

# Physical product company examples

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- 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

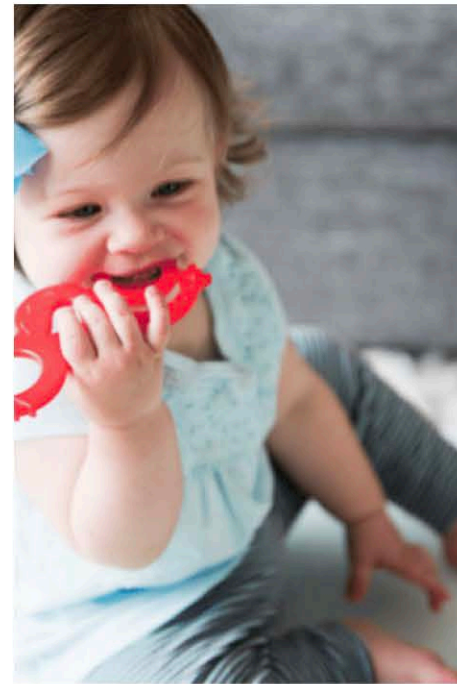
Time to sellable  
product = 3 years



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

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- 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

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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

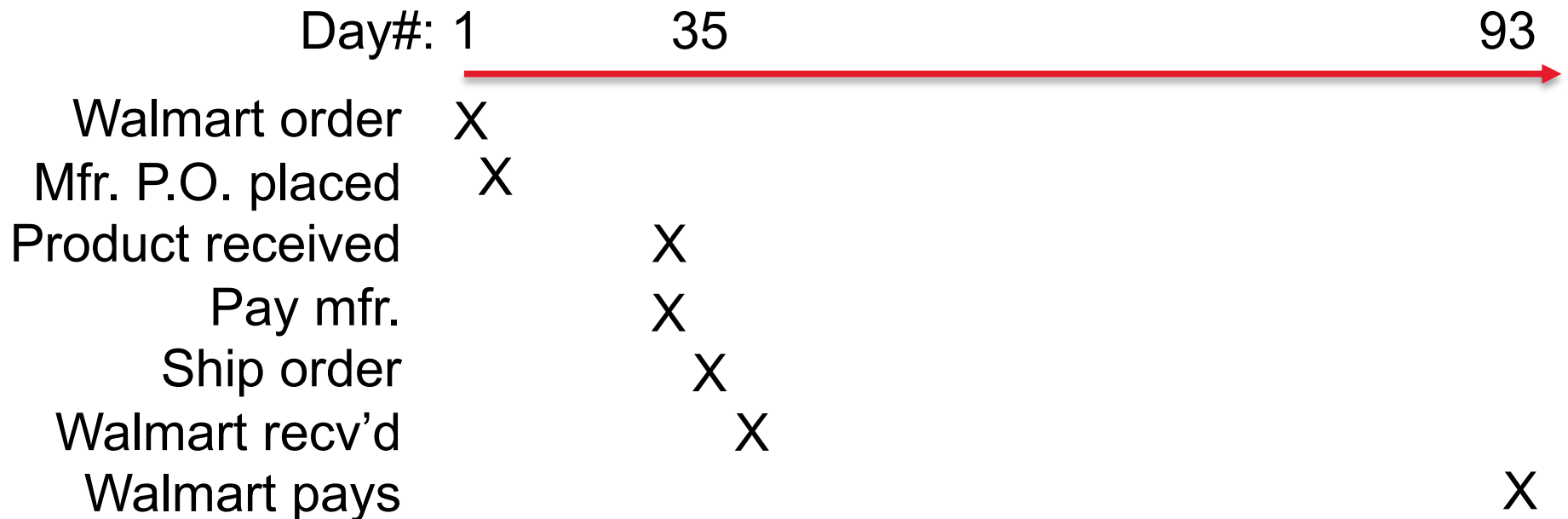
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- 25% margin to Lil' Sidekick
- Weekly 10,000 unit at \$4 per unit purchase order
- Cost of unit = \$3
- \$40K revenue, \$30K cost, \$10K gross margin
- Impact of weekly \$40K orders is staggering
- Every week starting 30 days later they owe \$30K 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        |
| <b>Revenue</b>                               |      |            |            |            |            |            |            |            |            |            |            |            |              |
| 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                | \$ - | \$ -       | \$ -       | \$ -       | \$ -       | \$ -       | \$ -       | \$ -       | \$ -       | \$ -       | \$ -       | \$ -       | \$ -         |
| <b>Total Revenue</b>                         | \$ - | \$ 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 |
| <b>Cost of Goods</b>                         |      |            |            |            |            |            |            |            |            |            |            |            |              |
| 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 |
| <b>Total Cost of Goods</b>                   | \$ - | \$ 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 |
| <b>Gross Profit</b>                          | \$ - | \$ 40,000  | \$ 40,000  | \$ 40,000  | \$ 40,000  | \$ 40,000  | \$ 40,000  | \$ 40,000  | \$ 40,000  | \$ 40,000  | \$ 40,000  | \$ 40,000  | \$ 440,000   |
| <b>Gross Margin</b>                          | 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 Amazon cash cycle

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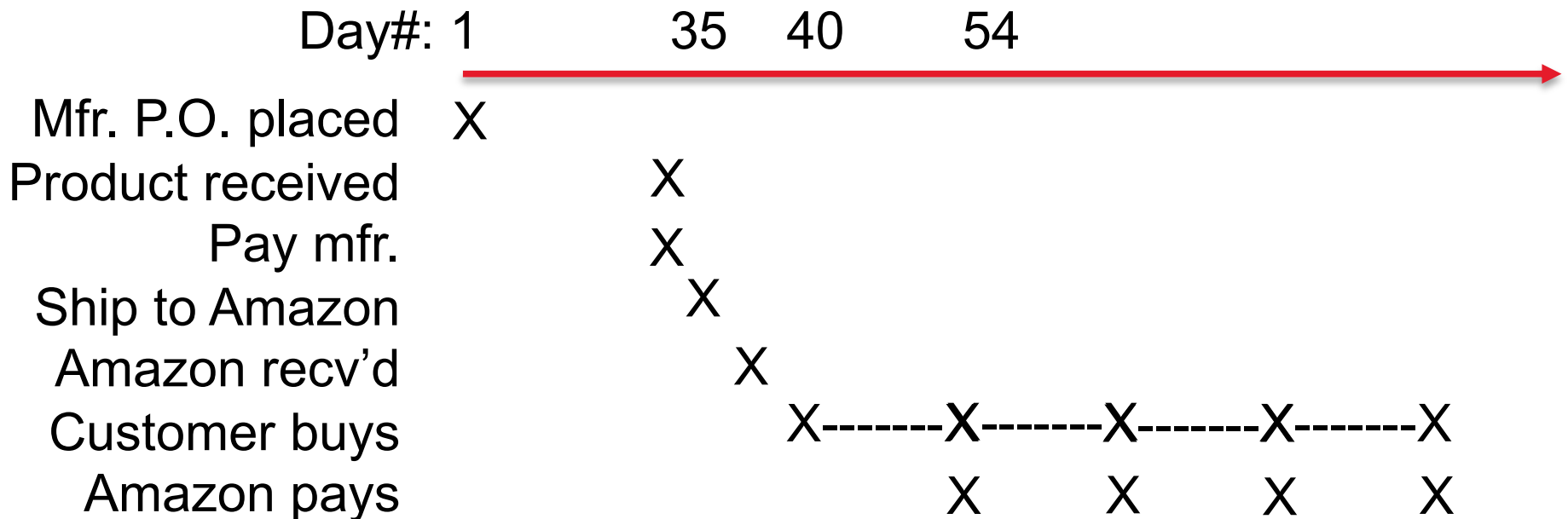
- 50% margin to Lil' Sidekick
- Minimum order is 100 units at \$5 per unit cost
- Retail price is \$9.99
- Amazon takes 22% commission with Fulfillment by Amazon (FBA)
- Amazon pays every 14 days
- FBA (fulfillment by Amazon) deals with credit cards, shipping costs, returns, and fulfillment





# Lil' Sidekick cash cycle

## Sell on Amazon cash cycle



# Financial impact of Amazon

Report Year 2019

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    |
|--------------------------------|------|-------|-------|--------|--------|--------|--------|--------|--------|--------|--------|--------|----------|
| <b>Revenue</b>                 |      |       |       |        |        |        |        |        |        |        |        |        |          |
| Subscription Software Revenue  | \$ - | \$ -  | \$ -  | \$ -   | \$ -   | \$ -   | \$ -   | \$ -   | \$ -   | \$ -   | \$ -   | \$ -   | \$ -     |
| Product Revenue                | \$ - | \$ 30 | \$ 30 | \$ 209 | \$ 139 | \$ 458 | \$ 308 | \$ 448 | \$ 209 | \$ 259 | \$ 448 | \$ 567 | \$ 3,104 |
| Professional Services Revenue  | \$ - | \$ -  | \$ -  | \$ -   | \$ -   | \$ -   | \$ -   | \$ -   | \$ -   | \$ -   | \$ -   | \$ -   | \$ -     |
| <b>Total Revenue</b>           | \$ - | \$ 30 | \$ 30 | \$ 209 | \$ 139 | \$ 458 | \$ 308 | \$ 448 | \$ 209 | \$ 259 | \$ 448 | \$ 567 | \$ 3,104 |
| <b>Cost of Goods</b>           |      |       |       |        |        |        |        |        |        |        |        |        |          |
| Third Party / Transaction Fees | \$ - | \$ -  | \$ -  | \$ -   | \$ -   | \$ -   | \$ -   | \$ -   | \$ -   | \$ -   | \$ -   | \$ -   | \$ -     |
| Hosting Expenses               | \$ - | \$ -  | \$ -  | \$ -   | \$ -   | \$ -   | \$ -   | \$ -   | \$ -   | \$ -   | \$ -   | \$ -   | \$ -     |
| Customer Support               | \$ - | \$ -  | \$ -  | \$ -   | \$ -   | \$ -   | \$ -   | \$ -   | \$ -   | \$ -   | \$ -   | \$ -   | \$ -     |
| Internal Engineering Support   | \$ - | \$ -  | \$ -  | \$ -   | \$ -   | \$ -   | \$ -   | \$ -   | \$ -   | \$ -   | \$ -   | \$ -   | \$ -     |
| Professional Services          | \$ - | \$ -  | \$ -  | \$ -   | \$ -   | \$ -   | \$ -   | \$ -   | \$ -   | \$ -   | \$ -   | \$ -   | \$ -     |
| Cost of Product Sales          | \$ - | \$ 15 | \$ 15 | \$ 105 | \$ 70  | \$ 230 | \$ 155 | \$ 225 | \$ 105 | \$ 130 | \$ 225 | \$ 285 | \$ 1,560 |
| <b>Total Cost of Goods</b>     | \$ - | \$ 15 | \$ 15 | \$ 105 | \$ 70  | \$ 230 | \$ 155 | \$ 225 | \$ 105 | \$ 130 | \$ 225 | \$ 285 | \$ 1,560 |
| <b>Gross Profit</b>            | \$ - | \$ 15 | \$ 15 | \$ 104 | \$ 69  | \$ 228 | \$ 153 | \$ 223 | \$ 104 | \$ 129 | \$ 223 | \$ 282 | \$ 1,544 |

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 | 10,030 | 9,560 | 9,769 | 9,908  | 10,366 | 10,674 | 10,622 | 10,831 | 11,090 | 11,037 | 11,604 |
| Revenue Received    | 30     | 30     | 209   | 139   | 458    | 308    | 448    | 209    | 259    | 448    | 567    | 1,244  |
| Cost of Goods       | -      | 500    | -     | -     | -      | -      | 500    | -      | -      | 500    | -      | 500    |
| Operating Expenses  | -      | -      | -     | -     | -      | -      | -      | -      | -      | -      | -      | -      |
| Other Income        | -      | -      | -     | -     | -      | -      | -      | -      | -      | -      | -      | -      |
| New Investment      | -      | -      | -     | -     | -      | -      | -      | -      | -      | -      | -      | -      |
| Ending Cash Balance | 10,030 | 9,560  | 9,769 | 9,908 | 10,366 | 10,674 | 10,622 | 10,831 | 11,090 | 11,037 | 11,604 | 12,348 |
| Change in Cash      | 30     | (470)  | 209   | 139   | 458    | 308    | (52)   | 209    | 259    | (52)   | 567    | 744    |

Time to cash positive = 4 months



# Lil' Sidekick international cash cycle

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- 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

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## Sell via international cash cycle

|                     | Day#: 1 | 33 |
|---------------------|---------|----|
| Distributor orders  | X       |    |
| Mfr. P.O. placed    | X       |    |
| Product received    |         | X  |
| Pay mfr.            |         | X  |
| Ship to distributor |         | X  |
| Distributor pays    |         | X  |

# 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     |
| <b>Revenue</b>                 |      |      |      |          |      |      |          |      |      |          |      |      |           |
| Subscription Software Revenue  | \$ - | \$ - | \$ - | \$ -     | \$ - | \$ - | \$ -     | \$ - | \$ - | \$ -     | \$ - | \$ - | \$ -      |
| Product Revenue                | \$ - | \$ - | \$ - | \$ 7,500 | \$ - | \$ - | \$ 7,500 | \$ - | \$ - | \$ 7,500 | \$ - | \$ - | \$ 22,500 |
| Professional Services Revenue  | \$ - | \$ - | \$ - | \$ -     | \$ - | \$ - | \$ -     | \$ - | \$ - | \$ -     | \$ - | \$ - | \$ -      |
| <b>Total Revenue</b>           | \$ - | \$ - | \$ - | \$ 7,500 | \$ - | \$ - | \$ 7,500 | \$ - | \$ - | \$ 7,500 | \$ - | \$ - | \$ 22,500 |
| <b>Cost of Goods</b>           |      |      |      |          |      |      |          |      |      |          |      |      |           |
| 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 |
| <b>Total Cost of Goods</b>     | \$ - | \$ - | \$ - | \$ 4,500 | \$ - | \$ - | \$ 4,500 | \$ - | \$ - | \$ 4,500 | \$ - | \$ - | \$ 13,500 |
| <b>Gross Profit</b>            | \$ - | \$ - | \$ - | \$ 3,000 | \$ - | \$ - | \$ 3,000 | \$ - | \$ - | \$ 3,000 | \$ - | \$ - | \$ 9,000  |
| <b>Gross Margin</b>            | 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

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



# FarrPro Direct Sale Cash Cycle

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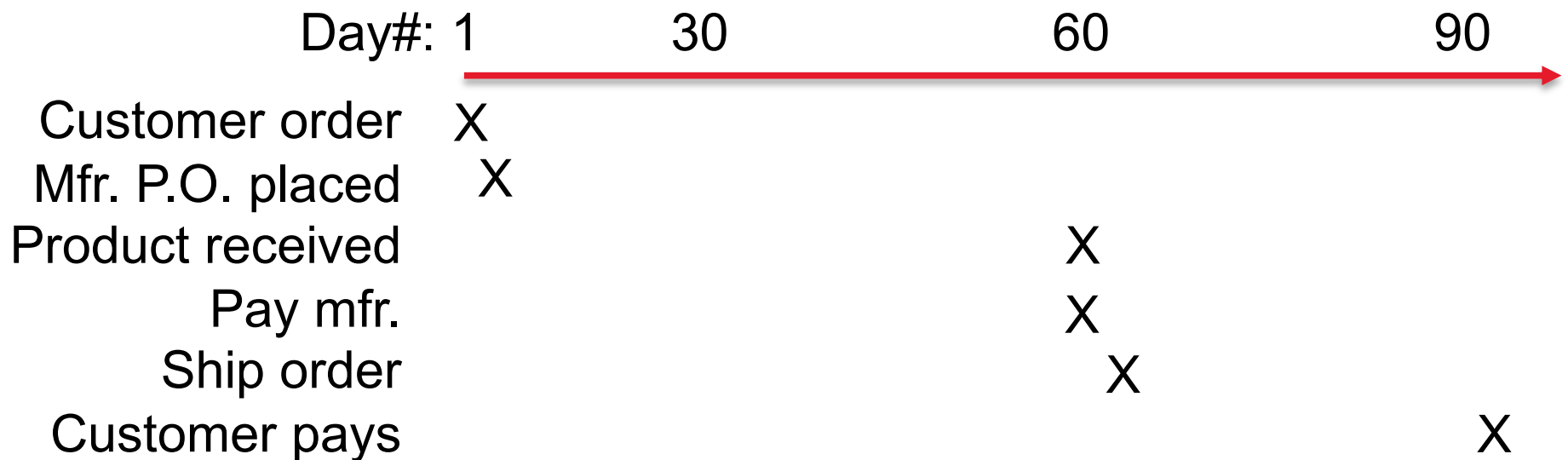
- List price \$995, average sale price \$742
  - Use average sale price to deal with discounting
- Margins 39% to 54% depending on volume ordered
- Customer pays 30 days after order received
- 60 days from order to delivery by manufacturer
- Fast sales ramp-up will require significant cash
- Offer discounts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



# FarrPro direct sale cash cycle

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## 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        |
|--------------------------------|------|------|------|-----------|------------|------------|--------------|--------------|------------|--------------|------------|--------------|--------------|
| <b>Revenue</b>                 |      |      |      |           |            |            |              |              |            |              |            |              |              |
| 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  | \$ - | \$ - | \$ - | \$ -      | \$ -       | \$ -       | \$ -         | \$ -         | \$ -       | \$ -         | \$ -       | \$ -         | \$ -         |
| <b>Total Revenue</b>           | \$ - | \$ - | \$ - | \$ 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 |
| <b>Cost of Goods</b>           |      |      |      |           |            |            |              |              |            |              |            |              |              |
| 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 |
| <b>Total Cost of Goods</b>     | \$ - | \$ - | \$ - | \$ 23,520 | \$ 88,200  | \$ 158,760 | \$ 655,200   | \$ 903,000   | \$ 546,000 | \$ 1,176,000 | \$ 546,000 | \$ 756,000   | \$ 4,852,680 |
| <b>Gross Profit</b>            | \$ - | \$ - | \$ - | \$ 18,032 | \$ 67,620  | \$ 121,716 | \$ 502,320   | \$ 692,300   | \$ 418,600 | \$ 901,600   | \$ 418,600 | \$ 579,600   | \$ 3,720,388 |
| <b>Gross Margin</b>            | 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

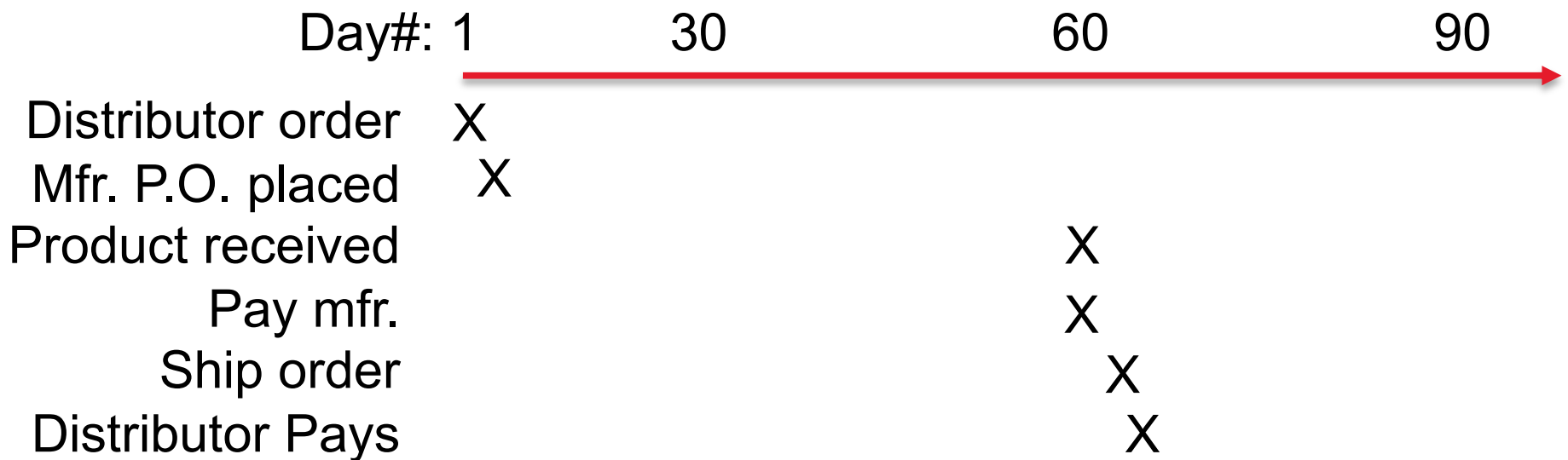
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- List price \$995, average sale price \$625
- Margins 31% to 47% depending on volume ordered
- Distributor pays on order received
- 60 days from order to delivery by manufacturer
- Fast sales ramp-up will require significant cash



# 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        |
| <b>Revenue</b>                         |      |      |      |      |           |           |            |            |            |              |            |              |              |
| 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          | \$ - | \$ - | \$ - | \$ - | \$ -      | \$ -      | \$ -       | \$ -       | \$ -       | \$ -         | \$ -       | \$ -         | \$ -         |
| <b>Total Revenue</b>                   | \$ - | \$ - | \$ - | \$ - | \$ 62,500 | \$ 62,500 | \$ 312,500 | \$ 625,000 | \$ 625,000 | \$ 1,250,000 | \$ 625,000 | \$ 1,875,000 | \$ 5,437,500 |
| <b>Cost of Goods</b>                   |      |      |      |      |           |           |            |            |            |              |            |              |              |
| 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 |
| <b>Total Cost of Goods</b>             | \$ - | \$ - | \$ - | \$ - | \$ 42,000 | \$ 42,000 | \$ 210,000 | \$ 420,000 | \$ 420,000 | \$ 840,000   | \$ 420,000 | \$ 1,260,000 | \$ 3,654,000 |
| <b>Gross Profit</b>                    | \$ - | \$ - | \$ - | \$ - | \$ 20,500 | \$ 20,500 | \$ 102,500 | \$ 205,000 | \$ 205,000 | \$ 410,000   | \$ 205,000 | \$ 615,000   | \$ 1,783,500 |
| <b>Gross Margin</b>                    | 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

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- 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

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- 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

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- 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

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- 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

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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

