



# Basic Finance for Start-Ups

New Ventures BC

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# Presenters

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# Topics

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- ▶ Sources of Financing
- ▶ Investment Structures
- ▶ Preparing for Financing – The Business Plan
- ▶ Other Things to Consider

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# Sources of Financing

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Types of Investors Include:

- ▶ Yourself (Founder)
- ▶ Family & Friends
- ▶ Angel Investors
- ▶ Venture Capital
- ▶ Banks & Financial Institutions
- ▶ Public Markets & Other Institutional Investors
- ▶ Government Incentive Programs

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## Sources of Financing cont'd

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Angel Investors – What are they?:

- ▶ High Net Worth Individuals (either alone or in groups)
- ▶ Have an interest in supporting certain industries, technology or people
- ▶ Investment method and involvement can vary from completely passive to completely hands on

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## Sources of Financing cont'd

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### Venture Capital:

- ▶ Pools of capital raised for targeted investment purposes
- ▶ Seeking high growth / high return
- ▶ Focus on early stage opportunities to maximize upside
- ▶ Active involvement and management of investment
- ▶ Long investment cycle (generally 5 plus years)
- ▶ Structure of investment generally reflects the high risk associated

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## Sources of Financing cont'd

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### Banks & Financial Institutions:

- ▶ Focused on secure lending with collateral (business or personal)
- ▶ Finite timeline for repayment
- ▶ Generally not involved in the early rounds
  - ▶ Exception – See Government Incentives

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# Sources of Financing cont'd

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## Government Incentive Programs:

- ▶ Multiple Programs to Consider
  - ▶ Scientific Research & Experimental Development (SRED)
  - ▶ Industry Specific Programs
  - ▶ National Research Council
  
- ▶ Free Money – Explore every opportunity
- ▶ Banks like government programs



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## Sources of Financing cont'd

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Investment Life Cycle:



Government Incentives

Self Financing
Family & Friends
Angel Investors
Venture Capital
Banks & Financial Institutions
Public Markets

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# Investment Structures

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There are Various Ways to Structure an Investment in Your Business:

- ▶ Equity
- ▶ Debt
- ▶ Hybrid Instruments
- ▶ Other

The Key Issue is Risk Versus Reward.

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# Investment Structures cont'd

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## Equity Investments

### ▶ Common Shares

- ▶ Residual ownership stake in the company
- ▶ Can be voting or non-voting, generally voting
- ▶ Generally highest risk versus reward

### ▶ Preferred Shares

- ▶ Takes preference over common shares
- ▶ Can be voting or non-voting, generally non-voting
- ▶ Upside is usually limited to fixed dividends ,possibly cumulative

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# Investment Structures cont'd

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## Debt Instruments:

- ▶ Investor is a lender not an owner
- ▶ Rank ahead of shareholders in security
- ▶ Can be subordinate or senior to other debt
- ▶ Some flexibility in payment terms
- ▶ Covenants and repayment requirements can hinder flexibility
- ▶ Generally collateral must be provided

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# Investment Structures cont'd

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## Hybrid Instruments:

- ▶ Typical in early stage start-ups
- ▶ Provide security over assets with upside of ownership
- ▶ Can take many forms

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# Investment Structures cont'd

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## Other Investments:

- ▶ Warrants and Options
  - ▶ Usually a rider to a larger investment
  - ▶ Provides ability to invest at a future point at a fixed price
  
- ▶ Performance Clauses
  - ▶ Royalties – “Shark Tank Example”
  - ▶ Ratchet clauses – fixes return at predetermined rate

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# Preparing for Financing – The Business Plan

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A business plan is a formal statement of the business' goals and its plan for reaching those goals.

- ▶ Crucial decision making tool for investors
- ▶ Demonstrates your understanding of the market, including opportunities and challenges
- ▶ Should be targeted to specific investors
- ▶ Must be polished, complete and kept up to date

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# Preparing for Financing – The Business Plan

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Start Up Business Plans Typically Include:

- ▶ Executive summary
- ▶ Business description
- ▶ Analysis of the business environment
- ▶ Industry background
- ▶ Market and competition analysis
- ▶ Risks and threats
- ▶ Marketing plan
- ▶ Financial plan



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# Preparing for Financing – The Business Plan

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A financial plan may include:

- ▶ Historical financial statements
- ▶ Financial forecasts
- ▶ Cash flow projections
  - ▶ Operating costs
  - ▶ Capital expenditures
  - ▶ REVENUES
  - ▶ Timing of cash needs
  - ▶ Being cash flow positive

# Operating Budget Forecast - Example

	Q1	Q2	Q3	Q4	2013	2014	2015
<b>Revenues</b>	<b>\$20</b>	<b>\$30</b>	<b>\$40</b>	<b>\$50</b>	<b>\$140</b>	<b>\$200</b>	<b>\$300</b>
<b>Expenses</b>							
<i>Variable</i>	(5)	(10)	(15)	(20)	(50)	(75)	(125)
<i>Fixed</i>	(10)	(10)	(10)	(10)	(40)	(50)	(75)
	<u>5</u>	<u>10</u>	<u>15</u>	<u>20</u>	<u>50</u>	<u>75</u>	<u>100</u>
<b>Finance &amp; Other</b>	(2)	(2)	(2)	(2)	(8)	(8)	(10)
<b>Net Income</b>	<u>\$ 3</u>	<u>\$ 8</u>	<u>\$ 13</u>	<u>\$ 18</u>	<u>\$ 42</u>	<u>\$ 67</u>	<u>\$ 90</u>

# Operating Cashflow Forecast – Example #1

	Q1	Q2	Q3	Q4	2013	2014	2015
<b>Revenues</b>	\$ 20	\$ 30	\$ 40	\$ 50	\$ 140	\$ 200	\$ 300
<b>Expenses</b>							
<i>Variable</i>	(5)	(10)	(15)	(20)	(50)	(75)	(125)
<i>Fixed</i>	(10)	(10)	(10)	(10)	(40)	(50)	(75)
<b>Net Operations</b>	5	10	15	20	50	75	100
<b><u>Other Outflows</u></b>							
Finance & Other	(2)	(2)	(2)	(2)	(8)	(8)	(10)
Capital Expenditures	(5)	-	(10)	(10)	(25)	(10)	(15)
Principal Repayment	-	-	-	(50)	(50)	(25)	(25)
<b>Total Outflows</b>	(7)	(2)	(12)	(62)	(83)	(43)	(50)
<b><u>Other Cash Inflows</u></b>							
Initial Investment	100	-	-	-	100	-	-
<b>Net Cash Flow</b>	\$ 98	\$ 8	\$ 3	\$ (42)	\$ 67	\$ 32	\$ 50
<b>Cash, Opening</b>	25	123	131	134	134	92	124
<b>Cash Closing</b>	\$ 123	\$ 131	\$ 134	\$ 92	\$ 92	\$ 124	\$ 174

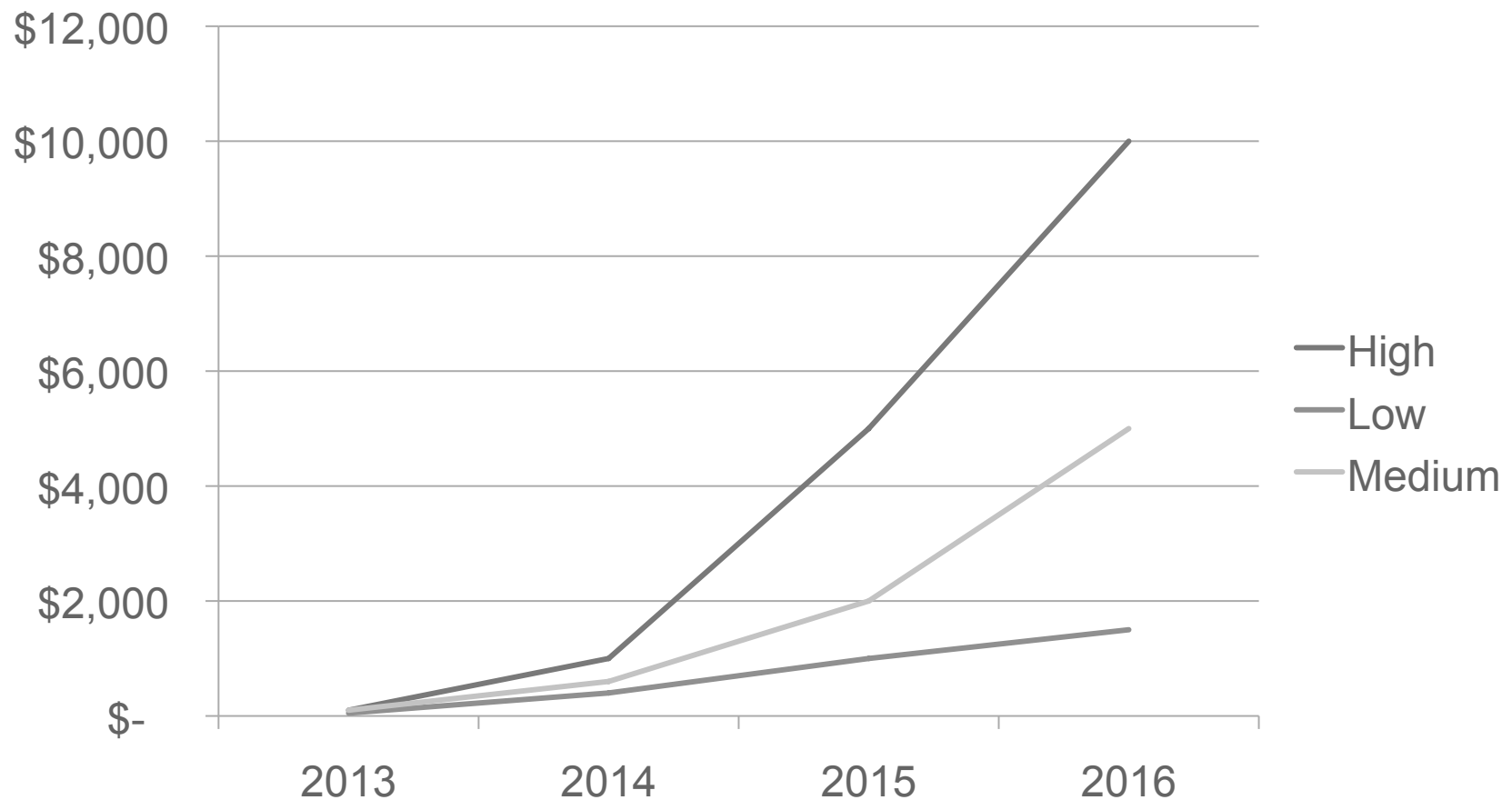
# Operating Cashflow Forecast - Example #2

	Q1	Q2	Q3	Q4	2013	2014	2015
<b>Revenue Collections</b>	\$ -	\$ -	\$ 20	\$ 20	\$ 40	\$ 300	\$ 300
<b>Expenses</b>							
<i>Variable</i>	(5)	(10)	(15)	(20)	(50)	(75)	(125)
<i>Fixed</i>	(10)	(10)	(10)	(10)	(40)	(50)	(75)
<b>Net Operations</b>	(15)	(20)	(5)	(10)	(50)	175	100
<b><u>Other Outflows</u></b>							
Finance & Other	(2)	(2)	(2)	(2)	(8)	(8)	(10)
Capital Expenditures	(5)	-	(10)	(10)	(25)	(10)	(15)
Principal Repayment	-	-	-	(50)	(50)	(25)	(25)
<b>Total Outflows</b>	(7)	(2)	(12)	(62)	(83)	(43)	(50)
<b><u>Other Inflows</u></b>							
Initial Investment	100	-	-	-	100	-	-
<b>Net Cash Flow</b>	\$ 78	\$ (22)	\$ (17)	\$ (72)	\$ (33)	\$ 132	\$ 50
<b>Cash, Opening</b>	25	103	81	64	64	(8)	124
<b>Cash Closing</b>	\$ 103	\$ 81	\$ 64	\$ (8)	\$ (8)	\$ 124	\$ 174

# Revenue Model - Example



# Revenue Model – Sensitivity Analysis - Example



# Revenue Model – Scrutiny Analysis Example

## Box Office Revenue

	2011	2012	
Adventures of Tin Tin	77,591,831	103,000,000	Rise of the Guardians
Arthurs Christmas	46,000,000	189,000,000	Wreck-it Ralph
Happy Feet 2	64,000,000	148,000,000	Hotel Transylvania
Puss In Boots	149,000,000	161,000,000	Ice Age
Cars 2	191,000,000	237,000,000	Brave
Kung Fu Panda	165,000,000	216,000,000	Madagascar 3
Hoodwinked 2	10,000,000	214,000,000	Dr. Seus The Lorax
Rio	143,000,000		
Mars Needs Mom	21,300,000		
Rango	123,000,000		
Gnomeo & Juliet	99,000,000		
<b>Total</b>	<b>\$ 1,088,891,831</b>	<b>\$ 1,268,000,000</b>	
<b>Average</b>	<b>\$ 98,990,166</b>	<b>\$ 181,142,857</b>	
<b>Low</b>	<b>\$ 98,990,166</b>		
<b>Medium</b>	<b>\$ 140,066,512</b>		
<b>High</b>	<b>\$ 181,142,857</b>		

# Revenue Model – Scrutiny Analysis Example

Box Office Revenue		
	2011	2012
Adventures of Tin Tin	77,591,831	103,000,000
Arthurs Christmas	46,000,000	189,000,000
Happy Feet 2	64,000,000	148,000,000
Puss In Boots	149,000,000	161,000,000
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Kung Fu Panda	165,000,000	216,000,000
Hoodwinked 2	10,000,000	214,000,000
Rio	145,000,000	
Mars Needs Mom	21,300,000	
Rango	123,000,000	
Gnomeo & Juliet	99,000,000	
Total	\$ 1,088,891,831	\$ 1,268,000,000
Average	\$ 98,990,166	\$ 181,142,857
Low	\$ 98,990,166	
Medium	\$ 140,066,512	
High	\$ 181,142,857	
REVISED ESTIMATE		\$ 15,650,000



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# Preparing for Financing – The Business Plan

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Key points when preparing financial information

- ▶ Revenue projections: Provide clear target assumptions, avoid the standard “Hockey Stick” without clear milestones and targets
- ▶ Sensitivity Analysis: A Low-Med-High analysis of targets demonstrates management has fully analysed the market
- ▶ Cash Flow: Ensure the cash flow timing versus accounting projections is factored in
- ▶ Exit Timing: Depending on the type of investment, provide an exit strategy that the investor can see

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## Other Things to Consider

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- ▶ How much money do you need?
- ▶ Do you have an exit strategy?
- ▶ What kind of financial statements would potential investors want to see?
- ▶ Should you set up a family trust?
- ▶ Consult with professionals

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# Questions

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▶ Questions???????

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