

New Ventures BC 2022

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Financial Models 101

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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

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What to include?
(Historic + 3-5 years
“Projections” /
“Proformas”)



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
Assumptions



**Financial model
drives your
valuation- convert
idea to cash**



Financial
Modeling is a
Critical
Process that
never ends!

Keep it Simple and Understandable:

- **Step 1- Opportunity Analysis**
- **Step 2- Sales to Revenue to Cash**
- **Step 3- Key Performance Indicators**
- **Step 4- Gross Margin-** how much profit on each sale
- **Step 5- Milestones and Valuation**
- **Case studies** are ideal for financial model- easier for investor to understand

Step 1- Opportunity Analysis

- This is your chance to truly enlighten us that you know the industry you're in. TEDTalk
- Everyone has a billion \$ opportunity but often fail to model how they will capture some of it.
- Reference your sources but apply your specific story to the target market opportunity
- 5-10% of Target Market but why?
- Better marketing? Cooler/Better Product? Cheaper product? First mover? Get clever!
- Rate of Growth- Be Realistic (Sensitivities)
- What competitive advantages do you have that will unlock this opportunity:



Step 2- Model the Sale

- Who's going to buy what you're selling and when?
- Identify the top 10 customers in advance and show the cycle
- 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- Key Performance Indicators

KPIs and Key Terms

- Head count
- Social Media Metrics
- Customer count
- Customer acquisition costs (CAC)?
- Customer Satisfaction – Churn rate– Recurring customers
- Renewal rates – Lifetime Customer Value
- Break even points

Step 4- Gross Margins

Profit Potential Economics

- How do we price our offerings? Lower cost/premium cost
- What does it cost to deliver what you're selling per unit?
- 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
- Simplicity is ideal here



Step 5- Valuation Milestones and Exit

What is your value?

Net Present Value of all future Cash Flows (Real Value)

Value is a Sum of the Parts:

Team, Tech, Opportunity, Risk

Understand how companies in your industry are valued?

- Multiple of Revenue/Income
- Subscribers, # of Engineers
- ▶ Timelines for key achievements
- ▶ Use of Proceeds
- ▶ When will you get bought/go IPO?

Example- Projections

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COMPANY NAME GOES HERE FOUR YEAR PROJECTED STATEMENTS OF PROFIT AND LOSS (in Canadian Dollars) (Unaudited)												
	Actuals		Actuals		Projections		Projections		Projections		Projections	
	2020		2021		2022		2023		2024		2025	
REVENUE												
Software subscriptions	173,641		161,394		106,000		234,000		555,750		1,068,000	
Training and events	74,698		171,060		626,834		1,427,362		2,895,000		3,831,148	
Contract development work	108,228		78,313		125,500		279,750		520,500		940,500	
TOTAL REVENUE	356,567		410,767		858,334		1,941,112		3,471,250		5,839,648	
LESS COST OF REVENUE												
Software costs	51,999		14,184		9,400		26,000		54,750		91,200	
Training and events costs	26,144		53,440		170,800		372,800		604,600		947,400	
Contract development work costs	81,171		55,233		79,560		176,190		327,420		591,660	
TOTAL COST OF REVENUE	159,314		122,857		259,760		574,990		986,770		1,630,260	
GROSS PROFIT												
Software Subscriptions	121,642	70%	147,210	91%	96,600	91%	208,000	89%	501,000	90%	976,800	91%
Training and events	48,554	65%	117,621	69%	456,034	73%	1,054,562	74%	1,790,400	75%	2,883,748	75%
Contract Development work	27,057	25%	23,080	29%	45,940	37%	103,560	37%	193,000	37%	348,840	37%
TOTAL GROSS PROFIT	75,611		140,701		501,974		1,054,562		1,790,400		2,883,748	
OPERATING EXPENSES												
General & Administration	48,882		45,778		85,044		107,544		145,044		172,544	
Research & Development	352,906		192,295		246,267		316,467		426,627		484,947	
Research & Development Tax Credits (SR&ED)	(141,162)		(76,918)		(98,507)		(126,587)		(170,651)		(193,979)	
Sales & Marketing	32,005		119,495		154,400		211,400		246,400		296,400	
Facilities	31,152		25,378		36,000		58,200		83,400		106,200	
TOTAL OPERATING EXPENSES	\$ 323,782		\$ 306,026		\$ 423,204		\$ 567,024		\$ 730,820		\$ 866,112	
INCOME (LOSS) FROM OPERATIONS	\$ (248,171)		\$ (165,327)		\$ 78,770		\$ 487,538		\$ 1,059,580		\$ 2,017,636	
NON- OPERATING REVENUES												
Total Government funding *	20,510		30,000		30,000		-		-		-	
OTHER INCOME/EXPENSES												
Amortization	(5,275)		(6,594)		(8,242)		(10,363)		(12,878)		(16,098)	
INCOME (LOSS) BEFORE INCOME TAX	\$ (231,528)		\$ (141,921)		\$ 100,527		\$ 477,295		\$ 1,046,701		\$ 2,001,538	
Tax Provision (after loss carryforwards)	-		-		-		-		136,071		520,400	
INCOME (LOSS)	(231,528)		(141,921)		100,527		477,295		910,630		1,481,138	

Concluding Remarks

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- **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