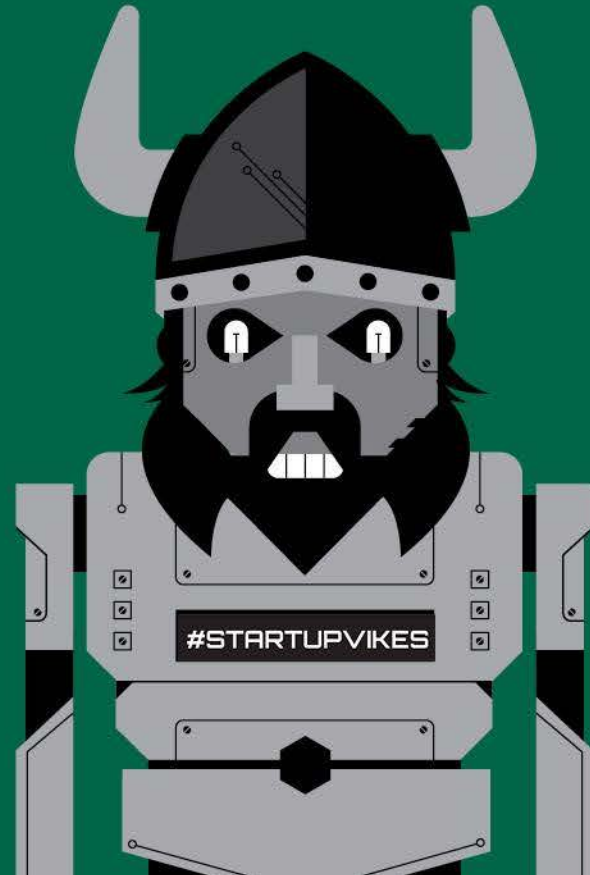


Show Me the
Money

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CSU

STARTUP VIKES



Accounting

The foundation for the financial archaeology of the recent past

Finance

Modern financial fortune telling and persuasion

Financial statements are the window to your company's soul.

Balance Sheet

- Summary of the company at a point in time. $\text{Assets} = \text{Liabilities} + \text{Equity}$
- Used by lenders and investors to measure the liquidity of the company

Income Statement

- The financial results for a stated period of time. Revenue earned less expenses incurred to arrive at net income
- Focus on organizing the information to maximize relevance for management decision making

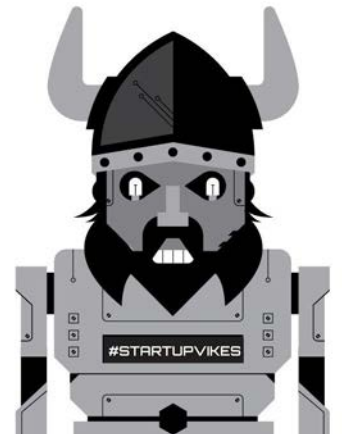
Statement of Cash Flows

- Describes the cash flows in and out of the company (Types: operating, investing, financing)
- Useful when there are significant differences between profits and net cash flow



Balance Sheet

Assets = Liabilities + Equity



Balance Sheet

Startup! LLC

Balance Sheet December 31, 20xx

Assets

Cash \$ 2,500

Accounts receivable 5,000

Inventory 3,500

Equipment 72,500

Furniture & fixtures 5,000

Other assets 1,000

Total Assets \$ 89,500

Liabilities

Accounts payable \$ 5,000

Loans payable 12,500

Total Liabilities \$ 17,500

Members' Equity

Members' capital \$ 12,000

Retained earnings 60,000

Total members' equity \$ 72,000

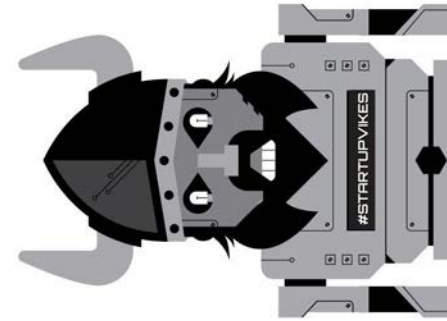
Total liabilities and equity \$ 89,500

Collecting from your patrons

Have your customers fund your business - collect fees upfront for services to be rendered if possible. Share the risk.

Structure contracts and invoices simply with well defined easy to understand terms and conditions.

Make it easy to automate.



Cap Table

Equity = Retained earnings + Ownership

Ownership is summarized in the capitalization table (Cap Table).

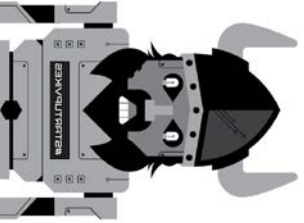
Cap table tells you:

- Who owns stock
- What type of stock (common, preferred, stock options, or warrants)
- How much stock they own
- When it was bought/sold/granted

Options vs Warrants

Stock option - the right to purchase an existing share of the company (issued by a current owner)

Stock warrant - the right to purchase a share to be created in the future (dilutive)





What does your balance sheet say about you?

Working capital = Current assets - Current Liabilities

Working capital ratio = Current assets / Current liabilities

- A WC ratio less than 1 signals operations are in jeopardy.
- A WC ratio greater than 2 could mean you aren't fully utilizing your assets

Debt to Equity (Debt/Equity)

- Your banker will want to see more equity than debt

What is the best way to increase equity? Profits!



Startup! LLC

Income Statement
For the year ending December 31, 20xx

Revenue

Services revenue \$ 50,000

Product revenue 26,500

Total Revenue \$76,500

Cost of sales

30,000

Gross profit

46,500

Expenses

Salaries \$20,000

Rent 11,500

Other operating expenses 1,000

Total Expenses \$ 32,500

Net Income

\$ 14,000



Startup! LLC

Statement of Cash Flows For the year ending December 31, 20xx

Operating activities

Cash received from customers	\$ 72,000	
Cash paid for salaries	(24,000)	
Cash paid for rent	(11,500)	
Cash paid for other items	<u>(30,000)</u>	
Cash provided by operating activities		\$ 6,500

Investing activities

Purchase of computers and equipment		(25,000)
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Financing activities

Proceeds from borrowing long term debt		<u>12,500</u>
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Decrease in cash (6,000)

Cash, January 1 \$ 8,500

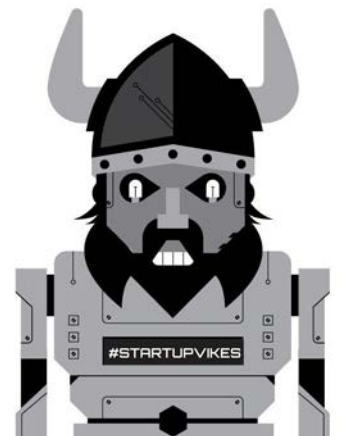
Cash, December 31 \$ 2,500

Important

Guardians of information and information systems

Solid, scalable processes provide the foundation for the future

- Leverage technology to automate as much as possible
- Invest your time in making processes simple and repeatable
- Outsource routine tasks like payroll



Keep good records

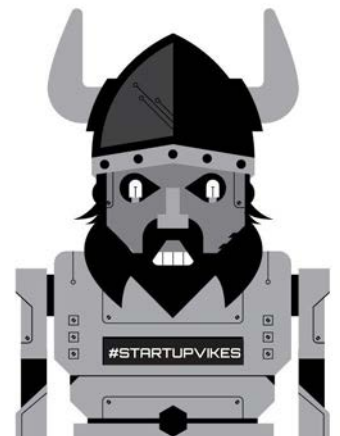
Metrics

Metrics - the factors that gauge how the business is performing

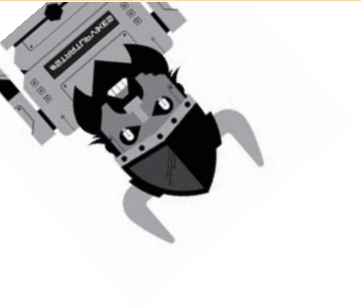
Metrics are keys to keeping your business nimble

Focus on the essentials

Not all metrics are KPIs (key performance indicators) for your specific business



Revenue



Revenue is the amount of money your company earns as goods and services are delivered.

This is one of the most basic metrics to demonstrate traction in the marketplace.

Monthly growth in revenues/paying customers

Revenue Models

Cost based model - e.g. revenue = 2X cost of sales

Value model - something necessary that cannot be denied

Tiered model - based on volume

Portfolio model - multiple services or products



Pricing

Pricing factors

- Cost/profitability
- Marketplace
- Customers
- Competitors

The more data and research you can gather the more likely you are to succeed.

Competitive marketplaces will drive your pricing despite what it costs to provide the product or service.



Revenue



What are the average sales per customer?

How much of your revenue is recurring versus one-time?

The more recurring revenue you have the more attractive your company is to investors.

Be able to speak to:

ARR (annual recurring revenue)

ARR per customer

TCV (total contract value)

Gross Profit



Gross profit = Revenue - Cost of sales

Growth is great but it means nothing if you don't have a path to profitability

What does it cost to make your product or deliver your service?

Break this down in your business model and be able to discuss what makes up your cost of sales.

Revenue vs Cash

Revenue is sexy but cash is still king.

Revenue is recognized as a good or service is delivered. This may not align with when the cash is collected.

Collections are everyone's responsibility.

You will be measured on the growth of revenue, the growth of billings and cash collected.



Cost of Sales

Cost of sales is driven by your business model

This can include items like:

- Salaries for people delivering the service
- Manufacturing costs
- Support for the product or service
- Product/Service delivery costs

Cost of sales drives gross profit and is used to benchmark against others in your market.



Cost Acquisition

Cost Acquisition Cost (CAC) metrics - what does it cost to bring in customers?

Total acquisition costs / total new customers

Understand your acquisition costs by channel

Example:

Total acquisition costs from Facebook / total new customers from Facebook

This CAC analysis will evolve as your company grows and matures, including looking over multiple periods to account for a loyal customer base with little churn.



Variable vs. Fixed

Creating a solid projection requires understanding fixed versus variable costs

Fixed costs do not vary with the company's volume of production (e.g. rent or insurance)

Variable costs change with the company's volume of production (labor costs or server costs)

Your projections will be scrutinized to ensure you have a strong handle on your costs and their relation to your projected revenue.



Burn Rate

Running out of cash = GAME OVER

Know your burn rates.

Gross burn = monthly cash outflows

Net burn rate = change in cash balance over a specific period of time

Your burn rate helps determine the amount of runway you have before you need additional funding or when you must become profitable



Break Even



Break even point - when you can cover all of your expenses and begin to make a profit

Project when you will hit break even and what resources will be necessary to get you there.

Based on the break even point, are your sales expectations realistic?

Cash Flow Forecast

Cash is the lifeblood of the business.

The cash flow forecast is the companion to your burn rate and break even analyses.

Cash flow should be managed with a dynamic forecast from day one.

Get after it!



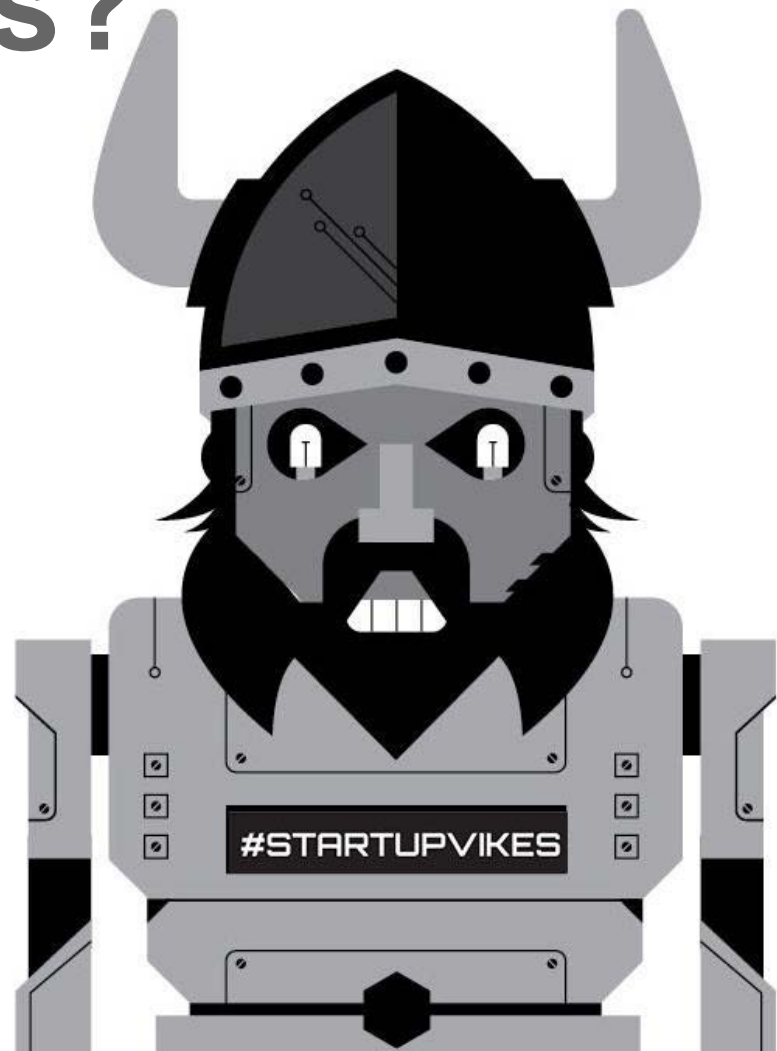
Set the tone for your organization early.

A commitment to excellence by the founders in finance/legal/HR/Admin from the beginning puts your company light years ahead of a majority of your competitors.

Questions?

Any questions?

Too bad.



For Real

- Sign up for mentor sessions and let us know where you need help. Everyone here is excited to help you and your group succeed.
- ALL RESOURCES can be found at www.startupvikes.com
- Get after it and remember Finance is fun!

