

New Ventures BC

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Financial Modeling

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new ventures BC



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Structuring for Success

Structuring to Win NVBC

- Hot space, huge potential and great story!

The Bootstrap Model- “Reality Check”

- 1 in 100 companies get VC financing
- 2 out of 10 VC financed companies make it
- Dragon’s den is entertainment not to foster successful startups!
- Focus on solving a real problem and making a profit

Top 10 words of wisdom...

1. Incorporate - simple reverse vesting common shares
2. Raise your first \$25k from friends and family
3. Get good at expense reporting (separate self from Inc.)
4. Register immediately to get your HST back!
5. Build real SR&ED and optimize Proxy rules

Top 10 words of wisdom...

6. Register as an EBC (30% incentive for BC angel investors)
7. Leverage the NRC-IRAP and other Gov't programs
8. Angel circuit- links to customers and maybe even \$
9. Find “customers” who will “help” build your product
10. Build partnerships and networks early

Financial Modeling

What to include? (Historic + 3-5 years projected)

- Income Statement- Profit and Loss
- Balance Sheets- Assets, Liabilities & Equity
- Cash flows and Burn/Runway
- Opportunity Analysis
- **List of Assumptions**
- Capitalization table

Financial Modeling

Keep it Simple!

- Focus on Revenues
- Numbers instrumental in telling the story
- Believable... test using your network!
- Test the angel networks and VC's
- Costs should focus on R&D and S&M

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?

Business Modeling

Business Model (Technical Model):

- What trend is hot?
- Who will acquire you and when?
- Need technical excellence!
- Need investors in your field and with connections
- \$1 Million per engineer

Opportunity Analysis

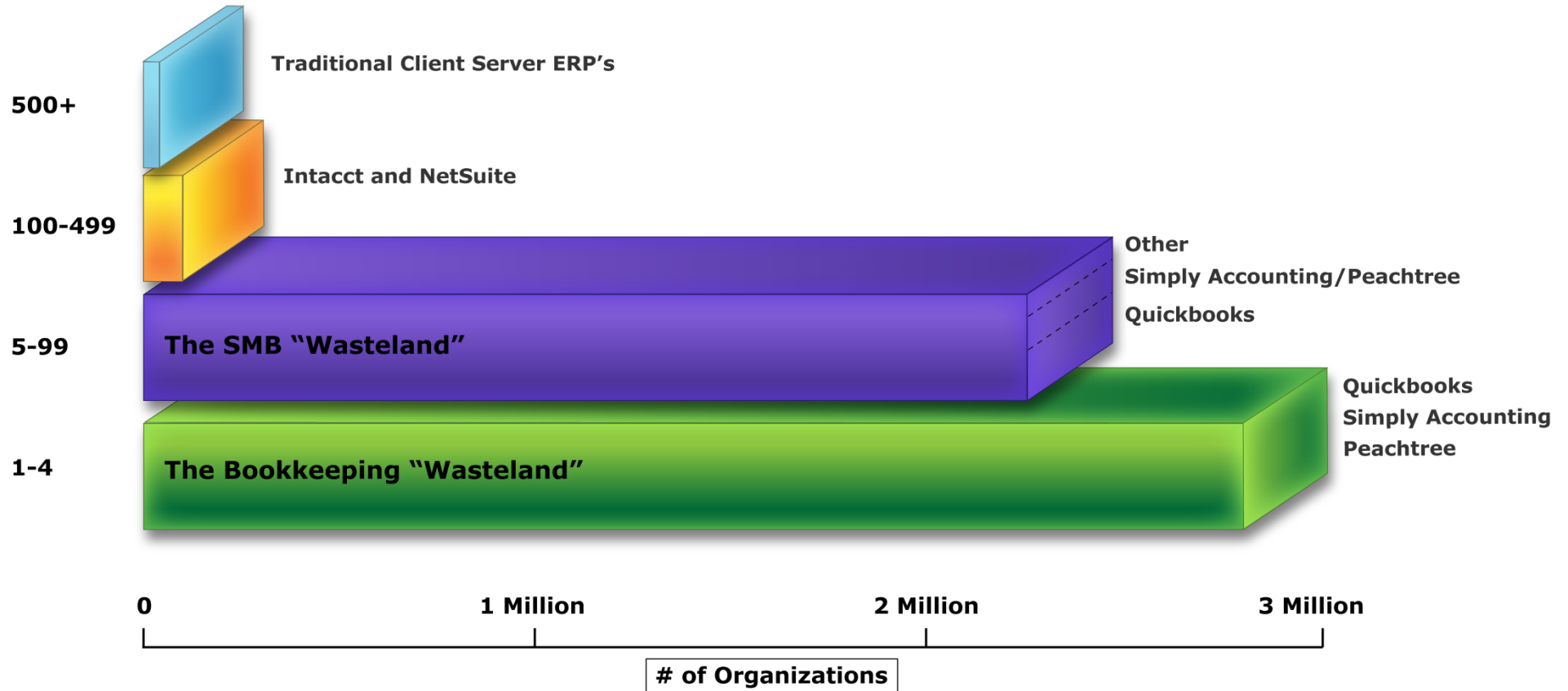
- Calculate the Size of your Target Market
 - ex. \$1 billion (US Census * Your price)
- “Story to Market Take” Ratio
 - 5-10% of Target Market (How good is your story?)
- Rate of Growth Analysis
 - Key metrics- customer acquisition costs (Don't guess)
- Valuation Analysis- Support your value
 - Discounted cash flows 5x or 20% NPV (Risk)

Case Study: QCDocs Systems Inc.

- Paperless Office Solution
- Streamline document capture, approval, processing & filing
- Enables anywhere bookkeeping & compliance systems
- Standardize back office processes and approvals (Expenses, PO's, SO's, vacation, time tracking, etc)
- Bookkeepers, Accounting Departments, Mortgage Conveyance

Opportunity Analysis

Employees



Be able to backup your numbers!

	# Employees	North American Market (In Thousands)	Monthly Subscription (Monthly/Annual)	Total Monthly Subscription
Bookkeepers	0-4	3,854	\$10	39M
			Annual: \$120	463M
Small Businesses	5-99	2,376	\$150	356M
			Annual: \$1,800	4,277M
North American Annual Market Opportunity				\$4.7 Billion

Projections

	Actual 2007	Proforma 2008	2009	2010	2011	2012
Customers	45	100	750	2,250	4,500	10,000
Revenues						
Subscriptions	-	27	785	3,295	7,068	15,599
Services	119	170	1,119	2,399	3,579	8,312
	\$119	\$197	\$1,904	\$5,694	\$10,647	\$23,911
Expenses						
S&M&I	24	183	1,621	3,113	4,365	7,244
Net R&D	34	127	554	750	798	886
G&A	47	107	339	564	717	849
	105	417	2,514	4,427	5,880	8,979
Profit (loss)	\$14	\$(220)	\$(615)	\$1,267	\$4,766	\$14,932
Financing	\$ -	\$500	\$2,000	\$ -	\$ -	\$ -

Structure/Valuations Modeling

			Founders Shares		1st Round Shares		2nd Round Shares		3rd Round Shares	
CEO			50%	2,500,000	38%	2,500,000	29%	2,500,000	20%	2,500,000
CTO			40%	2,000,000	30%	2,000,000	23%	2,000,000	16%	2,000,000
Advisors			10%	500,000	8%	500,000	6%	500,000	4%	500,000
F&F&F	\$160,000	\$0.10			24%	1,600,000	19%	1,600,000	13%	1,600,000
Angel	\$500,000	\$0.25					23%	2,000,000	16%	2,000,000
VC	\$2,000,000	\$0.50							32%	4,000,000
			100.0%	5,000,000	100%	6,600,000	100%	8,600,000	100%	12,600,000
Valuation- post money						\$ 660,000		\$ 2,150,000		\$ 6,300,000
Pre-money						\$ 500,000		\$ 1,650,000		\$ 4,300,000
Milestones:			Idea		Alpha		Beta		\$250,000 in Sales	
Options Pool					10%	660,000	15%	1,290,000	20%	2,520,000

Concluding Remarks

- **New Ventures- Listen and learn!**
- **Your financial model is a critical framework to build your business**
- **Focus on the customer and generating revenue**
- **Don't be afraid to fail!**



Questions

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