

New Ventures BC

April 22, 2017

Financial Modeling

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BCIC new VENTURES
COMPETITION

My Background:

Deloitte- Vancouver, PWC- San Jose, CA

Seed Tech CFO/Advisor/Investor 20+ years

- LumiCyte, Med Biogene, BC Advantage Funds,
- Bootup Labs, Quickmobile, Medicenna,
- Mazza Innovation, MetaOptima
- 20 + others as advisor/investor



About Tandem:

Affiliated Network of Independent
CFO's, Controllers and Bookkeepers

7 Contract CFO's

15 Controller/Bookkeepers/Specialists



Contents

- ▶ BC Tech Bootstrap model
- ▶ Financial modeling
- ▶ Business operations
- ▶ What should my financial projections look like...?

Some things to think about...

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- ▶ 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!
- ▶ Find, communicate and solve a real problem
- ▶ NDA's are a signal that there is someone out there better suited to build your business than you!
- ▶ Don't underestimate the importance of services

BC Tech Model

1. Incorporate - simple reverse vesting common shares for founder teams
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 GST back!
5. Build real SR&ED and optimize Proxy rules

BC Tech Model

6. Register as an EBC (30% incentive for BC angel investors)
7. Leverage the NRC-IRAP, NSERC, etc.
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)

(Generally Accepted Accounting Principles)

Unaudited, Prepared by Management

- ▶ **Statement of Operations: Profit and Loss**
- ▶ **Statement of Financial Position: Assets, Liabilities & Equity**
- ▶ **Statement of Cash flows**

Key Financial Terminology

Revenue

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

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)

Financial Modeling

Keep it Simple!

- If you can't build your business in excel... good luck building it for real!?
- 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

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Business Model (Traditional Model):

- Who's going to buy what you're selling?
- What price are you going to charge?
- How does this compare to competitors?
- When does the sale, cash, revenue happen?
- Customer acquisition costs?
- Customer support costs?

Business Modeling

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Business Model (Traditional Model):

- Leads – Opportunities – Proposals – Contracts
- Backlog – Delivery - Invoicing
- Invoicing – Collections - Satisfaction
- Customer Sat – Churn – Recurring/Repeat
- Recurring – Lifetime Value – Exit Value

Business Modeling

Business Model (Eyeballs/Traction 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?

Opportunity Analysis

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- ▶ Calculate the Size of your Target Market
 - ▶ ex. \$1 billion
- ▶ “Story to Market Take” Ratio
 - ▶ 5-10% of Target Market
- ▶ Rate of Growth Analysis
 - ▶ Key metrics- customer acquisition costs
- ▶ Valuation Analysis- Support your value
 - ▶ Discounted cash flows 5x or 20% NPV (Risk)

What should my Financial Projections look like?

- ▶ Find a Comparative Public Company- SEDAR and EDGAR
- ▶ Simple Value Metrics- MI
- ▶ Simple Opportunity Metrics- MO
- ▶ Product Model to Customer Model- QM

- ▶ See Sample Example

Concluding Remarks

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- ▶ New Ventures- Listen and learn
- ▶ Your financial model becomes a framework to build your business
- ▶ Don't underestimate the importance of this model
- ▶ Focus on the customers and generating revenue
- ▶ Don't be afraid to fail!

Cloud Accounting for Startups

Date: Saturday, April 29th from 9:30 am to 1:30 pm

Location: The Profile, #200B - 375 Water Street, Vancouver

Register by Thursday April 27th at: www.picatic.com/Accounting101
& use promo code "**TandemNVBC**" for 50% off

Presented by



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Questions

