

Overview

- ➤ Financial statements Cash Flow, P&L, Balance Sheet
- > Create a 5-year plan in 3 scenarios (basic, worst, best)
- > Discussion on valuation & funding topics
- > The Farseer journey: interview with Matija
- > Q&A



Profit and Loss Statement

EUR	2020	2019
Net Sales	200.000€	140.000€
Cost of Sales	-205.000€	-153.750€
Gross Profit	- 5.000€	- 13.750€
Gross Margin %	-2,5%	-9,8%
Operating Expenses		- €
Sales & Marketing	- 16.500€	- 11.550€
Research & Development	- 5.000€	- 3.500€
General or Administrative	- 32.000€	- 22.400€
Total Operating Expenses	- 53.500€	- 37.450€
EBITDA (Earnings before Interest, Tax, Depreciation, Amortization)	- 58.500€	- 51.200€
EBITDA Margin %	-29%	-37%
Depreciation & Amortization	- 2.500€	- 1.750€
EBIT (Earnings before Interest and Tax)	- 61.000€	- 52.950€
Interest (over total funding needed)	- 1.000€	- 700€
Financial Cost	- 1.000€	- 700€
EBT (Earnings before tax)	- 62.000€	- 53.650€
Tax	- 10.000€	- 8.000€
Net Income	- 72.000€	- 61.650€

Cash Flow statement.

		Jan-21	Feb-21	Mar-21
Cash In	Cash In Cash from sales Cash collected from debtors Other income Cash from Loans Cash from Investors (Equity sale) Total Cash Inflow			
Cash Out	Cash out for cost of sales Purchases/Materials Licences Hosting Online payment costs Other Total Cost of sales Cash out for Expenses			
	Salaries Lease payments Commisions Repairs & Maintainance Office supplies equipment Advertising & promotions Travelling Accounting Legal Professional services			
	Rent Telephone Internet Utilities Insurance Other Expenses Interest on loans Bank charges VAT+ & VAT- Company income tax Total Cash Expenses			
	Cash Capital payments Dividents Loan repayments Assets purchased Owner cash withdrawls Total Cash Capital payments			
	Total cash outflow			
	Opening Balance Net cash receipts/expenses Closing Balance			

Cash in 41.257 938.612 1.412.67 Cash out 726.840 3.342.544 4.498.50 Cash from investing 0 240.000 480.00 Cash from financing 1.000.000 5.468.000 8.000.00		2021	2022	2023
Cash out 726.840 3.342.544 4.498.50 Cash from investing 0 240.000 480.00 Cash from financing 1.000.000 5.468.000 8.000.00	Cash from operations	-685.583	-2.403.932	-3.085.83
Cash from investing 0 240.000 480.00 Cash from financing 1.000.000 5.468.000 8.000.00	Cash in	41.257	938.612	1.412.673
Tash from financing 1.000.000 5.468.000 8.000.00	Cash out	726.840	3.342.544	4.498.50
3	Cash from investing	0	240.000	480.00
24447	Cash from financing	1.000.000	5.468.000	8.000.000
let cash 314.41/ 2.824.068 4.434.16	Net cash	314.417	2.824.068	4.434.16

Balance Sheet Statement

2020 2019

Current assets

Cash and Cash Equivalents Marketable Securities Accounts Receivable Inventory Prepaid Expenses

Non - current assets

Long term Investments & Funds
Property, Plant, Equipment (PPE)
Intangible Assets
Accumulated Depreciation/Amortization

Total Assets

Current liabilities

Short term debt payable Current portion of long-term debt payable Accounts Payable Current tax liabilities payable

Long-term liabilities

Non - current portion of long-term debt Other long term lease and financing obilgations Deferred Revenue Deferred tax liability

Total Liabilities

Shareholders Equity Capital Net Profit Owners deposits(withdrawls) Retained Earnings

Total Equity

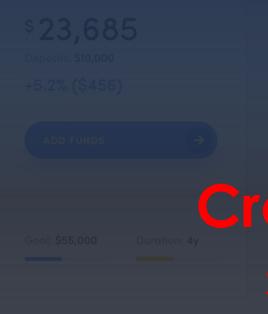
Assets = Liabilities + Equity

How are the statements connected?

Balance sheet	Profit and loss account	Cash flow statement
Fixed assets Buildings Machinery Current assets Accounts receivable Inventory Cash Total assets Equity Long term liabilities Bank loan Needed funding Short term liabilities Accounts payable Payable taxes/VAT Total financing of assets	Turnover Cost of goods sold Gross margin Rent building Personal costs Management fee Other costs Total operating costs	EBIT Tax Investment in working capital Depreciation Cash from operational activities Investments in fixed assets Cash from investment activities
	Earnings before interest, tax, depreciation and amortisation (EBITDA) Depreciaton Earnings before interest and tax (EBIT) Interest payments Earnings before tax (EBIT)	Interest payments Change in long term liabilities Change in equity Cash from financing activities Total cash flow Cash begin of year Movement in cash Cash end of year
Link between cash in the balance sheet and cash in the cash flow statement. These two positions must exactly match.	Profit after tax Profit after tax must be added to equity.	Depreciation is not an actual cash out. Therefore depreciation is added back in the cash flow statement. Investments are added in balance sheet and the cash flow statement.

KPI Metrics

- > Revenue: Revenue, Revenue Growth, MRR/ARR trends
- > Profitability: EBITDA Margin trend
- > Customer Metrics: Conversion Rate & Customer/Revenue Churn rate
- Unit Economics: LTV, CAC, LTV/CAC, Months to recover CAC, Contribution Margin, Breakeven
- > Asset Turnover: Revenue per Commercial, or Non-commercial employee
- Cash Flow Situation: DSO, DPO, AR Ageing, Cash Burn Rate, Cash Runway
- > Capital structure: Debt vs Equity



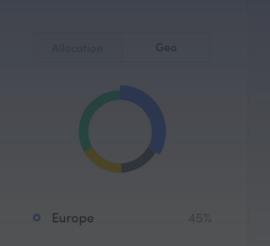
HISTORY

\$52,00
July 2021

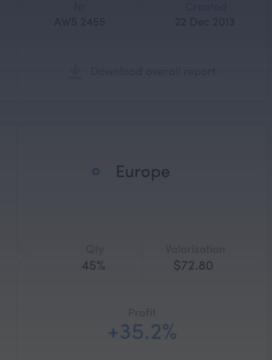
\$20k

Seafe 201. a 54yr Plain in 3

Scenarios (base,







Scenarios on your drivers

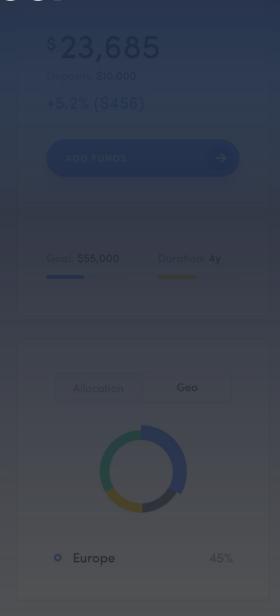
- Revenue over time (pipeline, conversion, retention, upselling, price increase)
- > Cost over time
- > Burn Rate or Profit Margin
- > Cash Runway

Assumptions that drive scenarios

- > Events that might affect the amount and timing of cash in and cash out flows:
 - ✓ New pipeline opportunities
 - ✓ Higher/lower conversion rates
 - ✓ Higher/lower churn
 - ✓ Upselling opportunities
 - ✓ Improve your product and go to market strategy
 - ✓ Change in cost drivers
 - ✓ Speed of your invoice to cash cycle
 - ✓ External factors

Key points

- > Provide detail
- Provide drivers and assumptions
- > Start early, update often





Sources of Funding

- > Direct revenue streams on your product, or side projects
- > FFF: Friends, Fools and Family and from your own pocket
- Government / EU/ Private grants
- > Bank loans/ Credit cards/ Recurring credit lines for working capital
- > Angel Investors & VCs
- > Startup incubators/ accelerators/ competitions
- > Other

What drives valuation from founder perspective?

- > How much equity you're prepared to give to your VC?
- ➤ How much funding you absolutely need to get to your next funding milestone?
- > Current company performance and interest from customers and investors

Valuation Methods

- > Previous funding rounds of your start up
- Founder red lines: Min amount of funds your need, max equity you are willing to give
- > Cost plus method: Value = cost to build and replace, plus an industry average profit margin
- > Comparable methods: Multiples of Public companies, previous deals
- > Scorecard methods: assign a monetary value or a score to a risk factor or a value driver based on comparable companies
- ➤ **Discounted Cash Flow Method (DCF)**: NPV of FCF discounted at the WACC usually for 5 years plus a terminal value.
- ➤ Capital Market Pricing Methods (CAPM): "risk-free" return plus "risk premium", based on capital markets pricing of similar stocks (usually used to calculated cost of equity for WACC)

What do investors mainly look at?

- > Product
- ➤ Market & Competition
- Business Model
- ➤ Go-to-Market Strategy
- > Traction
- Cash Flow situation
- > Team
- > Size & length of investment, ROI, Exit
- > Psychological factors

Product

- ➤ What is the **key problem you are solving**?
- **≻How are you solving** this key problem?
- **➤** Demonstrate a **Minimum Viable Product**.
- ➤ What is your unfair advantage?
- ➤ Is your product scalable?

Market & Competition

- ➤ What is the market size and growth potential?
- ➤ What is the market **competition** landscape?

Business Model: the total picture

- **≻What** do you make?
- **≻How** do you make it?
- ➤ How do you earn money from it?
- ➤ Is your model scalable?

Go-to-Market Strategy

- ➤ How do you reach and acquire your customers?
- ➤ How do you price your product?

Traction & Current Performance

- ➤ Who is **interested** in and/or **using** your product?
- ➤ Show and explain your current revenue and profit trends
- ➤ Know your Customer/Revenue Churn

Future Growth

➤ Are you going to **grow** and make a lot of money with this?

≻Why?

➤ What is your plan to make it happen?

>Scenarios: base, best, worst

The Cash Flow Situation

- > What is the current and expected Cash Flow situation:
 - ✓ Cash Flow forecast and expected cash gaps
 - ✓ DSO, DPO, AR ageing
 - √ Starting Capital
 - √ Cash Burn Rate
 - ✓ Cash Runway & Zero cash date
 - ✓ Access to funding & current credit lines
 - ✓ Fixed vs variable costs: can costs be adjusted and how quickly?
- ➤ Operating performance: How well is the team currently managing above topics?

Team

- > Why you and your co-founders are the right people to solve the problem?
- > Are there any **key roles missing**?
- > Has the team worked together already? What were the results?
- > Do you work full time on this idea? If not, when do you plan to do it?
- > How passionate and convicted is the team about this idea?
- > Who are the other investors, partners and advisors you're working with?

What do you need?

- ➤ Know how much money you need and explain why
- > Know the **priorities**, **goals** and **timeframe**:
 - ✓ if I give you X, how will you spend it?
 - ✓ What will you achieve?
 - ✓ How quickly you will achieve it?

What kind of returns the VCs typically look for and in what timeframe?

- > Investors also consider:
 - ✓ Current Equity structure
 - ✓ Size & length of investment required
 - ✓ Balancing the portfolio risk of their fund
 - ✓ Dilution, future funding needs
 - ✓ ROI
 - ✓ Exit strategy
- > The industry standard is usually to aim for a min 10x return on investments.
- > Typically, a VC fund's lifecycle is 5 -10 years.

FOMO vs FOLS and the Power of the story

- ➤ VCs have **FOMO**: Fear of missing out
- ➤ VCs have **FOLS**: Fear of looking stupid
- Convince them for the idea and for the team with confidence and a powerful story!

Are VCs ok with founders using funds to pay themselves salaries?

- ➤ Investors will usually set a threshold for salaries, but they take a pragmatic approach.
- ➤ They typically want you to be financially comfortable so that you can **focus full-time** and grow your business.

Why should you start looking for funds early?

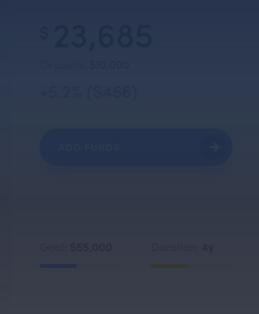
- ➤ It takes lot of time to complete the fundraising process.
- > The sooner you learn the better.
- > Later, you could have less favorable metrics or financials.
- > You raise funds with better terms when things look good vs when you are in need.
- > You can use funds earlier to survive & grow much faster.
- > Being VC ready enforces a better management and tracking of your business.
- ➤ The right VC partners can offer business expertise, additional resources, connections early on.

What are the risks of fundraising too soon?

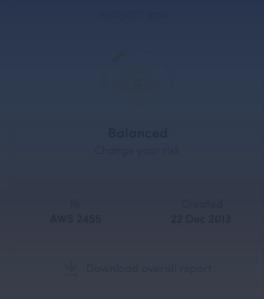
- > You don't raise enough capital, or you don't manage to raise at all
- > You give away too much equity
- You raise at a valuation that's too high
- > You put yourself under more time & performance pressure
- Opportunity cost

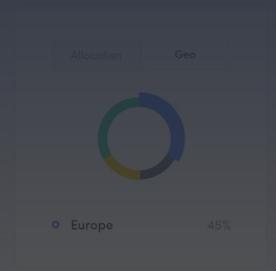
How can I find out which VCs are likely to be interested in my company?

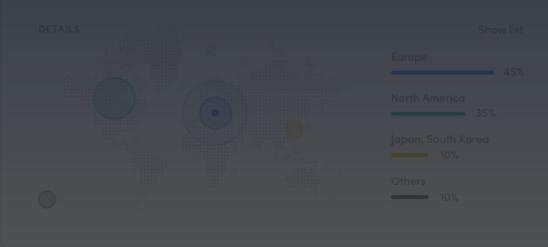
- > Start by looking for funds that invest in your startup stage and sector
- ➤ You can look for their criteria on **VC** websites. Or look at their portfolio and see if your startup is aligned to their current investments.
- > Start from your **network**, expand connections with founders, accelerators and incubators
- > Find a way in through a **trusted referral**, where possible.
 - ✓ Portfolio company CEOs/Founders
 - ✓ Other investors/VCs
 - ✓ Former colleagues, fellow board members and personal friends
- > It goes both ways. Find the investor who is right for you.

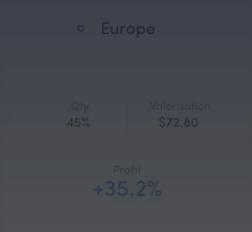


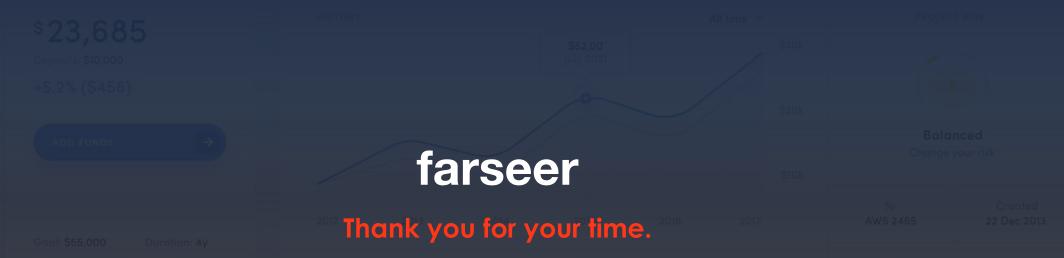












If you are interested in a product demo or a free consultation meeting, please contact:

