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Financials

Mike Colwell

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Pro Forma / Financials

- Keep it simple: 6-tab financial model
  - Annual Profit and Loss (P&L)
  - Monthly Profit and Loss
  - Monthly Revenue projections
  - Monthly Expense projections
  - Team projections
  - Cash Flow

Have P&L, Balance Sheet, Cash Flow, and Cap Table prepared, but do not go through these in the first meeting.

The first meeting is like a first date☺

Financial Forecast

- Take the time and effort to develop a realistic and detailed financial forecast
- Grounded in realistic assumptions
- First 12 -18 months critical and must be supported
- 3-year forecast is normally sufficient early on
- 5-year projections are often unrealistic
  - Some investors want this to see what you aspire to

Forecast Revenue

Revenue Assumptions

- Focus on monthly, not yearly numbers
- Number of units sold multiplied by unit price
- Expected reoccurrence rate for SaaS models
- Ideally long term you can tie revenue assumptions to sales and marketing drivers
- Details revenue sources, for example:
  - SaaS (Software as a Service)
  - Hardware
  - Installation
  - Service fees

Forecast Expenses

Expense Assumptions

- Cost of Revenue / Goods, for example:
  - Manufacturer - cost of goods, warranties, support
  - Service / SaaS – onboarding, ongoing support costs
- Development / R&D
  - Employees
- Sales and Marketing
  - Resources, commissions, revenue share
- Operating Costs
  - Personnel, general, and administrative
- Capital Expenditures for example:
  - Equipment, computers, furniture, etc.

KNOW YOUR GROSS MARGIN!!

Team Forecast

- Includes:
  - Existing and salaries of new hires
  - Hiring dates
  - Position titles by department
  - Annual raises

Cash Flow

- Good operators manage to cash flow
- Know your cash requirements and manage the process
- Spend wisely, be thrifty
- Find creative ways to bring on resources or delay hiring
- Reduce salaries or take no salary

ALWAYS HAVE A DETAILED CASH FLOW FORECAST OF AT LEAST 180 DAYS!! MANAGE YOUR CASH!!

Don't fall in love with your financial model!

Financial Example Background

- Next Gen Tools is not a real company
- They build a Software as a Service product
  - One product that is priced at $995 per year with a 90% renewal rate
  - A commission of 20% is paid on 70% of sales
- The founders put in $100K to start then raised $500K from friends and family
- The CEO is taking a $2K per month salary for the first several years.

Financial Example Background (cont.)

- Hiring is as follows:
  - CEO and lead developer month 1
  - Marketing month 3
  - Sales month 6
  - Customer support month 8
  - Sales month 10
  - Developer month 1 of year 2
  - Sales month 3 year 2
- Development is partially outsourced first year

Next Gen Tools employee hiring plan

Employee Name or Position	Job Title	Expense Category	Full Time / Contract	Start Month	Start Year	Stop Month	Stop Year	Annual Salary	Annual Raise Percent
Sam	CEO	Operating Expenses	F	1	2018			24,000	2.5%
Kellie	Lead Developer	R&D and Internal Engineering	F	1	2018			60,000	2.5%
Lynn	Digital marketing	Sales and Marketing	F	3	2018			42,000	2.5%
Sharon	Sales	Sales and Marketing	F	6	2018			42,000	2.0%
Adam	Customer Support	Operating Expenses	F	8	2018			36,000	2.5%
TBD	Sales	Sales and Marketing	F	10	2018			42,000	2.0%
TBD	Developer	R&D and Internal Engineering	F	1	2019			60,000	2.5%
	Sales	Sales and Marketing	F	3	2019			42,000	2.0%

Report Year 2018

Next Gen Tools P&L Forecast for the year 2018

Revenue	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	Total
Revenue	-	-	-	-	-	-	4,975	5,970	6,965	9,950	24,875	20,895	73,630
Cost of Revenue	-	-	-	-	-	-	153	184	231	327	789	677	2,362
Commissions	-	-	-	-	-	-	697	836	975	1,393	3,483	2,925	10,308
Gross Margin	-	-	-	-	-	-	4,125	4,950	5,759	8,230	20,603	17,293	60,960
Sales and Marketing													
Payroll Costs	-	-	3,500	3,500	3,500	7,000	7,000	7,000	7,000	10,500	10,500	10,500	70,000
Benefits	-	-	280	280	280	560	560	560	560	840	840	840	5,600
Payroll Taxes	-	-	210	210	210	420	420	420	420	630	630	630	4,200
Ad budget for Subscription Sales	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Marketing	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Sales and Marketing	-	-	3,990	3,990	3,990	7,980	7,980	7,980	7,980	11,970	11,970	11,970	79,800
R&D and Internal Engineering													
Payroll Costs	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	60,000
Benefits	400	400	400	400	400	400	400	400	400	400	400	400	4,800
Payroll Taxes	300	300	300	300	300	300	300	300	300	300	300	300	3,600
Outsourced Hardware R&D	-	-	-	-	-	-	-	-	-	-	-	-	-
Outsourced Software R&D	12,000	12,000	12,000	12,000	12,000	12,000	6,000	6,000	6,000	2,000	2,000	2,000	96,000
Other R&D	-	-	-	-	-	-	-	-	-	-	-	-	-
Total R&D and Internal Engineering	17,700	17,700	17,700	17,700	17,700	17,700	11,700	11,700	11,700	7,700	7,700	7,700	164,400
Operating Expenses													
Payroll Costs	2,000	2,000	2,000	2,000	2,000	2,000	2,000	5,000	5,000	5,000	5,000	5,000	39,000
Benefits	160	160	160	160	160	160	160	400	400	400	400	400	3,120
Payroll Taxes	120	120	120	120	120	120	120	300	300	300	300	300	2,340
Dues, Fees & Subscriptions	-	-	-	-	-	-	-	3,500	-	-	-	-	3,500
Legal & Professional	6,000	-	2,000	-	2,000	-	2,000	-	1,000	-	1,000	-	14,000
Banking & Finance	120	120	120	120	120	120	120	120	120	120	120	120	1,440
Equipment	4,500	-	2,500	-	-	2,000	-	2,000	-	-	-	-	11,000
Supplies	150	150	150	150	150	150	150	150	150	150	150	150	1,800
Postage & Shipping	25	25	25	25	25	25	25	25	25	25	25	25	300
Facility	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	14,400
Administrative Services	200	200	200	200	200	200	200	200	200	200	200	200	2,400
Insurance	-	-	-	-	-	1,500	-	-	-	-	-	-	1,500
Phone / Internet	100	-	150	150	150	150	150	200	200	250	250	250	2,000
Miscellaneous	250	250	250	250	250	250	250	250	250	250	250	250	3,000
Other Operating Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Operating Expenses	14,825	4,225	8,875	4,375	6,375	7,875	6,375	13,345	8,845	7,895	8,895	7,895	99,800
Total Expenses	32,525	21,925	30,565	26,065	28,065	33,555	26,055	33,025	28,525	27,565	28,565	27,565	344,000
Operating Profit	(32,525)	(21,925)	(30,565)	(26,065)	(28,065)	(33,555)	(21,930)	(28,075)	(22,766)	(19,335)	(7,962)	(10,272)	(283,040)
Headcount	2	2	3	3	3	4	4	5	5	6	6	6	

Report Year 2018

Next Gen Tools Cash Flow Forecast for the year 2018

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Starting Cash	100,000	67,475	545,550	514,985	487,420	457,855	422,800	398,073	367,101	341,836	319,803	307,750
Revenue Received	-	-	-	-	-	-	4,478	5,373	6,766	9,552	23,084	19,801
Commissions	-	-	-	-	-	-	697	836	975	1,393	3,483	2,925
Credit Card Fees	-	-	-	-	-	-	153	184	231	327	789	677
Revenue Share	-	-	-	-	-	-	-	-	-	-	-	-
Operating Expenses	32,525	21,925	30,565	27,565	29,565	35,055	28,355	35,325	30,825	29,865	30,865	29,865
New Investment	-	500,000	-	-	-	-	-	-	-	-	-	-
Ending Cash Balance	67,475	545,550	514,985	487,420	457,855	422,800	398,073	367,101	341,836	319,803	307,750	294,083
Change in Cash	(32,525)	478,075	(30,565)	(27,565)	(29,565)	(35,055)	(24,727)	(30,972)	(25,265)	(22,033)	(12,053)	(13,667)

Report Year 2019

Next Gen Tools P&L Forecast for the year 2019

Revenue	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	Total
Revenue	31,840	33,830	33,830	27,860	44,775	44,775	54,228	55,123	56,019	58,705	72,138	48,656	561,777
Cost of Revenue	1,065	1,113	1,150	973	1,494	1,473	1,822	1,850	1,910	1,995	2,412	1,698	18,956
Commissions	4,458	4,736	4,736	3,900	6,269	6,269	7,592	7,717	7,843	8,219	10,099	6,812	78,649
Gross Margin	26,317	27,981	27,944	22,986	37,013	37,033	44,813	45,556	46,266	48,491	59,626	40,145	464,172
Sales and Marketing													
Payroll Costs	10,500	10,500	14,088	14,088	14,088	14,158	14,158	14,158	14,158	14,228	14,228	14,228	162,575
Benefits	840	840	1,127	1,127	1,127	1,133	1,133	1,133	1,133	1,138	1,138	1,138	13,006
Payroll Taxes	630	630	845	845	845	849	849	849	849	854	854	854	9,755
Ad budget for Subscription Sales	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Marketing	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Sales and Marketing	11,970	11,970	16,060	16,060	16,060	16,140	16,140	16,140	16,140	16,219	16,219	16,219	185,336
R&D and Internal Engineering													
Payroll Costs	10,125	10,125	10,125	10,125	10,125	10,125	10,125	10,125	10,125	10,125	10,125	10,125	121,500
Benefits	810	810	810	810	810	810	810	810	810	810	810	810	9,720
Payroll Taxes	608	608	608	608	608	608	608	608	608	608	608	608	7,290
Outsourced Hardware R&D	-	-	-	-	-	-	-	-	-	-	-	-	-
Outsourced Software R&D	-	-	-	-	-	-	-	-	-	-	-	-	-
Other R&D	-	-	-	-	-	-	-	-	-	-	-	-	-
Total R&D and Internal Engineering	11,543	11,543	11,543	11,543	11,543	11,543	11,543	11,543	11,543	11,543	11,543	11,543	138,510
Operating Expenses													
Payroll Costs	5,050	5,050	5,050	5,050	5,050	5,050	5,050	5,125	5,125	5,125	5,125	5,125	60,975
Benefits	404	404	404	404	404	404	404	410	410	410	410	410	4,878
Payroll Taxes	303	303	303	303	303	303	303	308	308	308	308	308	3,659
Dues, Fees & Subscriptions	-	-	-	-	-	-	-	3,500	-	-	-	-	3,500
Legal & Professional	-	1,000	-	1,000	-	1,000	-	1,000	-	1,000	-	1,000	6,000
Banking & Finance	200	200	200	200	200	200	200	200	200	200	200	200	2,400
Equipment	-	-	-	-	-	-	-	-	-	-	-	-	-
Supplies	150	150	150	150	150	150	150	150	150	150	150	150	1,800
Postage & Shipping	25	25	25	25	25	25	25	25	25	25	25	25	300
Facility	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	14,400
Administrative Services	200	200	200	200	200	200	200	200	200	200	200	200	2,400
Insurance	-	-	-	-	-	1,500	-	-	-	-	-	-	1,500
Phone / Internet	250	250	300	300	300	300	300	300	300	300	300	300	3,500
Miscellaneous	250	250	250	250	250	250	250	250	250	250	250	250	3,000
Other Operating Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Operating Expenses	8,032	9,032	8,082	9,082	8,082	10,582	8,082	12,668	8,168	9,168	8,168	9,168	108,312
Total Expenses	31,545	32,545	35,684	36,684	35,684	38,264	35,764	40,350	35,850	36,929	35,929	36,929	432,157
Operating Profit	(5,227)	(4,563)	(7,741)	(13,698)	1,328	(1,231)	9,049	5,206	10,417	11,561	23,697	3,216	32,015
Headcount	7	7	8	8	8	8	8	8	8	8	8	8	

Report Year 2019

Next Gen Tools Cash Flow Forecast for the year 2019

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Starting Cash	294,083	285,859	277,703	266,763	250,662	247,896	241,973	247,077	248,249	255,487	263,690	282,775
Revenue Received	31,144	32,537	33,631	28,457	43,681	43,084	53,282	54,088	55,839	58,347	70,526	49,660
Commissions	4,458	4,736	4,736	3,900	6,269	6,269	7,592	7,717	7,843	8,219	10,099	6,812
Credit Card Fees	1,065	1,113	1,150	973	1,494	1,473	1,822	1,850	1,910	1,995	2,412	1,698
Revenue Share	-	-	-	-	-	-	-	-	-	-	-	-
Operating Expenses	33,845	34,845	38,684	39,684	38,684	41,264	38,764	43,350	38,850	39,929	38,929	39,929
New Investment	-	-	-	-	-	-	-	-	-	-	-	-
Ending Cash Balance	285,859	277,703	266,763	250,662	247,896	241,973	247,077	248,249	255,487	263,690	282,775	283,996
Change in Cash	(8,224)	(8,157)	(10,940)	(16,101)	(2,766)	(5,923)	5,104	1,172	7,238	8,203	19,085	1,221

Report Year 2020

Next Gen Tools P&L Forecast for the year 2020

Revenue	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	Total
Revenue	78,406	80,197	80,197	74,824	90,048	90,048	98,555	99,361	100,167	102,585	114,674	93,540	1,102,599
Cost of Revenue	2,660	2,635	2,737	2,577	3,046	3,028	3,341	3,366	3,420	3,497	3,872	3,230	37,410
Commissions	10,977	11,228	11,228	10,475	12,607	12,607	13,798	13,910	14,023	14,362	16,054	13,096	154,364
Gross Margin	64,769	66,335	66,233	61,771	74,395	74,413	81,416	82,084	82,723	84,725	94,747	77,214	910,825
Sales and Marketing													
Payroll Costs	14,228	14,228	14,387	14,387	14,387	14,459	14,459	14,459	14,459	14,530	14,530	14,530	173,041
Benefits	1,138	1,138	1,151	1,151	1,151	1,157	1,157	1,157	1,157	1,162	1,162	1,162	13,843
Payroll Taxes	854	854	863	863	863	868	868	868	868	872	872	872	10,382
Ad budget for Subscription Sales	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Marketing	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Sales and Marketing	16,219	16,219	16,401	16,401	16,401	16,483	16,483	16,483	16,483	16,564	16,564	16,564	197,267
R&D and Internal Engineering													
Payroll Costs	10,378	10,378	10,378	10,378	10,378	10,378	10,378	10,378	10,378	10,378	10,378	10,378	124,538
Benefits	830	830	830	830	830	830	830	830	830	830	830	830	9,963
Payroll Taxes	623	623	623	623	623	623	623	623	623	623	623	623	7,472
Outsourced Hardware R&D	-	-	-	-	-	-	-	-	-	-	-	-	-
Outsourced Software R&D	-	-	-	-	-	-	-	-	-	-	-	-	-
Other R&D	-	-	-	-	-	-	-	-	-	-	-	-	-
Total R&D and Internal Engineering	11,831	11,831	11,831	11,831	11,831	11,831	11,831	11,831	11,831	11,831	11,831	11,831	141,973
Operating Expenses													
Payroll Costs	5,176	5,176	5,176	5,176	5,176	5,176	5,176	5,253	5,253	5,253	5,253	5,253	62,499
Benefits	414	414	414	414	414	414	414	420	420	420	420	420	5,000
Payroll Taxes	311	311	311	311	311	311	311	315	315	315	315	315	3,750
Dues, Fees & Subscriptions	-	-	-	-	-	-	-	3,500	-	-	-	-	3,500
Legal & Professional	-	1,000	-	1,000	-	1,000	-	1,000	-	1,000	-	1,000	6,000
Banking & Finance	200	200	200	200	200	200	200	200	200	200	200	200	2,400
Equipment	-	-	-	-	-	-	-	-	-	-	-	-	-
Supplies	150	150	150	150	150	150	150	150	150	150	150	150	1,800
Postage & Shipping	25	25	25	25	25	25	25	25	25	25	25	25	300
Facility	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	14,400
Administrative Services	200	200	200	200	200	200	200	200	200	200	200	200	2,400
Insurance	-	-	-	-	-	1,500	-	-	-	-	-	-	1,500
Phone / Internet	300	300	300	300	300	300	300	300	300	300	300	300	3,600
Miscellaneous	250	250	250	250	250	250	250	250	250	250	250	250	3,000
Other Operating Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Operating Expenses	8,226	9,226	8,226	9,226	8,226	10,726	8,226	12,814	8,314	9,314	8,314	9,314	110,149
Total Expenses	36,276	37,276	36,458	37,458	36,458	39,040	36,540	41,127	36,627	37,709	36,709	37,709	449,389
Operating Profit	28,493	29,058	29,774	24,313	37,937	35,374	44,876	40,957	46,096	47,016	58,038	39,506	461,437
Headcount	8	8	8	8	8	8	8	8	8	8	8	8	

Report Year 2020

Next Gen Tools Cash Flow Forecast for the year 2020

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Starting Cash	283,996	308,562	331,166	357,461	379,011	412,663	443,214	483,939	520,664	563,299	606,693	659,981
Revenue Received	77,779	77,043	80,018	75,361	89,062	88,525	97,704	98,429	100,005	102,262	113,223	94,444
Commissions	10,977	11,228	11,228	10,475	12,607	12,607	13,798	13,910	14,023	14,362	16,054	13,096
Credit Card Fees	2,660	2,635	2,737	2,577	3,046	3,028	3,341	3,366	3,420	3,497	3,872	3,230
Revenue Share	-	-	-	-	-	-	-	-	-	-	-	-
Operating Expenses	39,576	40,576	39,758	40,758	39,758	42,340	39,840	44,427	39,927	41,009	40,009	41,009
New Investment	-	-	-	-	-	-	-	-	-	-	-	-
Ending Cash Balance	308,562	331,166	357,461	379,011	412,663	443,214	483,939	520,664	563,299	606,693	659,981	697,091
Change in Cash	24,566	22,604	26,295	21,550	33,651	30,551	40,725	36,725	42,635	43,394	53,288	37,110