

Financing for Startups: Financial Information & Forecasts

Duke Startup Challenge

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Books To Read

- *A Good Hard Kick In The Ass: Basic Training for Entrepreneurs* by Rob Adams
- *The Art of the Start: The Time-Tested, Battle-Hardened Guide for Anyone Starting Anything* by Guy Kawasaki

Outline

- What are you forecasting?
- Introduction to financial statements
- Discuss financial ratios
- Discuss forecasts
- Questions
- Walk-through forecast model-Dan Routhier
- Questions

What to forecast?

- Develop key milestones to be accomplished during forecast period and articulate in your XS and BP
- Understand key assumptions for the business (understand the business)
- Develop time (“runway”) and \$\$ budget (“burn”) to accomplish the milestones

Basic Financial Statements

- Balance Sheet
- Income Statement
- Cash Flow Statement

Balance Sheet

- Snap Shot
- Financial Condition
- As of Date
- $\text{Assets} = \text{Liabilities} + \text{Equity}$
- $\text{Equity} = \text{Capital} + \text{Retained Earnings}$
- Historical cost

Income Statement

- Movie
- Results of Operations
- For the Period
- Matching Concept
- Creates Assets & Liabilities
- $\text{Income} - \text{Expenses} = \text{Earnings}$

Cash Flow Statement

- Documentary
- Results of Cash Flows
- For the Period
- Receipts - Disbursements = Cash
- Operating, Investing & Financing

Breakeven Point

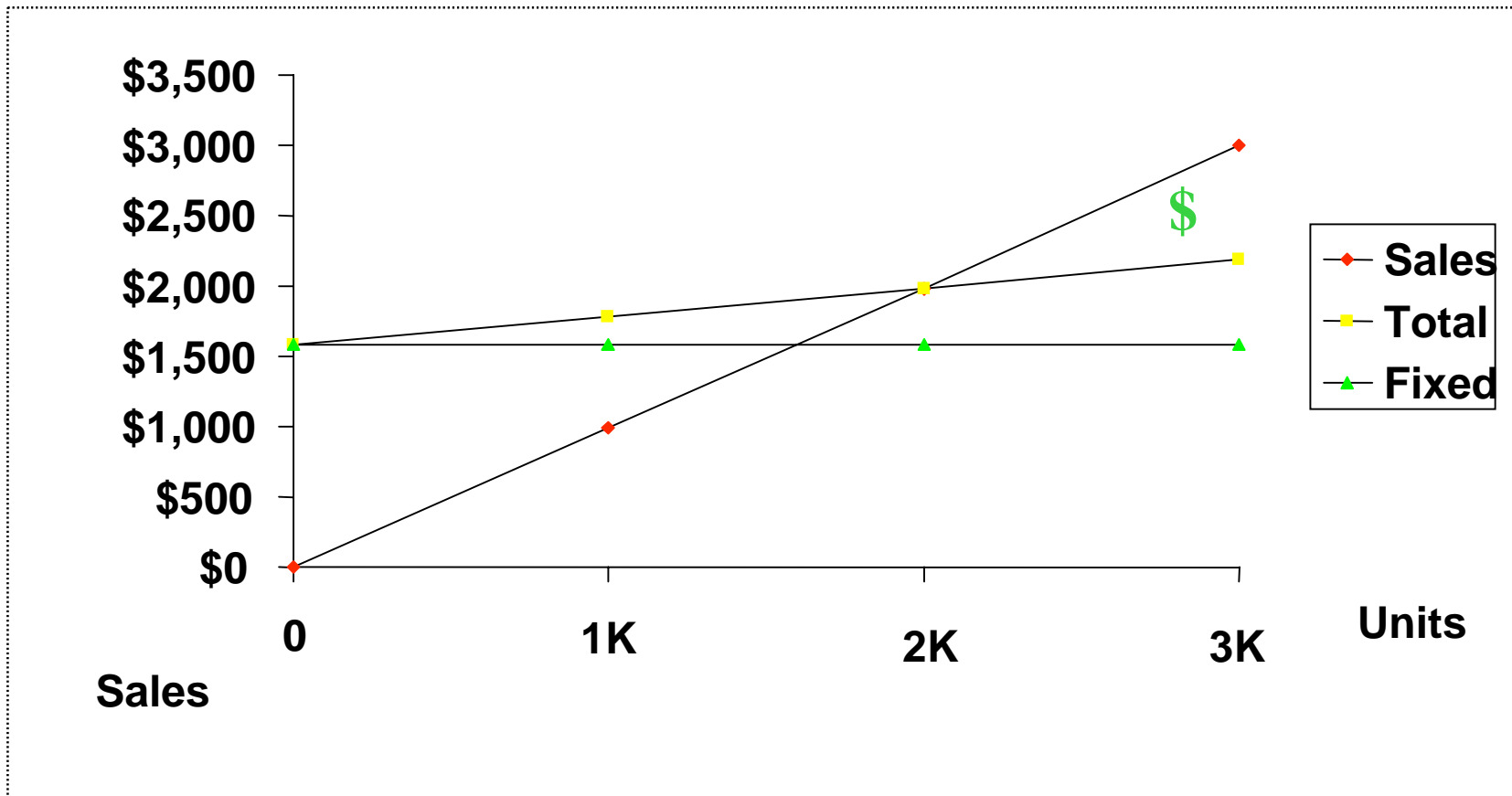
Fixed Costs

Gross Profit %

Breakeven Point Assumptions

- Identify Costs as Fixed or Variable
- Simplifying Assumptions - All Costs Fixed Except Direct Costs (%) AND Commissions (%)

Breakeven Point



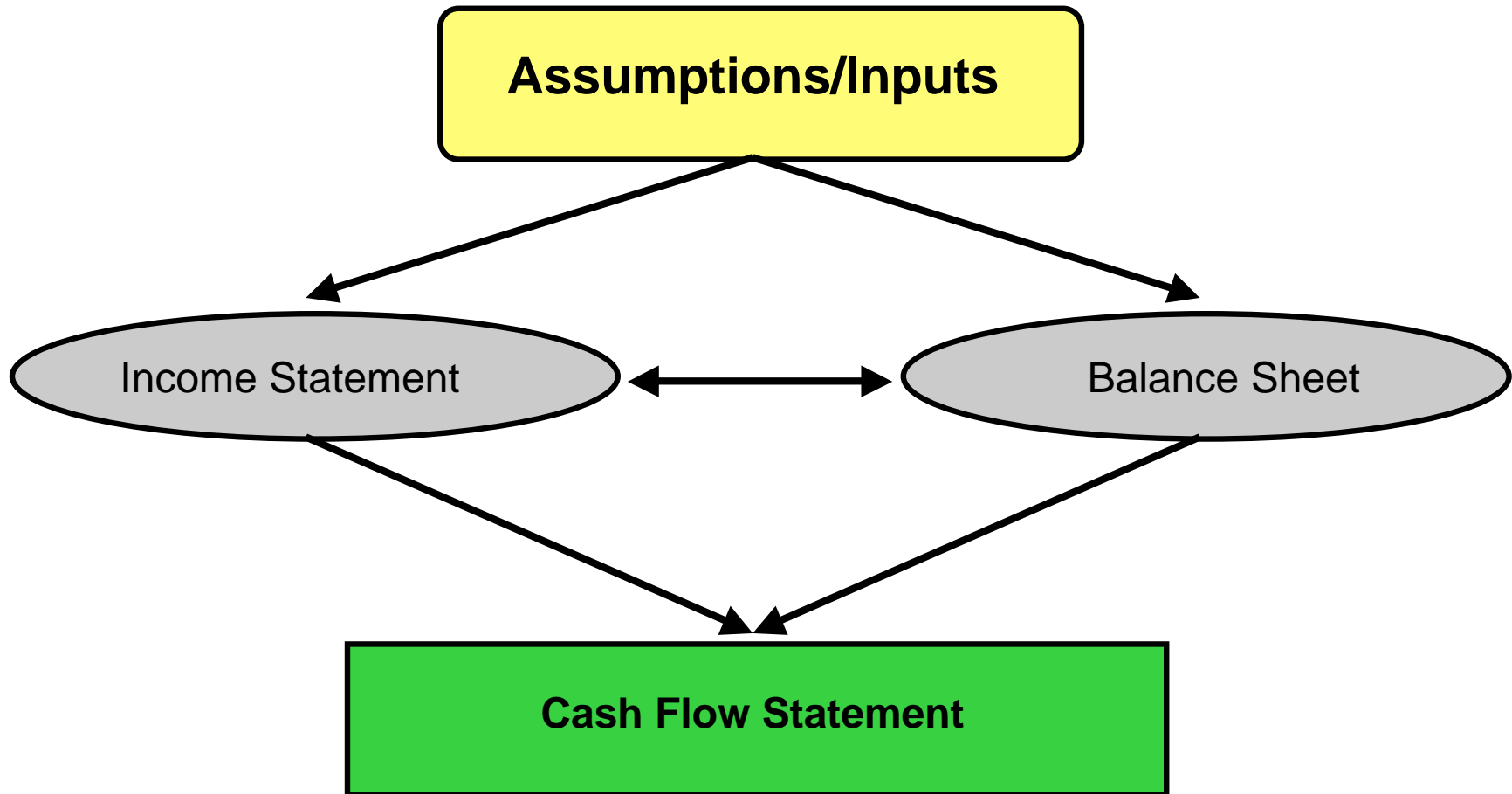
Financial Ratios

- Traditional Ratios
- External Users
- Barometer of Big Picture
- Focus on Impact of Assumptions
- Spotlight on Omissions
- Highlight Strengths & Weaknesses
- Early Warning Signals

Forecast Models

- Versioning
- Structure
- Bottoms Up Approach
- Key Assumptions
- Input Variables
- Scale Up or Down to Fit Needs

Forecast Financial Statements



Developing Assumptions

- Key Drivers
- Milestones
- Market Research - Products & Channels
- Historical & Surrogate Patterns
- Realistic & Margin for Error
- Logical & Thorough

Do's and Don'ts

- Do Monthly Forecasts
- Don't Think Your Budgets & Forecasts Are Different
- Do Prepare Simple Assumptions
- Don't Straight Line Sales & Expenses!
- Do Relate all Expenses to Sales Volume
- Do Categorize Expenses by Function
- Do Prepare a Capital Budget
- Don't Confuse Cash Flow with Net Income

Do's and Don'ts

- Do Determine Break-even Point
- Do Plan on an Exit
- Do Plan on Murphy's Law
- Do Prepare a Contingency Plan
- Do Purchase Simple Accounting Software
- Do Use the Same Level of Detail for the Forecast as the G/L Accounts
- Do Include a Salary for Your Services

Do's and Don'ts

- Do Realize that Growth and Start Up are Equally Difficult - Both Require Cash
- Do Price your Product on the Market
- Do Use Ratios and Percentages
- Do Use Support Schedules
- Do Keep the Summary Simple
- Do Ask Yourself if the Results Make Sense

Financial Summary Dashboard

	<u>200X</u>	<u>200Y</u>	<u>200Z</u>
Milestones	Develop Product	US Launch	Int'l Launch
Employees	10	30	50
Sales	\$100	\$5,000	\$25,000
Net Income	(\$500)	\$100	\$2,500
Net Cash Flow	(\$750)	(\$2,000)	(\$5,000)
Equity Rounds	\$1,000	\$3,000	\$10,000

Questions

Thank you and Good Luck!