New Ventures
BC 2021

April 29, 2021

Financial Models 101

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TANDEM
Innovation Group Inc.

Red Thread
VENTURES

Some tips for competition

- NVBC is a great experience- deliverables and deadlines are helpful motivators
- Don't worry about winning- It is just a nice bonus!
- Get a good editor and keep it clear and professional
- Be real (Use case study example)
- Be a confident thought leader
- Tell an interesting story (Ted Talk)
- **The financial model is critical and is generally the lowest scoring category in the competition**
- Don't be afraid to ask for help- it leads to opportunities- both sales and investment

Financial Model

What to include? (Historic + 3-5 years **"Projections")**

What will my business finances look like in the future if you invest today?

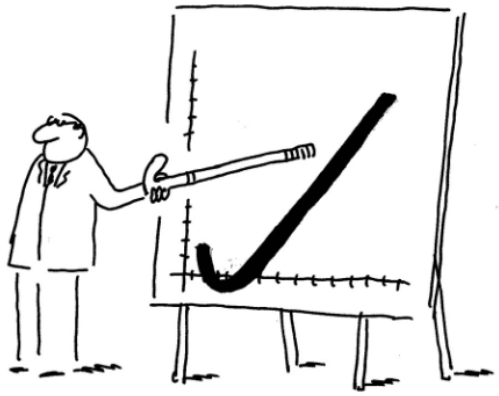
(GAAP/IFRS- but you don't need to be an accountant!)

Balance Sheets
Profit and Loss
Cash flows

Build in excel: Bottom up and Top down- Monthly to Annual

Key Performance Indicators and Milestones

Financial model drives your valuation- convert idea to cash



Key Terms

GAAP (IFRS) and Non-GAAP KPI's (**Key Performance Indicators and Milestones**)

Understand "Revenue" versus "Sales"

Burn Rate – the net cash expenditures per month

Spend Rate- the gross cash expenditures per month

Runway - the number of months left until you run out of cash

EBITDA- Earnings before Interest, Tax, Depreciation and Amortization (approximates the Burn)

Post-Money Value (fully diluted) (Calculate this first)

Pre-Money Value (fully diluted) (subtract funds raised plus exercise cash)

Keys to Good Financial Modeling

Keep it Simple and Understandable:

- **Step 1- Opportunity Analysis**
- **Step 2- Sales to Revenue to Cash**
- **Step 3- Gross Margin- how much profit on each sale**
- **Step 4- KPI's, milestones and Valuation**
- **Case studies** are ideal for financial model- provides clear perspective
- **Believability**… shows your knowledge of magnitude of the "problem" and how to finance a solution and profit

Example- Elegantly simple

We take low-value raw materials, such as cranberry pomace, and transform them into high-value bioactive extracts.

Cranberry Pomace:
1 tonne = $1K cost

Extraction uses our Patented Pressurized Low Polarity Water (PLPW) process - PhytoClean™

Simple, high margin financial model
Margins (by product) range from 65 to 75%

Produces Cranberry Extract:
42kg of 8% Bioactive extract = $6K revenue

Step 1- Opportunity Analysis

- Everyone has a billion $ opportunity – prove it!
- Reference your sources but apply your specific story to the target market opportunity
- 5-10% of Target Market but why…?
- Better marketing? Cooler Product? Cheaper product? Get clever!
- Rate of Growth- Be Realistic (Sensitivities)
- What competitive advantages do you have that will unlock this opportunity:
  - Team
  - Novel Idea/ Patents
  - First mover
  - Traction

Step 2- Sales to Revenue to Cash

B2C- Retail? Online?

B2B- Services? Products? Franchise? License? Combo?

- Who's going to buy what you're selling and when?
- What price are you going to charge and why?
- How does this compare to competitors?
- Why should the customer buy? (IRR)
- When does the sale, revenue and cash happen?

Step 3- Gross Margins

Answer the simple stuff

- What does it cost to deliver what you're selling per unit?
- How are positioning your product? Outsource? Software? Services?
- How do you drive down variable costs and increase margins? Economies of scale.
- Other innovative ways to compete that overlap into your financial model
- Gross margin trending
- Product and Service mix or trends

Step 4- KPI's, milestones and Valuation

KPIs and Milestones:

- Customer acquisition costs (CAC)?
- Customer Sat – Churn rate– Recurring/Repeat customers
- Renewal rates – Lifetime Value – Exit Value
- Launch, Break-even, Runway, etc

Value is a Sum of the Parts:

Team, Tech, Opportunity, Risk

Valuation Analysis- Support your value

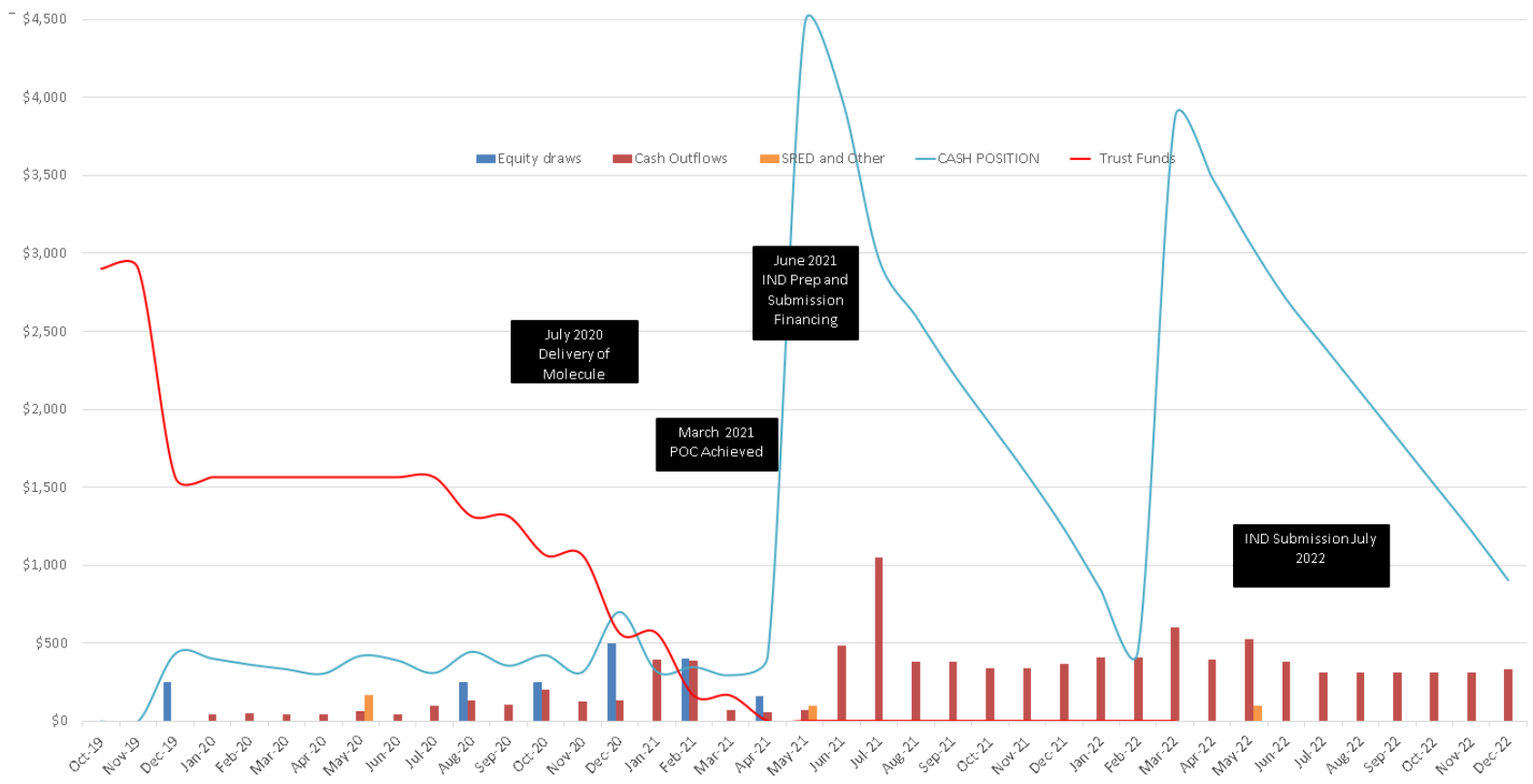
- Discounted cash flows 5x or 20% NPV (Risk) compare to GIC

Example- Projections

ABC
FOUR YEAR PROJECTED STATEMENTS OF PROFIT AND LOSS
Consolidated
(in Canadian Dollars)
(Unaudited)

	Actuals 2017		Actuals 2018		Actuals 2019		Projections 2020		Projections 2021		Projections 2022		Projections 2023	
REVENUE														
Software subscriptions	-		173,641		161,394		106,000		234,000		555,750		1,068,000	
Training and events	113,562		74,698		171,060		626,834		1,427,362		2,395,000		3,831,148	
Contract development work	126,455		108,228		78,313		125,500		279,750		520,500		940,500	
TOTAL REVENUE	240,017		356,567		410,767		858,334		1,941,112		3,471,250		5,839,648	
LESS COST OF REVENUE														
Software osts	-		51,999		14,184		9,400		26,000		54,750		91,200	
Training and events costs	85,172		26,144		53,440		170,800		372,800		604,600		947,400	
Contract development work costs	94,841		81,171		31,162		79,560		176,190		327,420		591,660	
TOTAL COST OF REVENUE	180,013		159,314		98,786		259,760		574,990		986,770		1,630,260	
GROSS PROFIT														
Software	-	0%	121,642	70%	147,210	91%	96,600	91%	208,000	89%	501,000	90%	976,800	91%
Training and events	28,391	25%	48,554	73%	117,621	69%	456,034	73%	1,054,562	74%	1,790,400	75%	2,883,748	75%
Contract Development work	31,614	25%	27,057	71%	47,151	60%	45,940	37%	103,560	37%	193,080	37%	348,840	37%
TOTAL GROSS PROFIT	60,004		75,611		164,772		501,974		1,054,562		1,790,400		2,883,748	
OPERATING EXPENSES														
General & Administration	11,465		48,882		45,778		85,044		107,544		145,044		172,544	
Research & Development	267,356		352,906		192,295		246,267		316,467		426,627		484,947	
Research & Development Tax Credits	(124,000)		(141,162)		(76,918)		(98,507)		(126,587)		(170,651)		(193,979)	
Sales & Marketing	38,101		32,005		119,495		154,400		211,400		246,400		296,400	
Facilities	18,279		31,152		25,378		36,000		58,200		83,400		106,200	
TOTAL OPERATING EXPENSES	$ 211,201		$ 323,782		$ 306,028		$ 423,204		$ 567,024		$ 730,820		$ 866,112	
INCOME (LOSS) FROM OPERATIONS	$ (151,196)		$ (248,171)		$ (141,256)		$ 78,770		$ 487,538		$ 1,059,580		$ 2,017,636	
NON-OPERATING REVENUES														
Total Government Funding ‡	2,700		20,510		-		-		-		-		-	
OTHER INCOME/EXPENSES														
Amortization	(2,563)		(5,275)		(6,594)		(8,242)		(10,303)		(12,878)		(16,098)	
INCOME (LOSS) BEFORE INCOME TAX	$ (151,059)		$ (231,528)		$ (147,850)		$ 70,527		$ 477,235		$ 1,046,701		$ 2,001,538	
Tax Provision (after loss carryforwards)	-		-		-		-		-		136,071		520,400	
INCOME (LOSS)	(151,059)		(231,528)		(147,850)		70,527		477,235		910,630		1,481,138	
R&D Assets	$ 7,328		$ 15,559		$ 29,000		$ 25,199		$ 30,449		$ 40,949		$ 57,442	
Total Assets	$ 7,328		$ 15,559		$ 29,000		$ 33,599		$ 40,599		$ 54,599		$ 76,589	
R&D Expenses (plus 50% of Facilities)	$ 276,496		$ 368,482		$ 204,984		$ 264,267		$ 345,567		$ 468,327		$ 538,047	
Non-R&D Expenses	$ 58,705		$ 96,463		$ 177,962		$ 257,444		$ 348,044		$ 433,144		$ 522,044	
Total Expenses	$ 335,201		$ 464,945		$ 382,946		$ 521,711		$ 693,611		$ 901,471		$ 1,060,091	
EBC Qualifying Ratio:	283,824		384,041		233,984		289,466		376,016		509,276		595,489	
	342,529		480,504		411,946		555,310		734,210		956,070		1,136,680	
	0.83		0.80		0.57		0.52		0.51		0.53		0.52	

Example- Runway



Concluding Remarks

- **Keep it Simple Stupid (KISS)**
- **Enlighten the judges (Know your #'s)**
- **Find a Comparative Public Company- SEDAR.com and EDGAR (sec.gov)**
- **Know your key metrics and build business processes that focus on improving these metrics**
- **Use Google- there are lots of great examples- ie. SAAS Metrics/Retail Metrics, etc.**

Questions

Appendix A- BC Tech Model- 10 Rules

Incorporate - simple reverse vesting common shares for founder teams

Raise your first $25k from friends and family

Get good at expense reporting (separate Self from Inc.)

Register immediately to get your GST back!

Build real SR&ED and optimize Proxy rules

Appendix A- BC Tech Model- 10 Rules

Register as an EBC (30% incentive for BC angel investors)

Leverage the NRC-IRAP, NSERC, etc.

Angel circuit- links to customers and maybe even $

Find customers who will help build your product

Build partnerships and networks early