



RAISING CAPITAL SEMINAR SERIES



DSMpartnership.com



RAISING CAPITAL SEMINAR SERIES

Module 3: The Proforma: Building a Strong Financial Model

Oct. 14, 2020



DSMpartnership.com

Today's presenter

Mike Colwell – Greater Des Moines Partnership

As executive director of entrepreneurial initiatives at the Greater Des Moines Partnership, Mike is directly responsible for the Partnership entrepreneurial strategies and execution. In his role Mike spends his days coaching, mentoring, consulting, networking and generally asking very tough questions, the kinds of questions most entrepreneurs would rather he did not ask. Focusing on high-growth-potential companies, he works with businesses ranging from a single person with an idea to \$10 million companies looking to grow to \$25 million. Mike assists with business strategy, business planning, business plan execution and business model development.

Mike is co-manager of Plains Angels, a Des Moines based group of angel investors. With more than 40 members, Plains Angels has been in existence since 2013 and has been active investing in many local and regional startup companies. Mike and his wife Beth are active angel investors with over 35 investments to-date. Mike has had a key role in the formation of the Global Insurance Accelerator and the Iowa AgriTech Accelerator and serves on the board of both organizations.



A joint collaboration



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INTELLECTUAL CAPITAL AT WORK



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WELCOME

- Thank you for joining us!
- Logistics:
 - Mute your microphone
 - Turn on your video!
 - Open the chat window and use this for questions
- A recording of this will be available



AGENDA

PREPARE

- Momentum
- Materials
- Relationships

EXECUTE

- Relationships
- Pitches
- Documents

MANAGE

- Negotiations
- Closing
- Relationships

- **Module 1:** The Fundraising Journey: Steps to Raising Capital
 - Oct. 7 from 8:30 – 11:30 a.m.
- **Module 2:** The Pitch: Telling Your Story
 - Oct. 7 from 1 – 4:30 p.m.
- **Module 3:** The Proforma: Building a Strong Financial Model
 - Oct. 14 from 8:30 – 11:30 a.m.
- **Module 4:** The Cap Table: Who Owns Your Company
 - Oct. 21 from 8:30 – 11:30 a.m.
- **Module 5:** The Term Sheet: The Details Matter
 - Oct. 28 from 8:30 – 11:30 a.m.

DES MOINES, IOWA



Financial Models for Startups

Mike Colwell

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Welcome

- Introductions
- Goals:
 - Familiarize you with financial models for startup companies
 - Provide overview of StartupModels financial model
 - Available for download at <https://www.startupmodels.com>
 - Answer your questions



What financial documents do you need?

- Profit and loss statement (P&L)
- Cash flow statement
- Balance sheet (sometimes)

Why do I need these statements?

- Does your company or will your company make money?
- Does your company have enough cash to survive and thrive?
 - Long product development cycles
 - Long sell cycles
 - Large inventory requirements
- What is the company worth today and in the future?

Investors want a return on investment

- Banks: bankable loan with low risk of loss
- Equity investors: seek high growth company with 10x or better returns with acceptable higher risk
 - A \$500K investment for 10% of company with a 10x return (\$5M) equates to a \$50M sale
 - SaaS company with annual reoccurring revenue of \$7.2M at 7x valuation = \$50M value
 - Exit must take place in 5 to 7 years

What is a P&L?

Profit and loss statement (P&L)

Revenue	\$10,000
Cost of revenue	<u>(\$4,000)</u>
Gross margin	\$6,000
Operating expenses	<u>(\$4,500)</u>
Profit	\$1,500

P&L forecast

- Invest the time and effort to develop a realistic and detailed forecast
- Grounded in realistic assumptions
- First 12 -18 months critical and must be supported
- 3-year forecast is normally sufficient
- 5-year projections are often unrealistic
 - Some investors want this to see your aspirations

Example P&L statement

Report Year 2019

ClinicNote P&L Forecast for the year 2019

Revenue Recognition Based

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Revenue													
Subscription Software Revenue	\$ 1,092	\$ 2,561	\$ 4,644	\$ 8,069	\$ 12,431	\$ 19,396	\$ 24,576	\$ 29,248	\$ 36,679	\$ 44,121	\$ 49,662	\$ 52,784	\$ 285,262
Product Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Professional Services Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Revenue	\$ 1,092	\$ 2,561	\$ 4,644	\$ 8,069	\$ 12,431	\$ 19,396	\$ 24,576	\$ 29,248	\$ 36,679	\$ 44,121	\$ 49,662	\$ 52,784	\$ 285,262
Cost of Goods													
Third Party / Transaction Fees	\$ 63	\$ 136	\$ 271	\$ 449	\$ 696	\$ 1,241	\$ 1,269	\$ 1,285	\$ 1,832	\$ 1,931	\$ 1,923	\$ 1,709	\$ 12,803
Hosting Expenses	\$ 75	\$ 75	\$ 75	\$ 75	\$ 75	\$ 75	\$ 75	\$ 75	\$ 75	\$ 75	\$ 75	\$ 75	\$ 900
Customer Support	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,603	\$ 2,603	\$ 2,603	\$ 2,603	\$ 2,603	\$ 2,603	\$ 2,603	\$ 18,223
Internal Engineering Support	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Professional Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cost of Product Sales	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Cost of Goods	\$ 138	\$ 211	\$ 346	\$ 524	\$ 771	\$ 3,919	\$ 3,947	\$ 3,963	\$ 4,510	\$ 4,609	\$ 4,601	\$ 4,388	\$ 31,925
Gross Profit	\$ 954	\$ 2,350	\$ 4,298	\$ 7,546	\$ 11,660	\$ 15,478	\$ 20,629	\$ 25,285	\$ 32,169	\$ 39,512	\$ 45,061	\$ 48,396	\$ 253,337
Gross Margin	87.4%	91.8%	92.6%	93.5%	93.8%	79.8%	83.9%	86.4%	87.7%	89.6%	90.7%	91.7%	88.8%
Operating expenses													
Total Sales expense	\$ 4,965	\$ 4,965	\$ 4,965	\$ 4,965	\$ 4,965	\$ 6,701	\$ 6,701	\$ 6,701	\$ 6,701	\$ 6,701	\$ 6,701	\$ 6,701	\$ 71,734
Marketing expense	\$ 200	\$ 200	\$ 200	\$ 200	\$ 200	\$ 2,450	\$ 2,450	\$ 2,450	\$ 2,450	\$ 2,450	\$ 2,450	\$ 2,450	\$ 18,150
Product Development	\$ -	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ -	\$ 100,000
General and Administrative	\$ 5,210	\$ 7,110	\$ 1,310	\$ 810	\$ 810	\$ 8,100	\$ 900	\$ 1,900	\$ 900	\$ 900	\$ 900	\$ 900	\$ 29,750
Total Operating expenses	\$ 10,375	\$ 22,275	\$ 16,475	\$ 15,975	\$ 15,975	\$ 27,251	\$ 20,051	\$ 21,051	\$ 20,051	\$ 20,051	\$ 20,051	\$ 10,051	\$ 219,634
Operating Income	\$ (9,421)	\$ (19,926)	\$ (12,177)	\$ (8,430)	\$ (4,316)	\$ (11,773)	\$ 578	\$ 4,234	\$ 12,118	\$ 19,461	\$ 25,010	\$ 38,345	\$ 33,703
Interest Expense	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other Income	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net Income before Taxes	\$ (9,421)	\$ (19,926)	\$ (12,177)	\$ (8,430)	\$ (4,316)	\$ (11,773)	\$ 578	\$ 4,234	\$ 12,118	\$ 19,461	\$ 25,010	\$ 38,345	\$ 33,703
Full Time Headcount	2	2	2	2	2	3	3	3	3	3	3	3	
Contract Headcount	0	0	0	0	0	0	0	0	0	0	0	0	



What is a cash flow statement?

Cash flow statement

Starting cash	\$31,000
+ New investment	\$0
+ Revenue	\$10,000
- Expenses	<u>(\$6,000)</u>
Ending cash	\$35,000

Example cash flow statement

Report Year 2019

Revenue Recognition Based

ClinicNote Cash Flow Forecast for the year 2019

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Starting Cash	10,000	201,412	182,914	180,257	182,784	191,831	206,177	228,460	250,174	287,277	326,980	366,483
Revenue Received	1,650	3,578	13,619	18,303	24,823	39,146	39,884	40,315	54,704	57,304	57,104	51,484
Cost of Goods	63	-	-	-	-	-	-	-	-	-	-	-
Operating Expenses	10,175	22,075	16,275	15,775	15,775	24,801	17,601	18,601	17,601	17,601	17,601	7,601
Other Income	-	-	-	-	-	-	-	-	-	-	-	-
New Investment	200,000	-	-	-	-	-	-	-	-	-	-	-
Ending Cash Balance	201,412	182,914	180,257	182,784	191,831	206,177	228,460	250,174	287,277	326,980	366,483	410,366
Change in Cash	191,412	(18,498)	(2,657)	2,527	9,047	14,345	22,283	21,714	37,103	39,703	39,503	43,883



Cash flow management

- Good business operators manage to cash flow
- Know your cash requirements
- Spend wisely, be thrifty
- Delay hiring, be creative
- Reduce salaries or take no salary
- Know your burn rate

Always have a detailed cash flow forecast at least 180 days in length. Manage your cash carefully.



What is a balance sheet?

- Balance sheet: *financial statement that reports a company's assets, liabilities and shareholders' equity at a specific point in time*

$$\text{assets} = \text{liabilities} + \text{shareholder equity}$$

- Assets = cash, inventory, property, equipment
- Liabilities = rent, wages, utilities, loans, taxes
- Shareholder equity = net of assets and liabilities
 - Not the same as valuation

See blog post in appendix: How to read a balance sheet



Financial models vs. accounting statements

- Accounting statements are factual
 - Deal with past and present
- Financial models are forecasts
 - They are always incorrect
 - They are critical to planning your business
 - They are an ongoing requirement

See blogpost from Fred Wilson of Union Square Ventures: The Financial Function



Summary: financial documents

- These documents matter
- Investors and bankers read these in detail
- An experienced banker or investor can tell an amazing amount about your company by only looking at these documents
- Have an experienced mentor or advisor review these with you before presenting to others
- Get comfortable with your financials - know your numbers
- Don't pretend to know something you don't know



Building the financial model

There are several steps in building a financial model

- Step 1: the revenue model (most of the work is here!)
- Step 2: product development expenses
- Step 3: sales and marketing expenses
- Step 4: general and operating expenses
- Step 5: people expenses

The first step – the revenue model

- The revenue model (part of your business model) drives the business and the expense structure
 - People
 - Marketing costs
 - Sales costs
- Where you should focus your attention
 - Physical product – focus on cash cycle
 - Software / service company – focus on sell cycle

SaaS company examples

- ClinicNote, Inc. (founded by an ISU grad)
 - Software as a Service (SaaS)
- Sports Knowledge (fictional android and iOS app)
 - SaaS model high volume

All financial information provided is fictional

Welcome to ClinicNote

Simple. Secure. Dependable.

FREE DEMO

Time to sellable
product < 1 year

**CLOUD BASED SOFTWARE FOR SPEECH PATHOLOGISTS &
AUDIOLOGISTS**



ClinicNote revenue model

- Direct sale
 - Universities
 - Very specific market timing aligned with start of a semester
 - Private Practices
- Indirect / assisted sale
 - Value added reseller
 - Referral / recommendation marketing
 - Not currently pursuing these channels



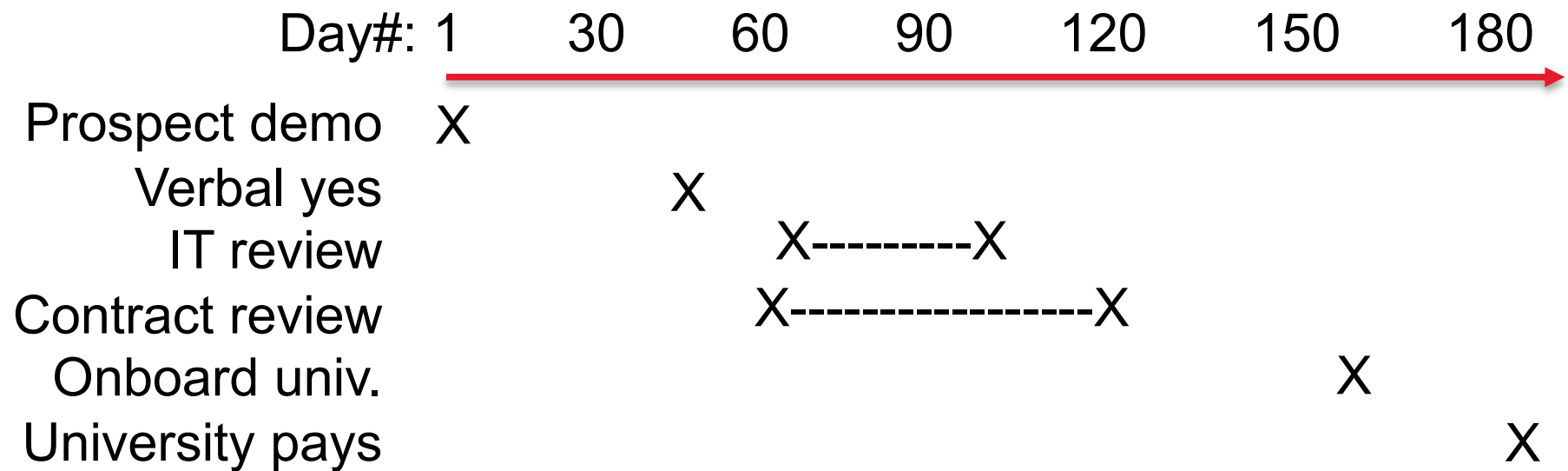
ClinicNote direct sale revenue model

- Universities
 - ACV (average contract value) = \$6,700
 - Paid up front yearly
 - No direct cost of sale
- Private practices
 - ACV = \$150 / Month or \$1,200 / year
 - Paid monthly and yearly – heavy discount for yearly payment



ClinicNote university sell cycle

University sell cycle



This is a “quick sale”. Some take one year or more



Financial impact of university direct sales

ClinicNote P&L Forecast for the year 2019													
Revenue Recognition Based													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Revenue													
Subscription Software Revenue	\$ 542	\$ 1,083	\$ 1,625	\$ 2,167	\$ 2,708	\$ 3,250	\$ 3,792	\$ 4,333	\$ 4,875	\$ 5,417	\$ 5,958	\$ 6,500	\$ 42,250
Product Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Professional Services Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Revenue	\$ 542	\$ 1,083	\$ 1,625	\$ 2,167	\$ 2,708	\$ 3,250	\$ 3,792	\$ 4,333	\$ 4,875	\$ 5,417	\$ 5,958	\$ 6,500	\$ 42,250
Cost of Goods													
Third Party / Transaction Fees	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Hosting Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Customer Support	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Internal Engineering Support	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Professional Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cost of Product Sales	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Cost of Goods	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Gross Profit	\$ 542	\$ 1,083	\$ 1,625	\$ 2,167	\$ 2,708	\$ 3,250	\$ 3,792	\$ 4,333	\$ 4,875	\$ 5,417	\$ 5,958	\$ 6,500	\$ 42,250
Gross Margin	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

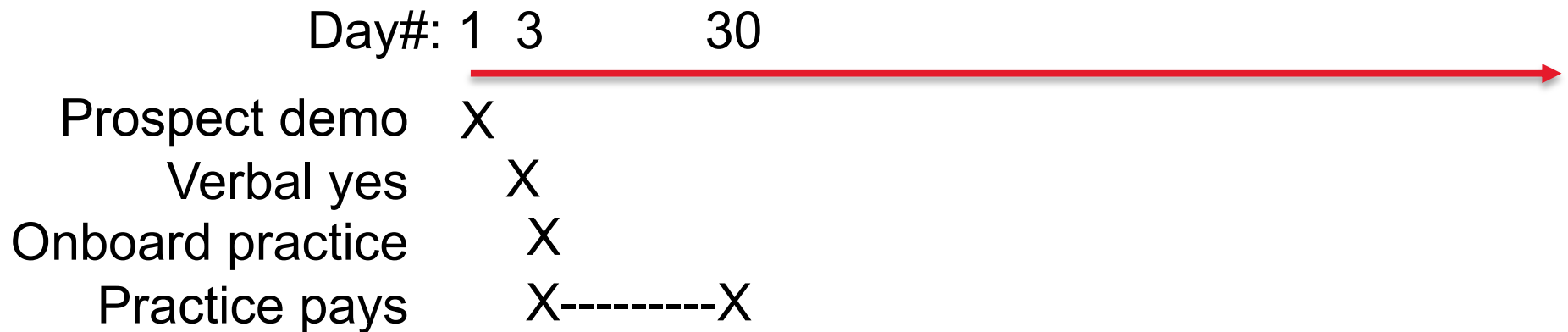
ClinicNote Cash Flow Forecast for the year 2019												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Starting Cash	10,000	10,000	16,500	23,000	29,500	36,000	42,500	49,000	55,500	62,000	68,500	75,000
Revenue Received	-	6,500	6,500	6,500	6,500	6,500	6,500	6,500	6,500	6,500	6,500	6,500
Cost of Goods	-	-	-	-	-	-	-	-	-	-	-	-
Operating Expenses	-	-	-	-	-	-	-	-	-	-	-	-
Other Income	-	-	-	-	-	-	-	-	-	-	-	-
New Investment	-	-	-	-	-	-	-	-	-	-	-	-
Ending Cash Balance	10,000	16,500	23,000	29,500	36,000	42,500	49,000	55,500	62,000	68,500	75,000	81,500

Sell cycle = 6 to 12 months



ClinicNote private practice sell cycle

Private practice sell cycle



- This is the average private practice sale
- Referral sale and value added reseller will be similar timeframe



Financial impact of private practice sales

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Ot	Nov	Dec
New license sales	1	3	6	10	15	21	26	32	24	35	18	10
Renewal sales	0	1	4	9	18	32	50	72	99	117	144	154

ClinicNote P&L Forecast for the year 2019

Revenue Recognition Based

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Revenue													
Subscription Software Revenue	\$ 150	\$ 593	\$ 1,463	\$ 2,890	\$ 4,995	\$ 7,895	\$ 11,401	\$ 15,631	\$ 18,449	\$ 22,777	\$ 24,338	\$ 24,621	\$ 135,202
Product Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Professional Services Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Revenue	\$ 150	\$ 593	\$ 1,463	\$ 2,890	\$ 4,995	\$ 7,895	\$ 11,401	\$ 15,631	\$ 18,449	\$ 22,777	\$ 24,338	\$ 24,621	\$ 135,202
Cost of Goods													
Third Party / Transaction Fees	\$ 6	\$ 23	\$ 56	\$ 110	\$ 190	\$ 300	\$ 433	\$ 594	\$ 701	\$ 866	\$ 925	\$ 936	\$ 5,138
Hosting Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Customer Support	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Internal Engineering Support	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Professional Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cost of Product Sales	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Cost of Goods	\$ 6	\$ 23	\$ 56	\$ 110	\$ 190	\$ 300	\$ 433	\$ 594	\$ 701	\$ 866	\$ 925	\$ 936	\$ 5,138
Gross Profit	\$ 144	\$ 570	\$ 1,407	\$ 2,780	\$ 4,805	\$ 7,595	\$ 10,967	\$ 15,037	\$ 17,748	\$ 21,911	\$ 23,413	\$ 23,685	\$ 130,064
Gross Margin	96.2%	96.2%	96.2%	96.2%	96.2%	96.2%	96.2%	96.2%	96.2%	96.2%	96.2%	96.2%	96.2%

ClinicNote Cash Flow Forecast for the year 2019

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Starting Cash	10,000	10,144	10,737	12,200	15,089	20,085	27,980	39,381	55,012	73,461	96,237	120,575
Revenue Received	150	593	1,463	2,890	4,995	7,895	11,401	15,631	18,449	22,777	24,338	24,621
Cost of Goods	6	-	-	-	-	-	-	-	-	-	-	-
Operating Expenses	-	-	-	-	-	-	-	-	-	-	-	-
Other Income	-	-	-	-	-	-	-	-	-	-	-	-
New Investment	-	-	-	-	-	-	-	-	-	-	-	-
Ending Cash Balance	10,144	10,737	12,200	15,089	20,085	27,980	39,381	55,012	73,461	96,237	120,575	145,196
Change in Cash	144	593	1,463	2,890	4,995	7,895	11,401	15,631	18,449	22,777	24,338	24,621

Sell cycle = 1 to 2 months

Summary: ClinicNote sell cycle

- Everyone underestimates the sell cycle, most by a factor of 2 or 3
 - Sometimes the earliest deals are the fastest and later deals take longer and are harder to close
- Different customer types have different sell cycles
 - University – large organization, process bound, slow!
 - Private practice – very small organization, single decisionmaker, fast
 - Typical client has 4 users

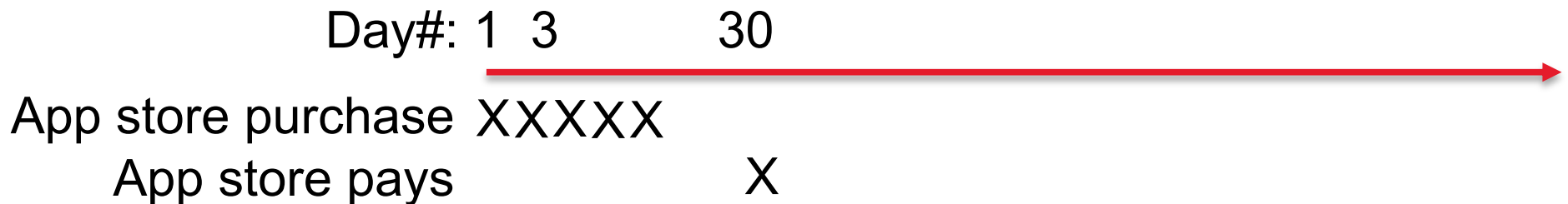


Sports Knowledge (fictitious company)

- Mobile app developer for sports fan market
- Direct sale
 - \$4.95 per month subscription
 - App store on Google and Apple
 - Apple and Google take 30% of sales for app store fees

Sports Knowledge app store sell cycle

App store sell cycle



- Google and Apple vary slightly from each other but in general they pay ever 30 days

Financial impact of app store sales

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
New license sales	21	47	189	156	1145	1258	1234	2890	1400	704	1981	1382
Renewal sales	0	17	51	192	278	1139	1917	2521	4329	4583	4230	4969

Sports Knowledge P&L Forecast for the year 2019													
Revenue Recognition Based													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Revenue													
Subscription Software Revenue	\$ 104	\$ 316	\$ 1,188	\$ 1,723	\$ 7,046	\$ 11,864	\$ 15,599	\$ 26,785	\$ 28,358	\$ 26,171	\$ 30,743	\$ 31,435	\$ 181,332
Product Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Professional Services Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Revenue	\$ 104	\$ 316	\$ 1,188	\$ 1,723	\$ 7,046	\$ 11,864	\$ 15,599	\$ 26,785	\$ 28,358	\$ 26,171	\$ 30,743	\$ 31,435	\$ 181,332
Cost of Goods													
Third Party / Transaction Fees	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Hosting Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Customer Support	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Internal Engineering Support	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Professional Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cost of Product Sales	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Cost of Goods	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Gross Profit	\$ 104	\$ 316	\$ 1,188	\$ 1,723	\$ 7,046	\$ 11,864	\$ 15,599	\$ 26,785	\$ 28,358	\$ 26,171	\$ 30,743	\$ 31,435	\$ 181,332
Gross Margin	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Operating expenses													
Total Sales expense	\$ -	\$ 31	\$ 95	\$ 356	\$ 517	\$ 2,114	\$ 3,559	\$ 4,680	\$ 8,036	\$ 8,507	\$ 7,851	\$ 9,223	\$ 44,969
Marketing expense	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Product Development	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
General and Administrative	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Operating expenses	\$ -	\$ 31	\$ 95	\$ 356	\$ 517	\$ 2,114	\$ 3,559	\$ 4,680	\$ 8,036	\$ 8,507	\$ 7,851	\$ 9,223	\$ 44,969
Operating Income	\$ 104	\$ 285	\$ 1,093	\$ 1,366	\$ 6,529	\$ 9,750	\$ 12,040	\$ 22,105	\$ 20,323	\$ 17,664	\$ 22,892	\$ 22,212	\$ 136,363
Interest Expense	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other Income	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net Income before Taxes	\$ 104	\$ 285	\$ 1,093	\$ 1,366	\$ 6,529	\$ 9,750	\$ 12,040	\$ 22,105	\$ 20,323	\$ 17,664	\$ 22,892	\$ 22,212	\$ 136,363
Full Time Headcount	0	0	0	0	0	0	0	0	0	0	0	0	0
Contract Headcount	0	0	0	0	0	0	0	0	0	0	0	0	0

Sell cycle = 1 day

Financial impact of app store sales

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
New license sales	21	47	189	156	1145	1258	1234	2890	1400	704	1981	1382
Renewal sales	0	17	51	192	278	1139	1917	2521	4329	4583	4230	4969

Sports Knowledge Cash Flow Forecast for the year 2019

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Starting Cash	10,000	10,000	10,073	10,294	11,126	12,332	17,264	25,568	36,488	55,237	75,088	93,408
Revenue Received	-	104	316	1,188	1,723	7,046	11,864	15,599	26,785	28,358	26,171	30,743
Cost of Goods	-	-	-	-	-	-	-	-	-	-	-	-
Operating Expenses	-	31	95	356	517	2,114	3,559	4,680	8,036	8,507	7,851	9,223
Other Income	-	-	-	-	-	-	-	-	-	-	-	-
New Investment	-	-	-	-	-	-	-	-	-	-	-	-
Ending Cash Balance	10,000	10,073	10,294	11,126	12,332	17,264	25,568	36,488	55,237	75,088	93,408	114,928
Change in Cash	-	73	221	832	1,206	4,932	8,305	10,920	18,750	19,851	18,320	21,520

Sell cycle = 1 day

Summary: Sports Knowledge

- Deceptively simple model
- Marketing is the challenge
 - Driving user interest
 - Keeping high retention of users
 - Many apps are now one time fees



Physical product company examples

- Lil' Sidekick (founded by a mom in Polk City IA)
 - Physical product – mass market
- FarrPro (founded by an Iowa grad)
 - Physical product – vertical market

All financial information provided is fictional

Time to sellable product = 3 years

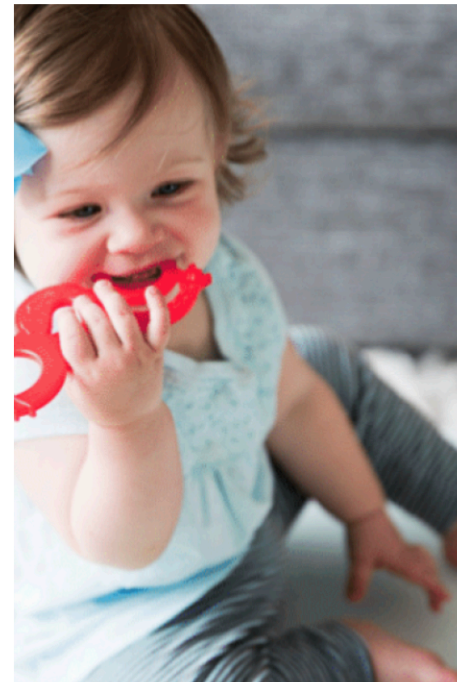


Teether/Sippy Cup & More Holder

\$9.99

Stop the Drop Game with our multi-functional tether!

- Adjust to secure any item (Teethers, Spoons, Sippy



Yummeez Flavored Teether

\$7.99

Yummeez is a breakthrough in the teething industry. It is the world's first and only truly flavored teether, that brings much needed relief for lil' ones.

Lil' Sidekick revenue models

- Sell to big box store (Walmart is largest customer)
- Sell on Amazon
- Sell through distribution
- Sell international
- Sell direct from website

Each of these models have different prices, costs, timing, and payment terms



Important concept: cash cycle

Cash cycle – the amount of time from the point when you start spending money on a customer to when the customer pays you (cash in bank)



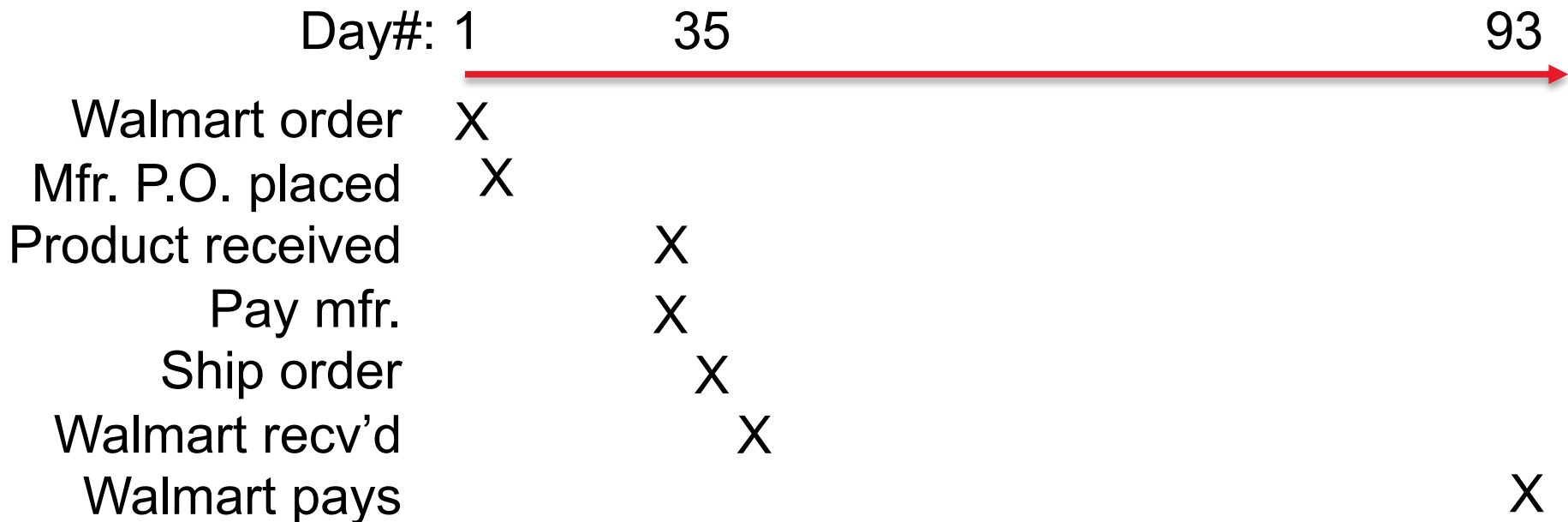
Lil' Sidekick Walmart cash cycle

- 25% margin to Lil' Sidekick
- Weekly 10,000 unit at \$4 per unit purchase order
- Cost of unit = \$3
- \$40K revenue, \$30K cost, \$10K gross margin
- Impact of weekly \$40K orders is staggering
- Every week starting 30 days later they owe \$30K to the manufacturer
 - 7 orders before Walmart first pays = \$230,000 cash outlay.



Lil' Sidekick cash cycle

Walmart cash cycle



Financial impact of Walmart

Lil' Sidekick P&L Forecast for the year 2019													
Revenue Recognition Based													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Revenue													
Subscription Software Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Product Revenue	\$ -	\$ 160,000	\$ 160,000	\$ 160,000	\$ 160,000	\$ 160,000	\$ 160,000	\$ 160,000	\$ 160,000	\$ 160,000	\$ 160,000	\$ 160,000	\$ 1,760,000
Professional Services Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Revenue	\$ -	\$ 160,000	\$ 160,000	\$ 160,000	\$ 160,000	\$ 160,000	\$ 160,000	\$ 160,000	\$ 160,000	\$ 160,000	\$ 160,000	\$ 160,000	\$ 1,760,000
Cost of Goods													
Third Party / Transaction Fees	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Hosting Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Customer Support	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Internal Engineering Support	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Professional Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cost of Product Sales	\$ -	\$ 120,000	\$ 120,000	\$ 120,000	\$ 120,000	\$ 120,000	\$ 120,000	\$ 120,000	\$ 120,000	\$ 120,000	\$ 120,000	\$ 120,000	\$ 1,320,000
Total Cost of Goods	\$ -	\$ 120,000	\$ 120,000	\$ 120,000	\$ 120,000	\$ 120,000	\$ 120,000	\$ 120,000	\$ 120,000	\$ 120,000	\$ 120,000	\$ 120,000	\$ 1,320,000
Gross Profit	\$ -	\$ 40,000	\$ 40,000	\$ 40,000	\$ 40,000	\$ 40,000	\$ 40,000	\$ 40,000	\$ 40,000	\$ 40,000	\$ 40,000	\$ 40,000	\$ 440,000
Gross Margin	0.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%

Lil' Sidekick Cash Flow Forecast for the year 2019												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Starting Cash	10,000	10,000	(110,000)	(230,000)	(190,000)	(150,000)	(110,000)	(70,000)	(30,000)	10,000	50,000	90,000
Revenue Received	-	-	-	160,000	160,000	160,000	160,000	160,000	160,000	160,000	160,000	160,000
Cost of Goods	-	120,000	120,000	120,000	120,000	120,000	120,000	120,000	120,000	120,000	120,000	120,000
Operating Expenses	-	-	-	-	-	-	-	-	-	-	-	-
Other Income	-	-	-	-	-	-	-	-	-	-	-	-
New Investment	-	-	-	-	-	-	-	-	-	-	-	-
Ending Cash Balance	10,000	(110,000)	(230,000)	(190,000)	(150,000)	(110,000)	(70,000)	(30,000)	10,000	50,000	90,000	130,000
Change in Cash	-	(120,000)	(120,000)	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000

Time to cash positive = 8 months



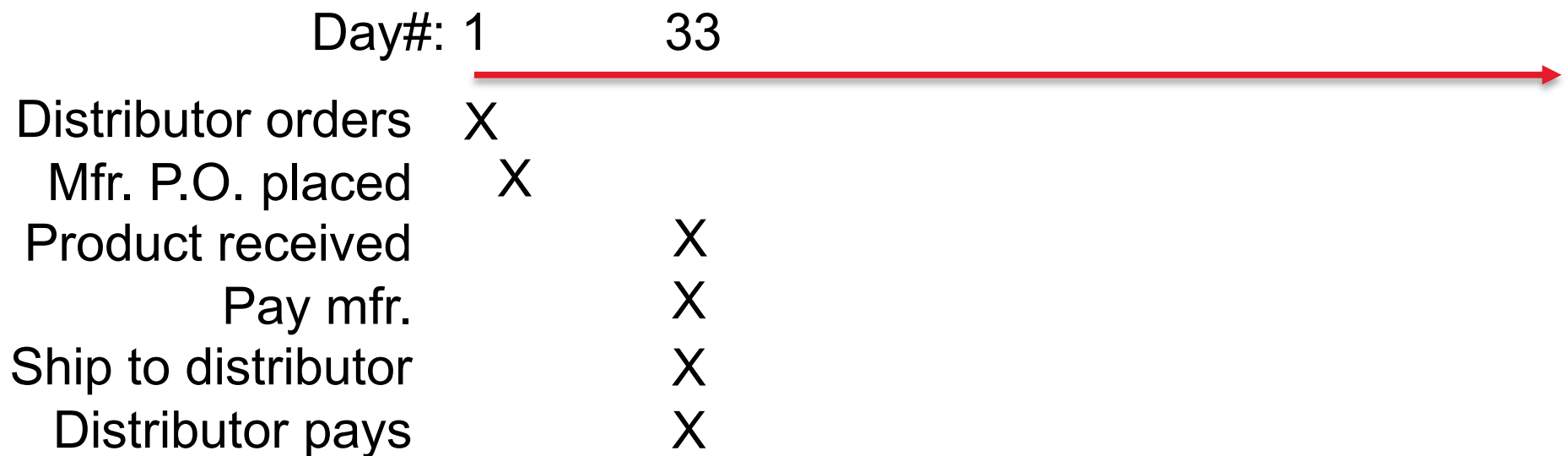
Lil' Sidekick international cash cycle

- 40% margin to Lil' Sidekick
- Minimum order is 1000 units at \$7.50 per unit price
- Unit cost is \$4.50
- Distributor pays at time of shipment



Lil' Sidekick international cash cycle

Sell via international cash cycle



Financial impact of international

Lil' Sidekick P&L Forecast for the year 2019

Revenue Recognition Based													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Revenue													
Subscription Software Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Product Revenue	\$ -	\$ -	\$ -	\$ 7,500	\$ -	\$ -	\$ 7,500	\$ -	\$ -	\$ 7,500	\$ -	\$ -	\$ 22,500
Professional Services Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Revenue	\$ -	\$ -	\$ -	\$ 7,500	\$ -	\$ -	\$ 7,500	\$ -	\$ -	\$ 7,500	\$ -	\$ -	\$ 22,500
Cost of Goods													
Third Party / Transaction Fees	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Hosting Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Customer Support	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Internal Engineering Support	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Professional Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cost of Product Sales	\$ -	\$ -	\$ -	\$ 4,500	\$ -	\$ -	\$ 4,500	\$ -	\$ -	\$ 4,500	\$ -	\$ -	\$ 13,500
Total Cost of Goods	\$ -	\$ -	\$ -	\$ 4,500	\$ -	\$ -	\$ 4,500	\$ -	\$ -	\$ 4,500	\$ -	\$ -	\$ 13,500
Gross Profit	\$ -	\$ -	\$ -	\$ 3,000	\$ -	\$ -	\$ 3,000	\$ -	\$ -	\$ 3,000	\$ -	\$ -	\$ 9,000
Gross Margin	0.0%	0.0%	0.0%	40.0%	0.0%	0.0%	40.0%	0.0%	0.0%	40.0%	0.0%	0.0%	40.0%

Lil' Sidekick Cash Flow Forecast for the year 2019

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Starting Cash	10,000	10,000	10,000	17,500	13,000	13,000	20,500	16,000	16,000	23,500	19,000	19,000
Revenue Received	-	-	7,500	-	-	7,500	-	-	7,500	-	-	7,500
Cost of Goods	-	-	-	4,500	-	-	4,500	-	-	4,500	-	-
Operating Expenses	-	-	-	-	-	-	-	-	-	-	-	-
Other Income	-	-	-	-	-	-	-	-	-	-	-	-
New Investment	-	-	-	-	-	-	-	-	-	-	-	-
Ending Cash Balance	10,000	10,000	17,500	13,000	13,000	20,500	16,000	16,000	23,500	19,000	19,000	26,500
Change in Cash	-	-	7,500	(4,500)	-	7,500	(4,500)	-	7,500	(4,500)	-	7,500

Time to cash positive = 0 months



Time to sellable
product = 2 years

• EFFECTIVE & EFFICIENT •

SOLUTIONS

FOR THE SWINE INDUSTRY

PORK - \$30B INDUSTRY



FarrPro revenue models

- Direct sale
 - Large producers
 - Sales process – pilot first, then rollout
- Indirect / assisted sale
 - Value added reseller



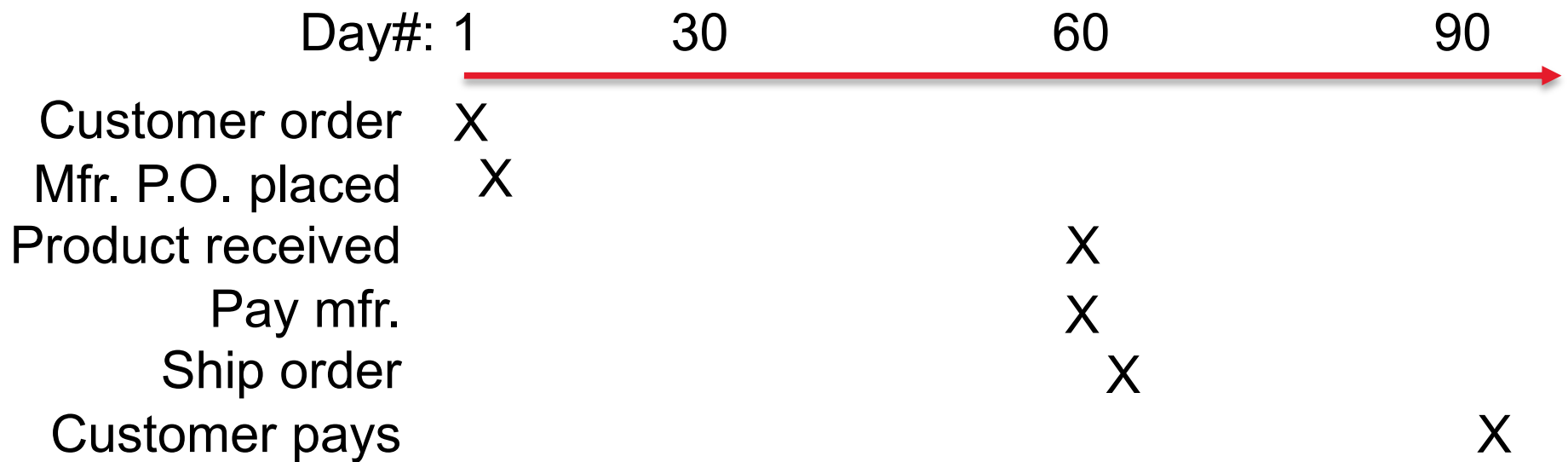
FarrPro Direct Sale Cash Cycle

- List price \$995, average sale price \$742
 - Use average sale price to deal with discounting
- Margins 39% to 54% depending on volume ordered
- Customer pays 30 days after order received
- 60 days from order to delivery by manufacturer
- Fast sales ramp-up will require significant cash
- Offer discounts for cash in advance or cash on delivery



FarrPro direct sale cash cycle

Direct sale cash cycle



Financial impact of direct sales

Revenue Recognition Based
FarrPro P&L Forecast for the year 2019

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Revenue													
Subscription Software Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Product Revenue	\$ -	\$ -	\$ -	\$ 41,552	\$ 155,820	\$ 280,476	\$ 1,157,520	\$ 1,595,300	\$ 964,600	\$ 2,077,600	\$ 964,600	\$ 1,335,600	\$ 8,573,068
Professional Services Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Revenue	\$ -	\$ -	\$ -	\$ 41,552	\$ 155,820	\$ 280,476	\$ 1,157,520	\$ 1,595,300	\$ 964,600	\$ 2,077,600	\$ 964,600	\$ 1,335,600	\$ 8,573,068
Cost of Goods													
Third Party / Transaction Fees	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Hosting Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Customer Support	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Internal Engineering Support	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Professional Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cost of Product Sales	\$ -	\$ -	\$ -	\$ 23,520	\$ 88,200	\$ 158,760	\$ 655,200	\$ 903,000	\$ 546,000	\$ 1,176,000	\$ 546,000	\$ 756,000	\$ 4,852,680
Total Cost of Goods	\$ -	\$ -	\$ -	\$ 23,520	\$ 88,200	\$ 158,760	\$ 655,200	\$ 903,000	\$ 546,000	\$ 1,176,000	\$ 546,000	\$ 756,000	\$ 4,852,680
Gross Profit	\$ -	\$ -	\$ -	\$ 18,032	\$ 67,620	\$ 121,716	\$ 502,320	\$ 692,300	\$ 418,600	\$ 901,600	\$ 418,600	\$ 579,600	\$ 3,720,388
Gross Margin	0.0%	0.0%	0.0%	43.4%	43.4%	43.4%	43.4%	43.4%	43.4%	43.4%	43.4%	43.4%	43.4%

FarrPro Cash Flow Forecast for the year 2019

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Starting Cash	10,000	10,000	10,000	10,000	(410,000)	(368,448)	(212,628)	(587,352)	(332,832)	716,468	505,068	2,036,668
Revenue Received	-	-	-	-	41,552	155,820	280,476	1,157,520	1,595,300	964,600	2,077,600	964,600
Cost of Goods	-	-	-	420,000	-	-	655,200	903,000	546,000	1,176,000	546,000	756,000
Operating Expenses	-	-	-	-	-	-	-	-	-	-	-	-
Other Income	-	-	-	-	-	-	-	-	-	-	-	-
New Investment	-	-	-	-	-	-	-	-	-	-	-	-
Ending Cash Balance	10,000	10,000	10,000	(410,000)	(368,448)	(212,628)	(587,352)	(332,832)	716,468	505,068	2,036,668	2,245,268
Change in Cash	-	-	-	(420,000)	41,552	155,820	(374,724)	254,520	1,049,300	(211,400)	1,531,600	208,600

Time to cash positive = 6 months



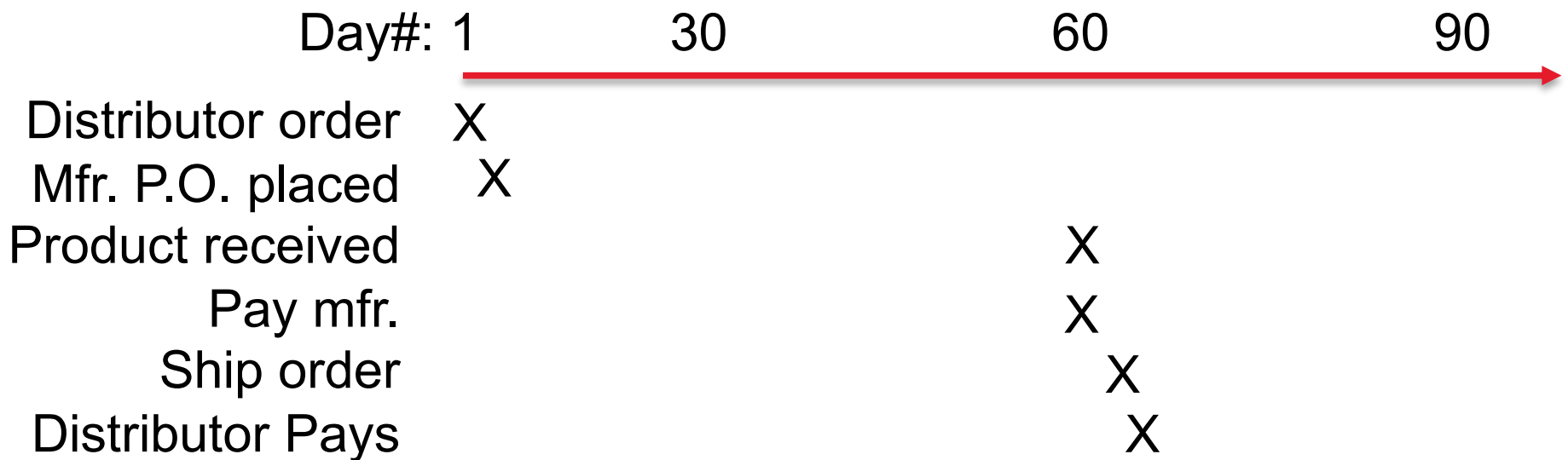
FarrPro indirect cash cycle

- List price \$995, average sale price \$625
- Margins 31% to 47% depending on volume ordered
- Distributor pays on order received
- 60 days from order to delivery by manufacturer
- Fast sales ramp-up will require significant cash



FarrPro indirect cash cycle

Indirect cash cycle



Financial impact of indirect

FarrPro P&L Forecast for the year 2019													
Revenue Recognition Based													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Revenue													
Subscription Software Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Product Revenue	\$ -	\$ -	\$ -	\$ -	\$ 62,500	\$ 62,500	\$ 312,500	\$ 625,000	\$ 625,000	\$ 1,250,000	\$ 625,000	\$ 1,875,000	\$ 5,437,500
Professional Services Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Revenue	\$ -	\$ -	\$ -	\$ -	\$ 62,500	\$ 62,500	\$ 312,500	\$ 625,000	\$ 625,000	\$ 1,250,000	\$ 625,000	\$ 1,875,000	\$ 5,437,500
Cost of Goods													
Third Party / Transaction Fees	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Hosting Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Customer Support	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Internal Engineering Support	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Professional Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cost of Product Sales	\$ -	\$ -	\$ -	\$ -	\$ 42,000	\$ 42,000	\$ 210,000	\$ 420,000	\$ 420,000	\$ 840,000	\$ 420,000	\$ 1,260,000	\$ 3,654,000
Total Cost of Goods	\$ -	\$ -	\$ -	\$ -	\$ 42,000	\$ 42,000	\$ 210,000	\$ 420,000	\$ 420,000	\$ 840,000	\$ 420,000	\$ 1,260,000	\$ 3,654,000
Gross Profit	\$ -	\$ -	\$ -	\$ -	\$ 20,500	\$ 20,500	\$ 102,500	\$ 205,000	\$ 205,000	\$ 410,000	\$ 205,000	\$ 615,000	\$ 1,783,500
Gross Margin	0.0%	0.0%	0.0%	0.0%	32.8%	32.8%	32.8%	32.8%	32.8%	32.8%	32.8%	32.8%	32.8%

FarrPro Cash Flow Forecast for the year 2019												
Revenue Recognition Based												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Starting Cash	10,000	10,000	10,000	10,000	10,000	(347,500)	(285,000)	27,500	232,500	437,500	847,500	1,052,500
Revenue Received	-	-	-	-	62,500	62,500	312,500	625,000	625,000	1,250,000	625,000	1,875,000
Cost of Goods	-	-	-	-	420,000	-	-	420,000	420,000	840,000	420,000	1,260,000
Operating Expenses	-	-	-	-	-	-	-	-	-	-	-	-
Other Income	-	-	-	-	-	-	-	-	-	-	-	-
New Investment	-	-	-	-	-	-	-	-	-	-	-	-
Ending Cash Balance	10,000	10,000	10,000	10,000	(347,500)	(285,000)	27,500	232,500	437,500	847,500	1,052,500	1,667,500
Change in Cash	-	-	-	-	(357,500)	62,500	312,500	205,000	205,000	410,000	205,000	615,000

Time to cash positive = 3 months



Physical product costs change over time

- Costs are very different depending on the stage of the product

Prototyping / Testing / Certification / Selling / Scaling

- Optimize for the “selling” phase

Cash flow modeling for complex products

- FarrPro product is made up of many components from many suppliers
- You will not buy exact quantities of each part for each order
 - 10 screws = \$10.00 1,000 screws = \$25.00
 - Minimum order quantities for certain parts
- As you grow, the operational aspects of this issue grow along with the opportunities for cost reduction
 - More cash allows lower costs



Summary - different selling approaches

- Each approach likely reaches different customers
- Examine profitability, cash flow and resource requirements of each approach
 - International can be very cash friendly
- Focus on biggest long-term opportunity
- Keep in mind who owns the customer relationship
 - You want to own this relationship if possible

Summary: physical product cash cycle

- Selling physical product with extended terms and low margins is a brutal business
- Compare the amount of gross margin per sale to the frequency of sale and the length of the cash cycle
 - 10% gross margin on a product you sell 50 times per year may be good if the cash cycle is 10 days and you pay net 30
 - 50% gross margin on a product you sell once a year is probably bad if the cash cycle is 9 months



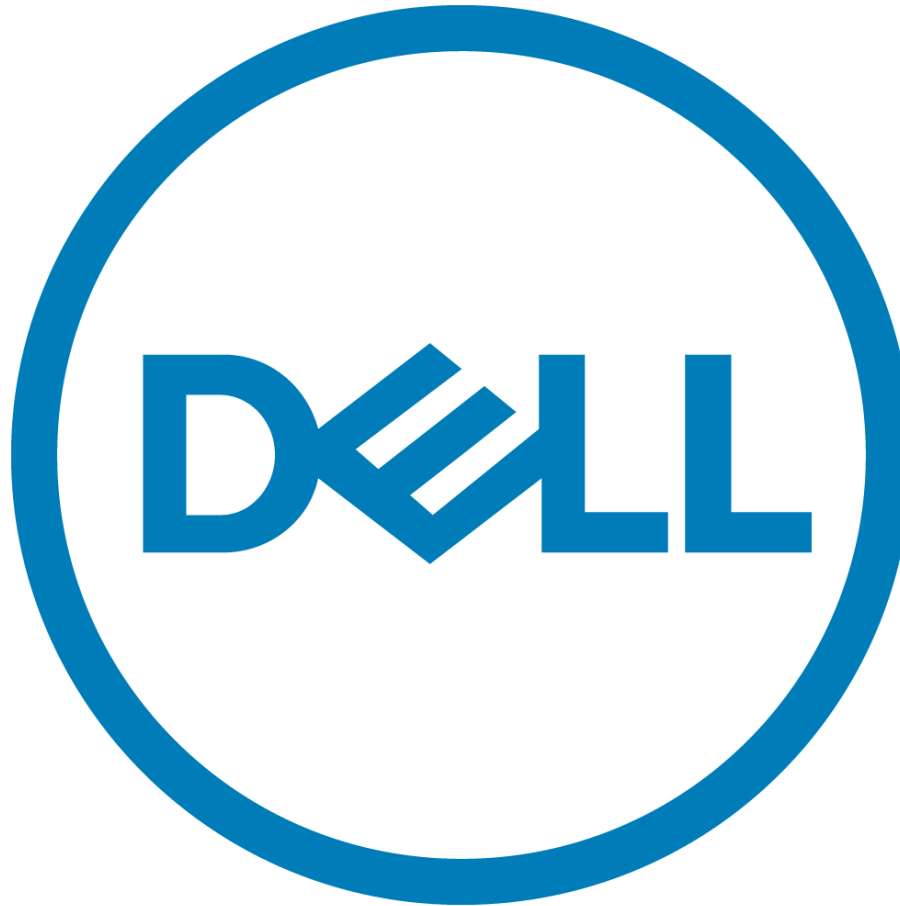
Summary: physical product

Once you get past the beginning cash crunch, these can be very lucrative if the margins are good

- Focus on improving margins over time
 - Increase purchase volume
 - Buy raw materials in larger volume
 - Get competitive bids to your current suppliers
- Focus on gaining better payment terms from your manufacturer
- Beware of commissioned sales long term



Strategic use of a cash model



SaaS model dynamics

LTV to CAC ratio

- SaaS models should focus on LTV to CAC ratio
 - CAC = Customer Acquisition Cost
 - Total sales and marketing expenses / number of new customers acquired = CAC
 - LTV = Life Time Value
 - Average monthly revenue per customer X customer lifetime in months = LTV (Yearly is same formula using yearly numbers)
 - LTV / CAC Ratio = Divide the LTV by the CAC
 - E Commerce LTV is a different equation and up for debate

See blog post in appendix



LTV to CAC ratio

- ClinicNote university example
 - Yearly sales and marketing costs = \$71,000
 - Yearly average revenue per customer = \$6,500
 - 21 new customers in last year
 - Average life of customer 4 years (est.)
 - $CAC = \$71,000 / 21 = \$3,381$
 - $LTV = \$6,500 * 4 = \$26,000$
 - $LTV / CAC \text{ ratio} = 26,000 / \$3,381 = 7.7$

MTR – a better measurement for early stage

- MTR – Months To Repay
- ClinicNote has a CAC of \$3,381
- Average contract value = \$6,500
- MTR focuses on payback period
 - 6.2 months for example above
- The cash flow impact is the key

How revenue is recognized in SaaS sales

- GAAP accounting rules
 - Revenue is earned over time of service
 - Cash is recognized when you receive it
- Example: a 12 month SaaS license sale for \$6,000

Report Year: 2019

P&L Forecast for the year 2019

Revenue Recognition Based

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Revenue	500	500	500	500	500	500	500	500	500	500	500	500	6,000
Revenue	500	500	500	500	500	500	500	500	500	500	500	500	6,000
Cost of Revenue	-	-	-	-	-	-	-	-	-	-	-	-	-
Commissions	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross Profit	500	500	500	500	500	500	500	500	500	500	500	500	6,000

Cash Flow Forecast for the year 2019

Cash Flow Forecast for the year 2019

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
Starting Cash	10,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	
Revenue Received	6,000	-	-	-	-	-	-	-	-	-	-	-	
Commissions	-	-	-	-	-	-	-	-	-	-	-	-	
Credit Card Fees	-	-	-	-	-	-	-	-	-	-	-	-	
Inventory	-	-	-	-	-	-	-	-	-	-	-	-	
Operating Expenses	-	-	-	-	-	-	-	-	-	-	-	-	
New Investment	-	-	-	-	-	-	-	-	-	-	-	-	
Ending Cash Balance	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	
Change in Cash	6,000	-	-	-	-	-	-	-	-	-	-	-	

SaaS cost of revenue

- Elements include:
 - Hosting
 - 3rd Party web fees such as content delivery, embedded software, embedded services
 - Support personnel costs
 - Customer onboarding costs
 - Credit card fees (debate on this point)

Seasonality in all revenue models

- Key failure in many models is not addressing the seasonality of the business
- Consumer products
 - Holidays, weather, sporting seasons
 - Procurement seasons and windows for major retailers
- Vertical market products
 - Tradeshow seasons
 - Budget cycles
 - End-of-year issues
 - Busy seasons

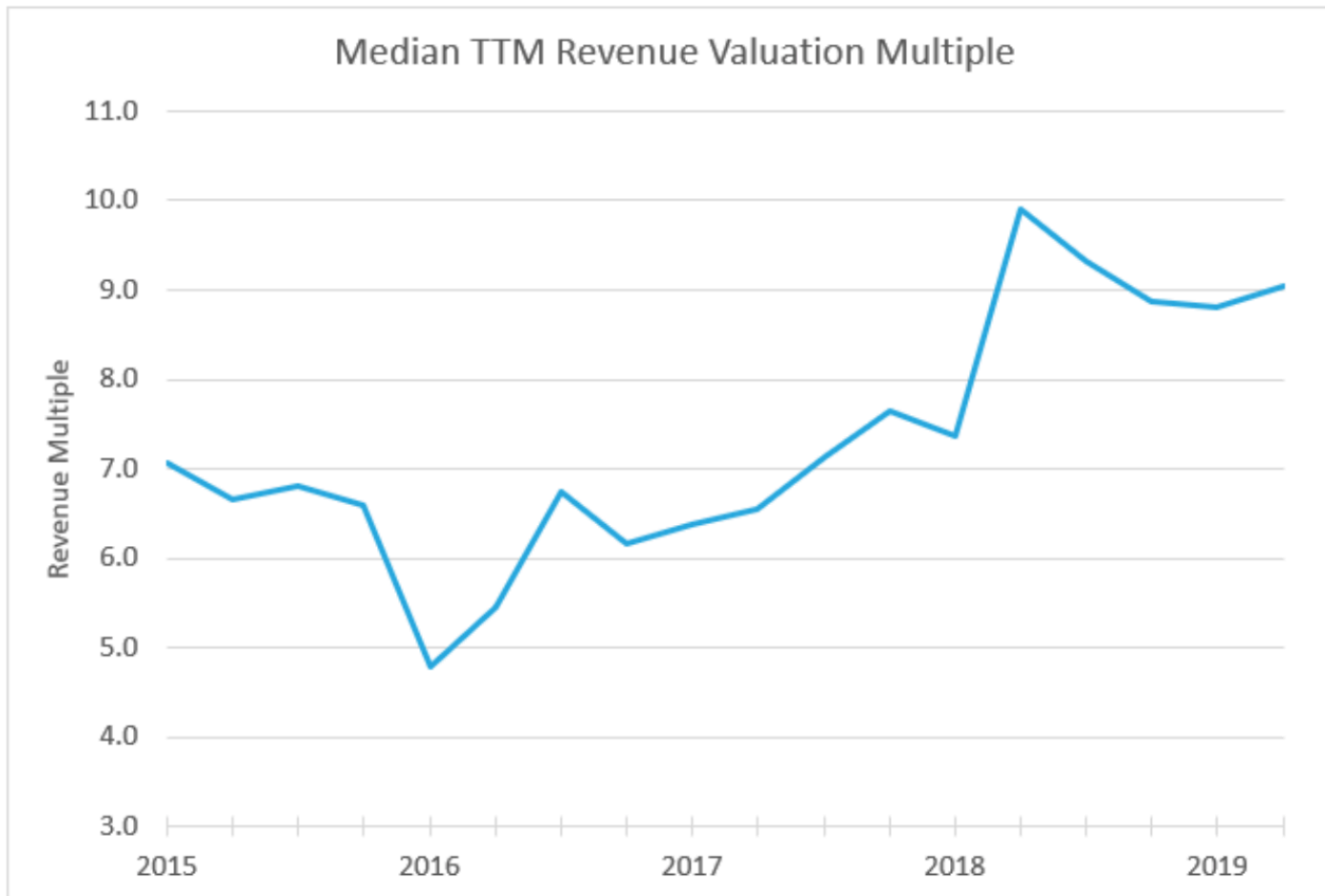


SaaS model valuations

- SaaS businesses are valued on a multiple of annual reoccurring revenue
 - Influenced by many factors including growth rate, margin, reoccurrence rates, barriers to entry, market share, etc.
- Typical valuations currently are 5 to 10 times annual reoccurring revenue (ARR)
 - \$3.5M ARR = \$17.5M to \$35M in valuation

SaaS model valuations

- Private SaaS Company Valuations 2019

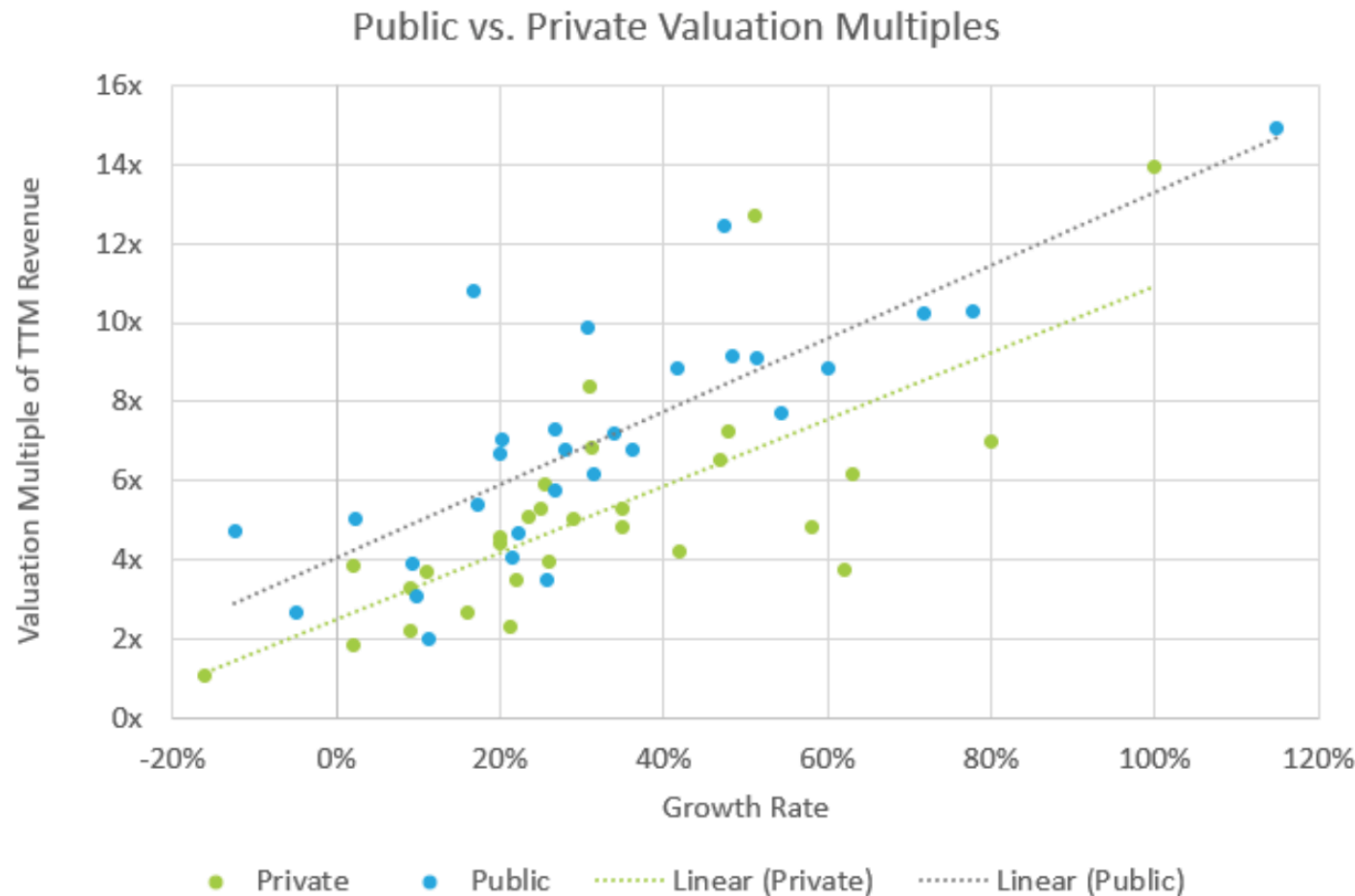


See Appendix:
Private SaaS
Company
Valuations: 2019



SaaS model valuations

- Public vs. Private Company Valuations 2019



See Appendix:
Private SaaS
Company
Valuations: 2019

What is my SaaS company worth?

- To determine what your private SaaS company is worth:
 - 1 - Find the current revenue multiple of public SaaS companies growing at a similar rate
 - 2 - Subtract 2 to get the discounted private SaaS company multiple
 - 3 - Multiply your company's trailing 12 month revenue by the discounted private SaaS company multiple
- This is a very simplistic estimate



Summary: SaaS company valuations

- The key to a software or service business is reoccurring revenue
- Common for a large SaaS company to be valued at 5 to 10 times revenue
 - \$1M / year revenue = company value of \$5M to \$10M
- Estimating the reoccurrence rate is very hard
 - What percent of current customers will renew?
 - Few achieve 90% per year

Summary of first step! (60+ slides later...)

- The revenue model defines much of your expense structure and amounts
- What remains to document include:
 - Product development
 - Sales and marketing expenses
 - General and operating expenses
 - People

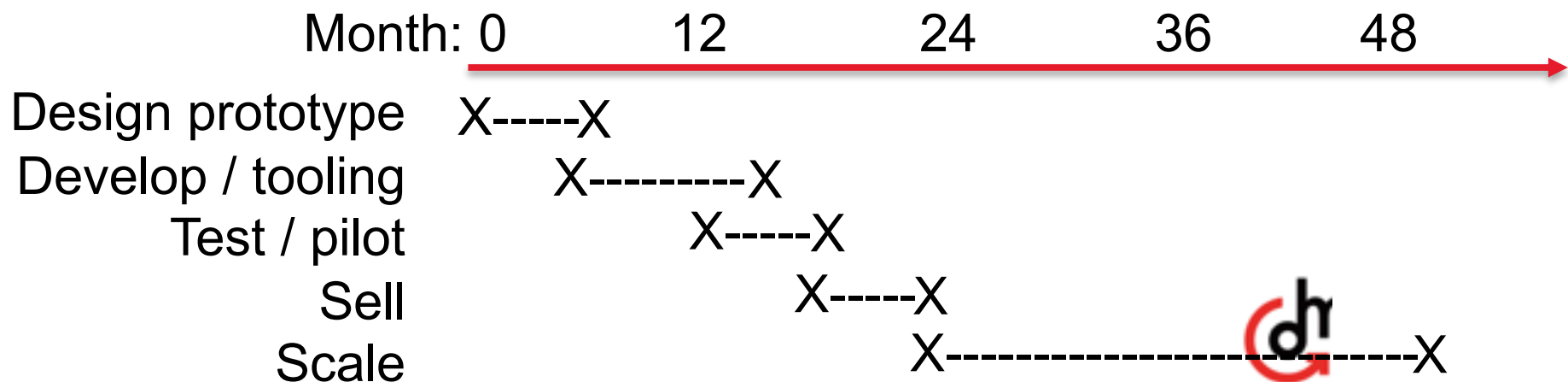
The second step: product development cost

- Product development costs are all of the costs of bringing your product to market and maintaining the product in the market
 - Software development
 - 3rd party APIs, libraries, contract development, user testing
 - Support, ongoing updates, certifications
 - Product development
 - Design, develop, package, produce, test, certify
 - Packaging (unit and case)
 - Packaging test and certification



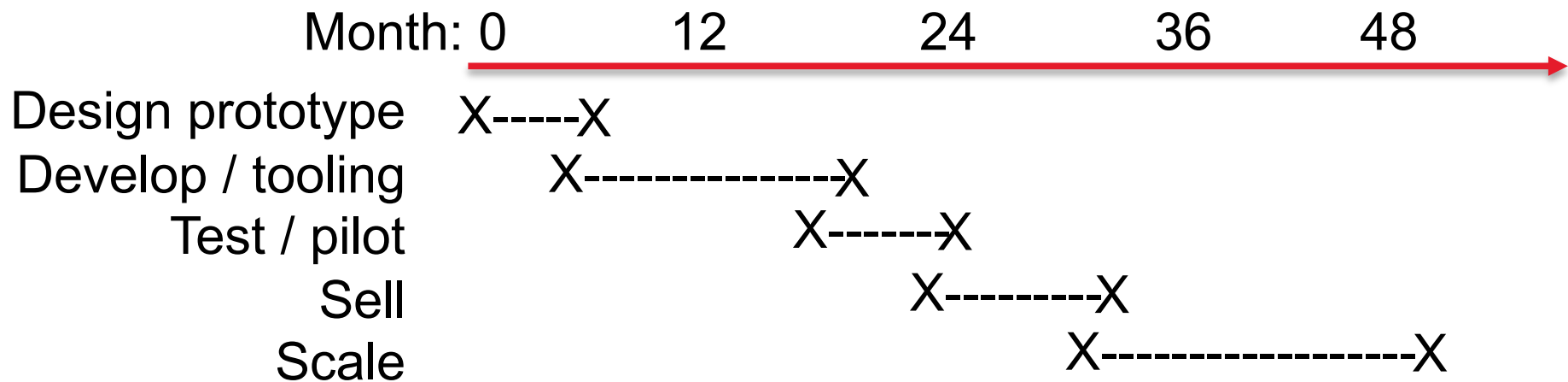
The second step: product development cost

- Simple plastic part = \$50,000 to \$150,000
 - Design engineering, tooling, prototypes
 - Pilot, testing, and certification
 - Packaging - anticipate updates
- Expect some tool and packaging changes over time



The second step: product development cost

- Electronic devices = \$2 to \$50 million
 - Large team of people
 - Significant outside development contracts
 - 3rd party manufacturing
 - Everything changes over time



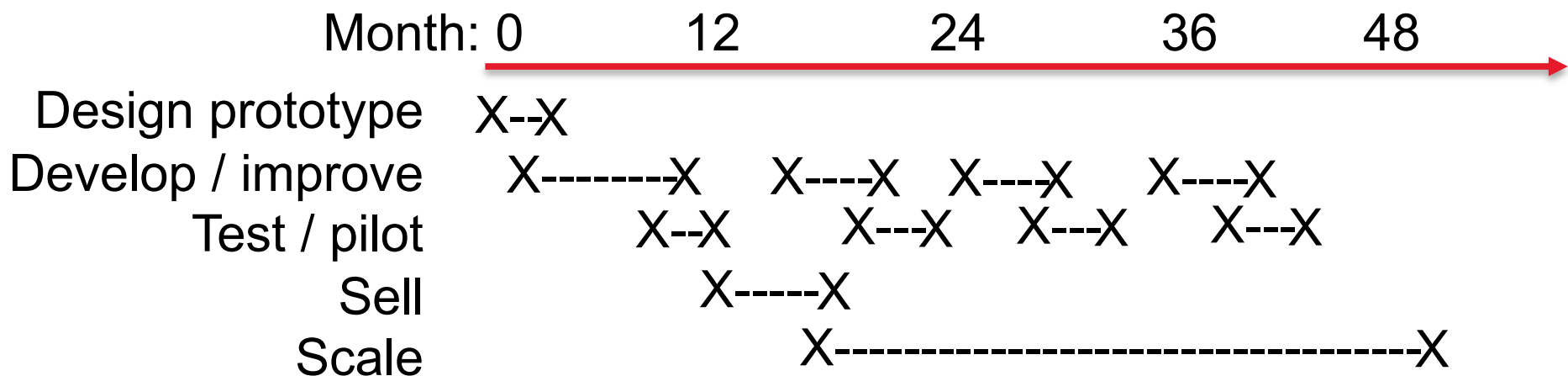
The second step: product development cost

- Software = \$200,000 to \$5 million up front
- Ongoing maintenance and upgrades
 - New features, upgrades
 - Browsers change constantly
 - Standards such as HIPPA change
 - APIs change
 - Partner companies go away or change business models
 - ClinicNote has a billing partner for insurance billings
 - Unexpected items such as ADA compliance for government funded entities



The second step: product development cost

- Software development
 - Design, prototypes
 - Development
 - Pilot, testing
- Development is never done



Summary: product development cost

- Get help on this step from others
 - Make sure they have built something similar to what you are building
- Get multiple bids
- Check references
- Plan for delays, failures, and problems

The third step

- Sales and marketing expenses
 - Specific marketing software
 - Trade shows
 - Advertising
 - Web development for company site
 - Travel
 - Direct sale regional sales force = large travel budget
 - Phone / video conference sell = minimal travel
 - Tradeshows and conference speaking



The fourth step

- General / operating expenses
 - Rent
 - Software licenses
 - Legal
 - Financial
 - Equipment (computers, test equipment, servers)
 - Banking
 - Insurance (E&O, D&O, liability, life insurance for key persons, cyber)
 - Phones



The fifth step

- People
 - For each area, what people do you need to hire and when?
 - Are they contract or full time?
 - Will you provide benefits?

How much should I raise?

- Determine negative cash flow “bottom”
 - Start with product development and inventory needs
 - Add any other startup expenses
 - Add average burn rate x sell cycle in months x 1.5

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Starting Cash	10,000	10,000	10,000	(35,000)	(129,500)	(247,955)	(689,609)	(1,234,547)	(605,753)	(122,312)	319,350	1,650,622
Revenue Received	-	-	-	-	41,552	155,820	280,476	1,157,520	1,595,300	964,600	2,077,600	964,600
Commissions	-	-	-	-	1,247	4,675	8,414	34,726	47,859	28,938	62,328	28,938
Credit Card Fees	-	-	-	-	-	-	-	-	-	-	-	-
Inventory	-	-	45,000	94,500	158,760	592,800	817,000	494,000	1,064,000	494,000	684,000	798,000
Operating Expenses	-	-	-	-	-	-	-	-	-	-	-	-
New Investment	-	-	-	-	-	-	-	-	-	-	-	-
Ending Cash Balance	10,000	10,000	(35,000)	(129,500)	(247,955)	(689,609)	(1,234,547)	(605,753)	(122,312)	319,350	1,650,622	1,788,284
Change in Cash	-	-	(45,000)	(94,500)	(118,455)	(441,655)	(544,938)	628,794	483,441	441,662	1,331,272	137,662

\$1,235,000 (inventory) + \$800,000 (development) +
 (\$55,000 (burn rate) x 9 (sell cycle) x 1.5) = \$2,777,500



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Final Thoughts



**GREATER DES MOINES
PARTNERSHIP**

DSMpartnership.com

Financial Model Overview

- Startupmodels.com
- Requires Excel



Thank You!

- Final thoughts
 - All content from these seminars is available
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