

New Ventures BC

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Financial Data for Business Plans

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Financial Data for Business Plans

- **Basic Financial Statements**
 - Historical/Prospective Financial Information
- **Financial Modeling**
 - Opportunity Analysis, Revenue Models, Valuation Model
- **Case Study: QCDocs Systems Inc.**
 - Examples are Good!

Historical Financial Statements

- **Annual financial statements include the following:**
 - Balance Sheet
 - Income Statement
 - Cash Flow Statement
 - Supporting Notes
- **Include past three to five years, if applicable**

Historical Financial Statements

- **The historical financial statements summarize where you have been**
- **The current financial condition and performance of a company is generally a good starting point to help predict the future**
- **In the case of a start-up or early stage company, there are no historical financial statements and the future projections are inherently more uncertain**

Prospective Financial Statements

■ Purpose

- Formulate a credible, comprehensive set of projections reflecting the company's anticipated financial condition and performance
- More than anything else in the business plan, they address the investors bottom line interests and provide information on what kind of return to anticipate
- If carefully prepared and convincingly supported, they will become one of the most critical yardsticks by which the attractiveness of the investment is measured

Prospective Financial Statements

■ Guiding Principles

- Reliable data is important – Investors will do their own homework
- Consider more than one financial scenario and complete sensitivity analysis
 - Forecast – management’s best estimate
 - Projection – “what-if” scenarios

Prospective Financial Statements

- **Guiding Principles** (cont'd)
 - Review periodically and revise projections when appropriate – the content must always be current
 - The financial projections must conform to the details presented in the remainder of the business plan – a lack of consistency will indicate carelessness or an incomplete understanding

Prospective Financial Statements

- **Summary of Significant Assumptions**
 - The significant assumptions are the best estimates of the preparer, unlike supporting notes to the historical financial statements which are factual
 - A complete set of compelling and concise assumptions should be developed for all the projections in the plan
 - It is impossible for the investor or lender to understand the projections completely without the disclosure of the key assumptions

Prospective Financial Statements

- **Summary of Significant Assumptions**
 - The assumptions should start with the income statement
 - The most important element in all of the projections is the forecasted sales volume
 - Remember, “what-if” and sensitivity analysis can be very useful

Prospective Financial Statements

■ Cash Flow

- The most critical of all financial projections
- For early stage companies, cash is more critical than profitability (i.e. it is possible to be profitable but have negative cash flow at the same time)
- Similar to historical financial statements, the cash flow projections should be classified by operating, investing and financing activities

Key Terms

- **P&L:** Profit & Loss Statement or Income Statement (starting point for your earnings and expenditures)
- **EBITDA:** Earnings before Interest, Taxes, Depreciation and Amortization (P&L less non-cash items)
- **Cash Burn:** EBITDA plus capital purchases = rate of cash expenditure.
- **Runway:** Amount of cash you have till you run out!
- **Pre/Post-money Valuation:** Value of your business before and after an investor puts money in.

Key Programs

- **SR&ED:** Scientific Research & Experimental Development (Refundable Tax Credits)
- **EBC:** Eligible Business Corporations (30% refund to investors)
- **NRC-IRAP:** National Research Council- Industrial Research Assistance Program (up to 75% of R&D staff costs)

Business Modeling

- **Keep it Simple!**
 - Numbers instrumental in telling the story
 - Revenues vs “Eyeballs”
 - Believable... test using your network!
 - Costs should focus on R&D and S&M
 - It always costs more than you think and takes twice as long but stick to what you think- VC will double for you!

Business Modeling

- **Opportunity Analysis:**
 - Industry Statistics- Google!
 - Calculate the Size of your Target Market- ex. \$1 billion
 - “Story” to “Market Take” Ratio- 5-10% of Target Market
 - Rate of Growth Analysis- Cost structures
 - Valuation Analysis- Support your value
 - Discounted cash flows 5x or 20% NPV (Risk)
 - Comparable pubco's

Business Modeling

- **Business Model (Revenue Model):**
 - Who's going to buy what you're selling?
 - What price are you going to charge?
 - How does this compare to competitors?
 - When do the sales happen?
 - Customer acquisition costs?
 - Customer support costs?

Business Modeling

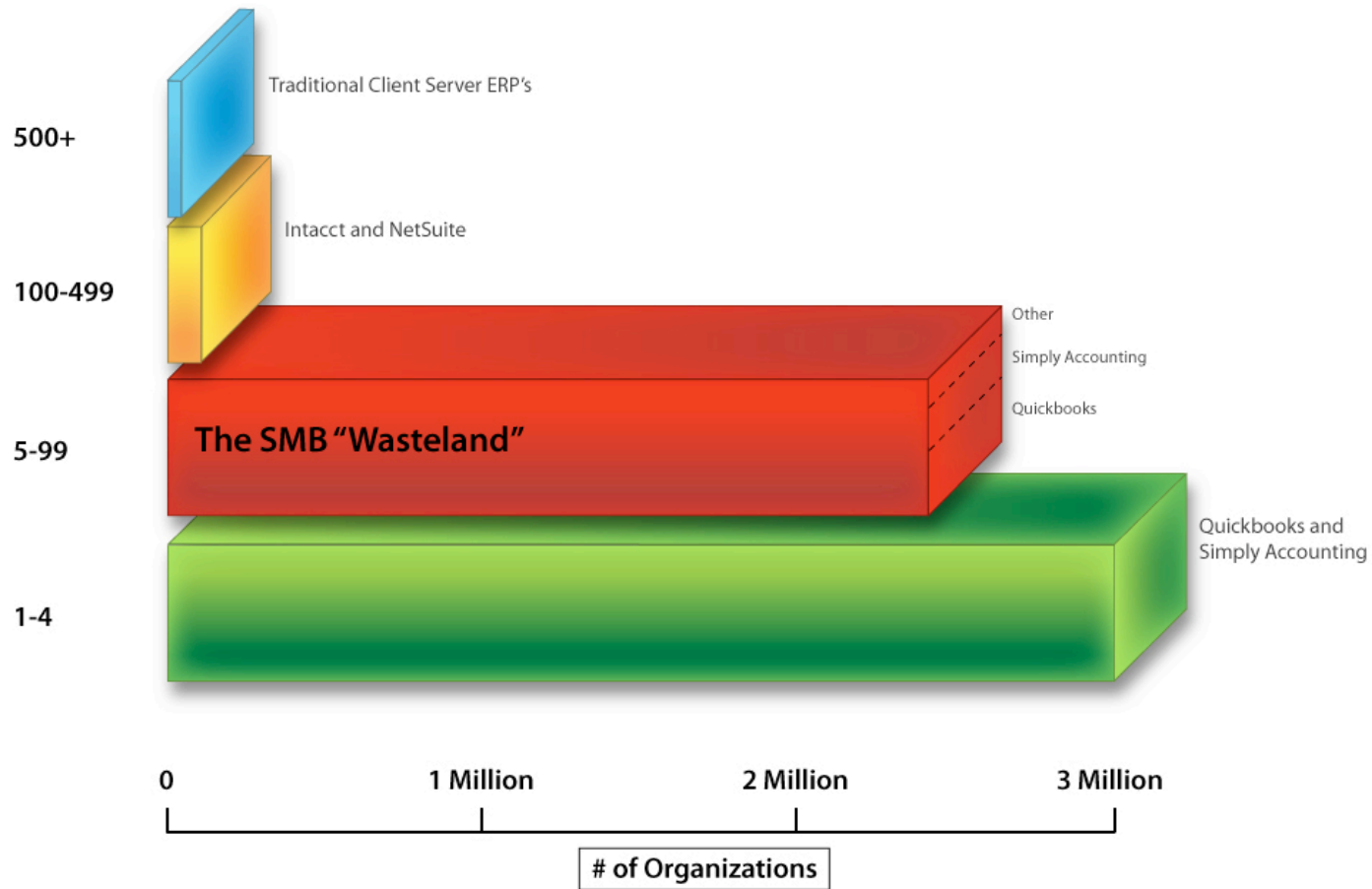
- **Business Model (Eyeballs Model):**
 - Who's going to visit your site and why?
 - How fast is this going to grow?
 - How does this compare to competitors?
 - When do you get bought and by whom?
 - Cost structuring for rapid growth?
 - Customer support costs?

Case Study: QCDocs Systems Inc.

- QCDocs- **“The Small Business ERP”**
- Streamlines Expense Reporting, Time Tracking, Vacation Tracking, Bookkeeping, Reporting and Audit
- On-Demand (SAAS) technology to help startups deal with compliance and key processes!
- Build your business not your back office!

Opportunity Analysis

Employees



Be able to backup your numbers!

	US 2003 Census	Cnd 10%	Total	Portal Users/ Org Avg # Total #	Desktop Users/Org Avg # Total #	License Revenue	Monthly /Org
0	770	77	847	-	1 847	\$ 4,235	\$ 5
1-4	2,734	273	3,007	-	1 3,007	\$ 15,037	\$ 5
	3,504	350	3,854		3,854	\$ 19,272	\$ 5
				Bookkeeper ERP	Monthly	\$ 19,272	\$ 5
					Annual	\$ 231,264	\$ 60
5-9	1,025	103	1,128	7 7,893	1 1,128	\$ 67,650	\$ 60
10-19	620	62	682	14 9,548	2 1,364	\$ 81,840	\$ 120
20-99	515	52	567	65 36,823	4 2,266	\$ 240,763	\$ 425
	2,160	216	2,376	54,263	4,758	\$ 390,253	\$ 164
100 - 499	85	9	94	SME ERP	Monthly	\$ 390,253	\$ 164
500 +	17	2	19		Annual	\$ 4,683,030	\$ 1,971
Total	5,766	577	6,343			<u>\$ 4,914,294</u>	

Revenue Model

Pro-forma											2008
		Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	
Licensing											
	Avg \$										
Bookkeeping & Accounting Firms	\$ 50	100	200	300	500	600	700	750	800	800	4,750
#		2	4	6	10	12	14	15	16	16	16
Startup and Tech Companies	\$ 50	1,350	1,500	1,750	2,000	2,500	3,000	3,500	4,000	4,500	24,350
#		27	30	35	40	50	60	70	80	90	90
Services and Manufacturing	\$ 200	4,400	6,000	8,000	10,000	12,000	13,000	14,000	15,000	15,000	97,900
#		22	30	40	50	60	65	70	75	75	75
Not for Profit	\$ 150	300	450	600	750	900	1,050	1,200	1,350	1,500	\$ 8,400
#		2	3	4	5	6	7	8	9	10	
Pubco's	\$ 250	2,250	2,500	2,500	2,750	2,750	3,000	3,250	3,500	3,750	\$ 26,375
#		9	10	10	11	11	12	13	14	15	15
Total Licensing Revenues		\$ 8,400	\$ 10,650	\$ 13,150	\$ 16,000	\$ 18,750	\$ 20,750	\$ 22,700	\$ 24,650	\$ 25,550	\$ 161,775
#		62	77	95	116	139	158	176	194	206	206
Implementations (Bookings)											
	Avg \$										
Bookkeeping & Accounting Firms	\$ 2,500	-	5,000	5,000	10,000	5,000	5,000	2,500	2,500	-	35,000
#		-	2	2	4	2	2	1	1	-	
Startup and Tech Companies	\$ 1,000	1,000	2,000	3,000	5,000	10,000	10,000	10,000	10,000	10,000	64,500
#		1	2	3	5	10	10	10	10	10	
Services and Manufacturing	\$ 2,500	-	2,500	1,000	2,000	2,000	1,000	1,000	1,000	-	13,700
#		-	1	5	10	10	5	5	5	-	
Not for Profit	\$ 2,500	-	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	\$ 22,500
#		-	1	1	1	1	1	1	1	1	1
Pubco's	\$ 10,000	2,500	-	-	10,000	-	10,000	10,000	10,000	10,000	\$ 57,500
#		-	-	-	1	-	1	1	1	1	1
		\$ 3,500	\$ 12,000	\$ 11,500	\$ 29,500	\$ 19,500	\$ 28,500	\$ 26,000	\$ 26,000	\$ 22,500	193,200

Three Year Projection

	2008	2009	2010
Customers	200	1,065	4,200
Revenues			
Licensing	140,375	941,350	4,257,000
Services/ Implementation	467,100	666,875	871,450
	607,475	1,608,225	5,128,450
Expenses			
Sales and Marketing	422,604	1,198,631	1,974,610
Research and Development	272,950	476,950	595,300
NRC/SR&ED	(148,050)	(243,000)	(300,600)
General and Administration	181,041	316,396	403,200
Profit (loss)	(121,070)	(140,751)	2,455,940
Capital Additions	(35,000)	(45,000)	(75,000)
Financing	500,000	2,000,000	-
Cash	724,210	4,352,708	9,114,589
Employees	5	8	22
S&M	5	10	13
R&D	3	5	6
G&A	2	3	3

Valuations Modeling

		Founders		Friends & Family Round		Angel Round		VC	
		Shares		Shares		Shares		Shares	
CEO		50%	2,500,000	42%	2,500,000	31%	2,500,000	22%	2,500,000
CTO		40%	2,000,000	33%	2,000,000	25%	2,000,000	17%	2,000,000
Founding Advisors		10%	500,000	8%	500,000	6%	500,000	1%	125,000
F&F	\$100,000			17%	1,000,000	13%	1,000,000	9%	1,000,000
Angel	\$500,000				\$ 0.10	25%	2,000,000	17%	2,000,000
VC	\$2,000,000						\$ 0.25	34%	4,000,000
								\$ 0.50	
		100.0%	5,000,000	100%	6,000,000	100%	8,000,000	100%	11,625,000
Valuation- post money		Nil		\$ 600,000		\$ 2,000,000		\$ 5,812,500	
Pre-money				\$ 500,000		\$ 1,500,000		\$ 3,812,500	

Milestones:	Idea	Business Plan		Beta		\$250,000 in Sales	
Options Pool		10%	600,000	15%	1,200,000	20%	2,325,000

Find comparative with recent \$2.2B IPO

	Year Ended December 31,					Nine Months Ended September 30,	
	2002	2003	2004	2005	2006	2006	2007
	(In thousands, except per share data)						
Condensed Consolidated Statements of Operations Data:							
Revenue	\$ 3,136	\$ 8,345	\$ 17,684	\$ 36,356	\$ 67,202	\$ 47,013	\$ 76,807
Cost of revenue ⁽¹⁾	5,280	5,871	8,191	15,607	22,993	16,458	24,183
Gross profit (loss)	(2,144)	2,474	9,493	20,749	44,209	30,555	52,624
Operating expenses:							
Product development ⁽¹⁾	6,424	7,507	8,016	24,780	20,690	15,270	18,713
Sales and marketing ⁽¹⁾	9,864	15,415	26,963	39,179	43,892	31,685	41,906
General and administrative ⁽¹⁾	3,485	2,181	3,068	13,685	14,619	10,482	12,297
Total operating expenses	19,773	25,103	38,047	77,644	79,201	57,437	72,916
Operating loss	(21,917)	(22,629)	(28,554)	(56,895)	(34,992)	(26,882)	(20,292)
Other income (expense), net, including the effect of minority interest and income taxes	(169)	(117)	(1)	(769)	(730)	(723)	(332)
Net loss	\$ (22,086)	\$ (22,746)	\$ (28,555)	\$ (57,664)	\$ (35,722)	\$ (27,605)	\$ (20,624)
Net loss per common share, basic and diluted	\$ (42.47)	\$ (43.00)	\$ (41.26)	\$ (27.99)	\$ (6.42)	\$ (5.08)	\$ (2.60)
Weighted average number of shares used in computing basic and diluted net loss per common share	520	529	692	2,060	5,567	5,434	7,922
Pro forma net loss per common share, basic and diluted					\$ (0.71)		\$ (0.39)
Weighted average number of shares used in computing pro forma basic and diluted net loss per common share					50,244		52,599

- www.sedar.com
- www.sec.gov

Concluding Remarks

- **Investors put the financial data under considerable scrutiny.**
- **If the numbers don't "add up", the business's credibility will suffer.**
- **It is very important to have someone with sufficient financial expertise on your management team.**



Questions

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