

FINANCIAL MODELING

OBJECTIVES

- **Get you to see the power of a Financial Model**
 - Help you raise money more easily
 - Help you run your business better
- **Teach you how to build one yourself**
 - Best practices
 - An example

AGENDA

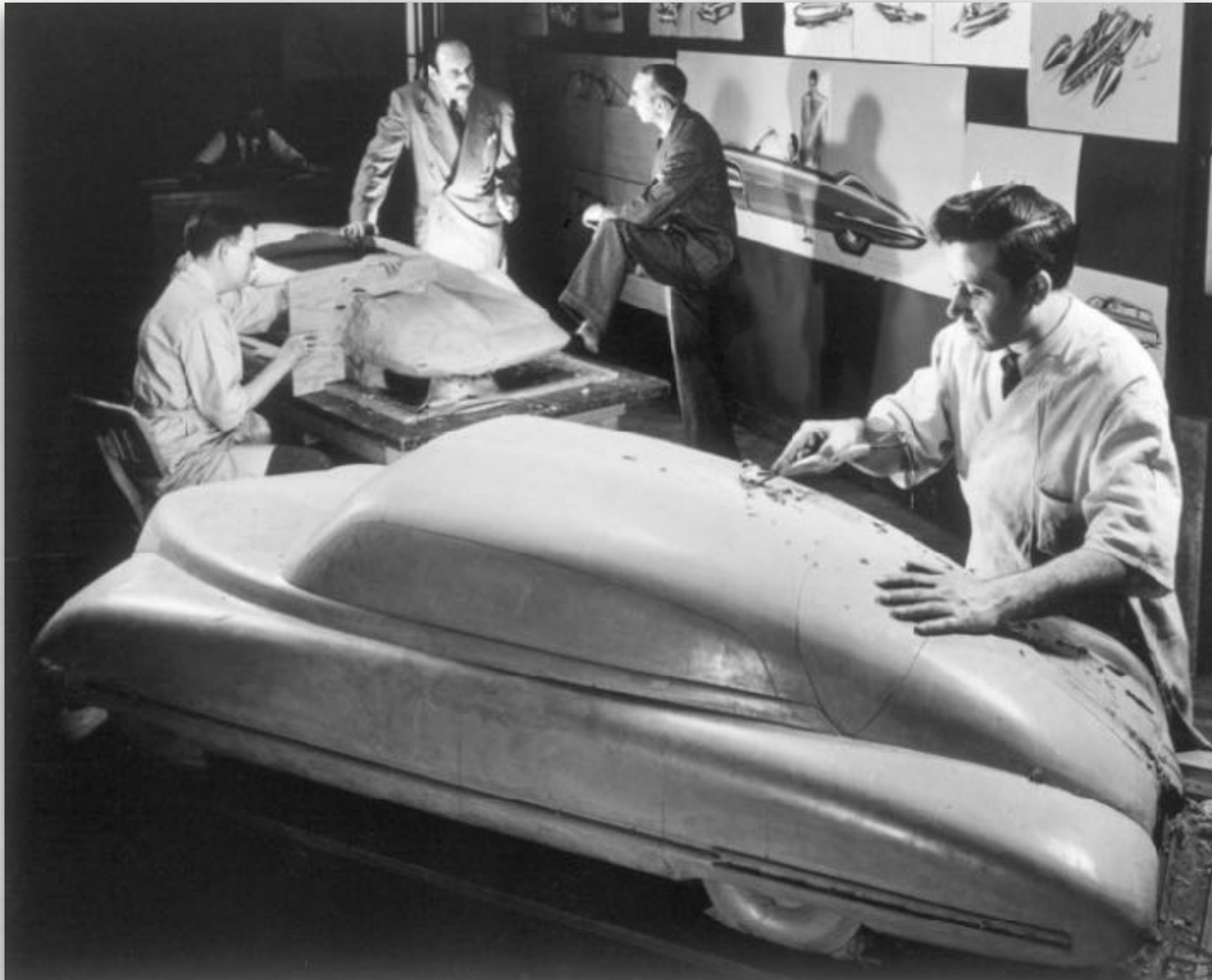
- Agree on the “WHY” of a financial model
- Walk through what a model looks like
- Q&A
- Discuss how to build your own (High level)
- Discuss how to use it most effectively

WHY FINANCIAL MODELING?

WHAT IS A FINANCIAL MODEL?

- **What are financial projections?**
 - How are they useful?
 - Are they more useful for startups or mature businesses?
- **What is a financial model?**
 - How is it useful?
 - Is it more useful for startups or mature businesses?

WHAT IS A MODEL?



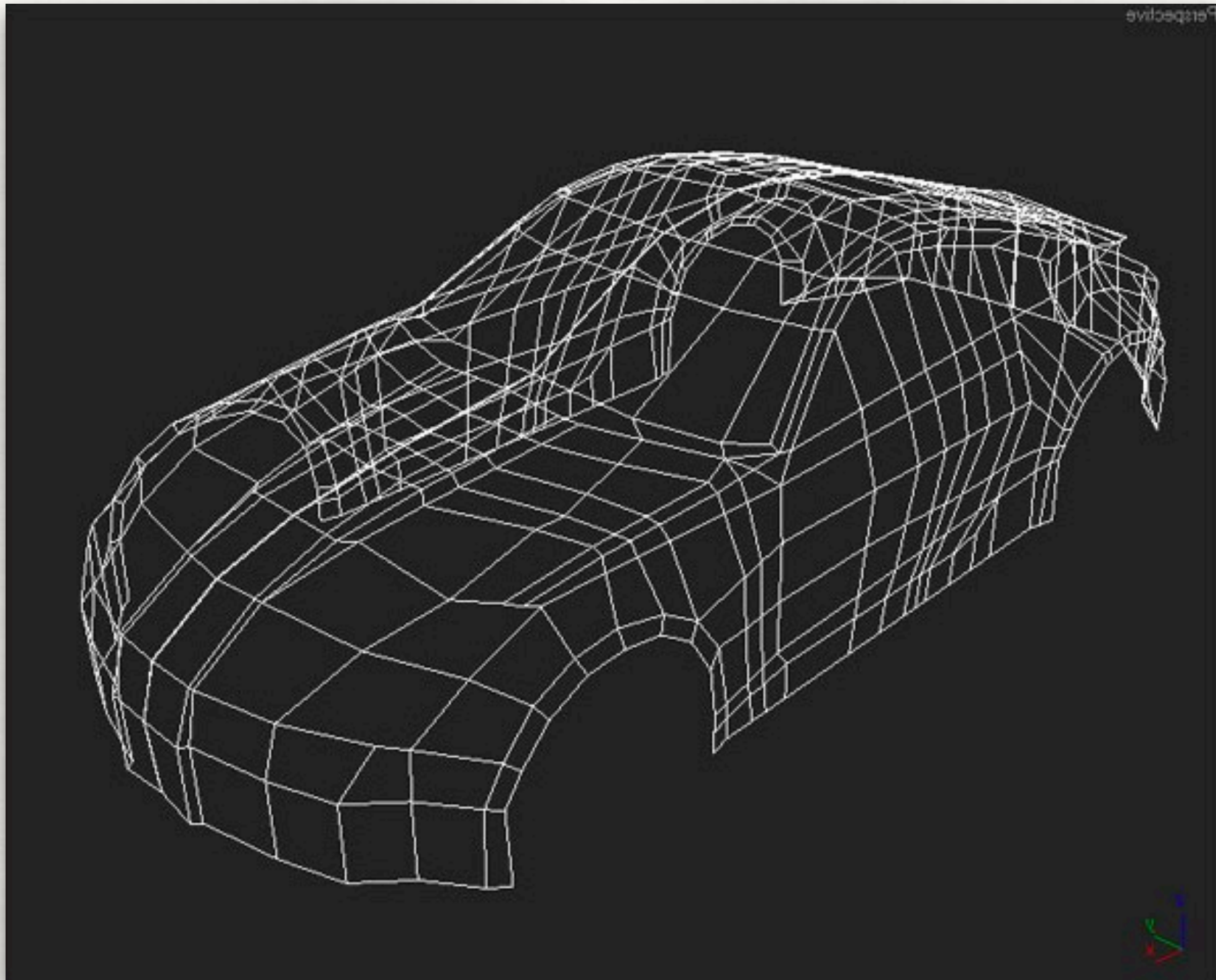
WHAT IS A MODEL?



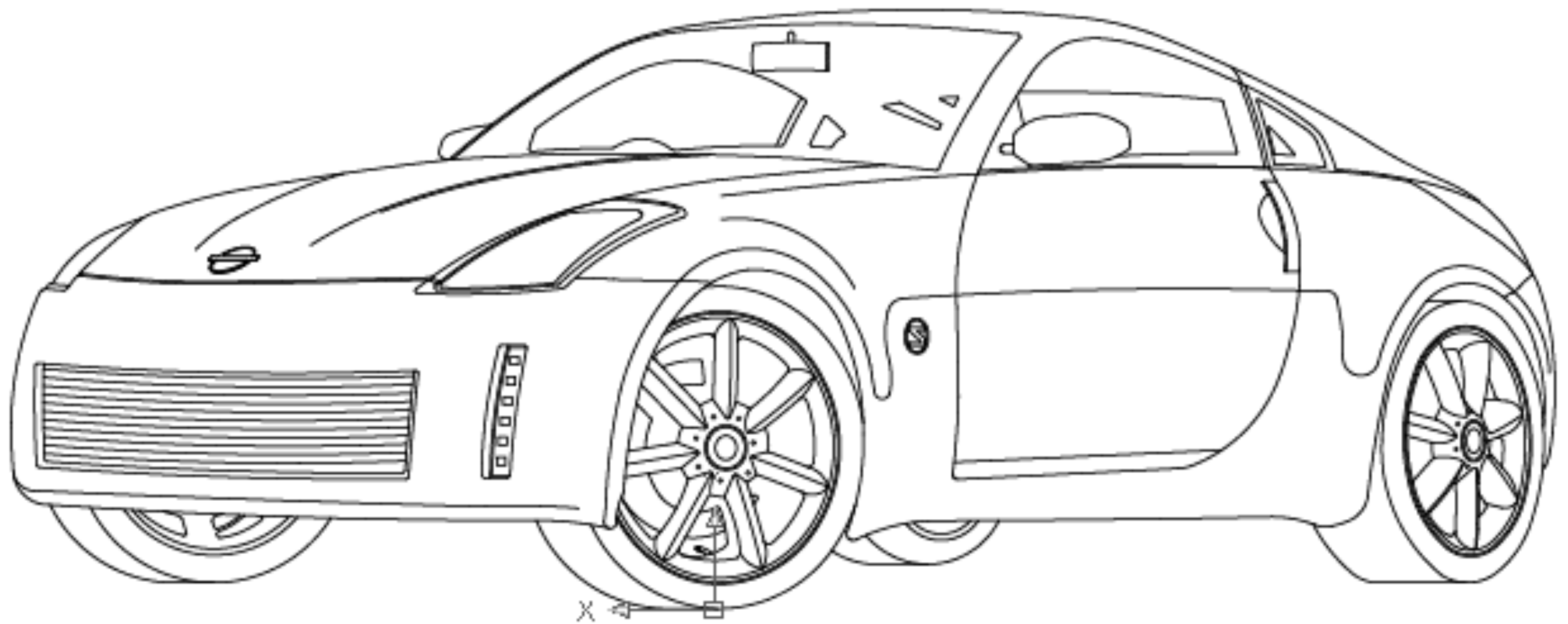
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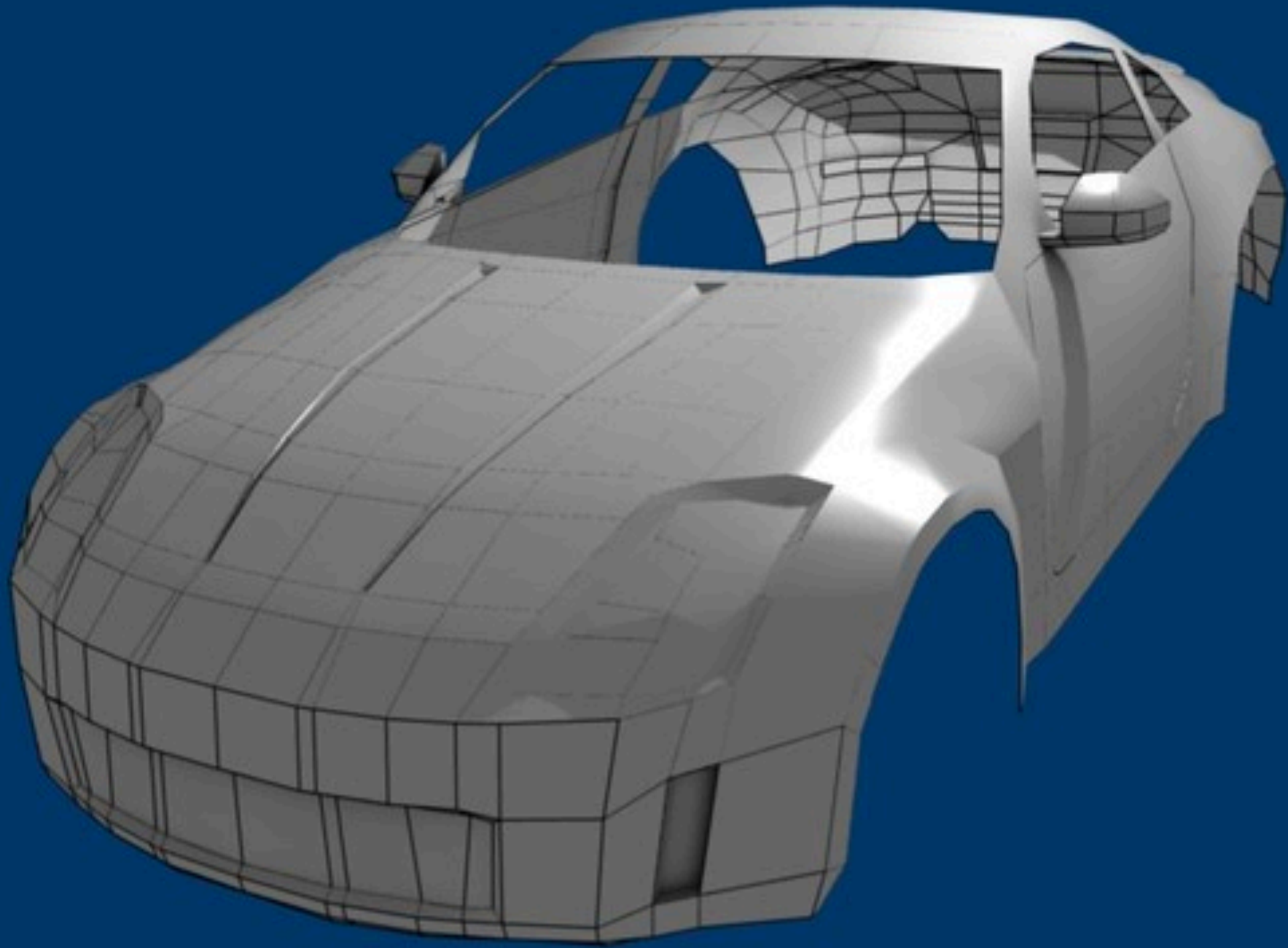
WHAT IS A MODEL?



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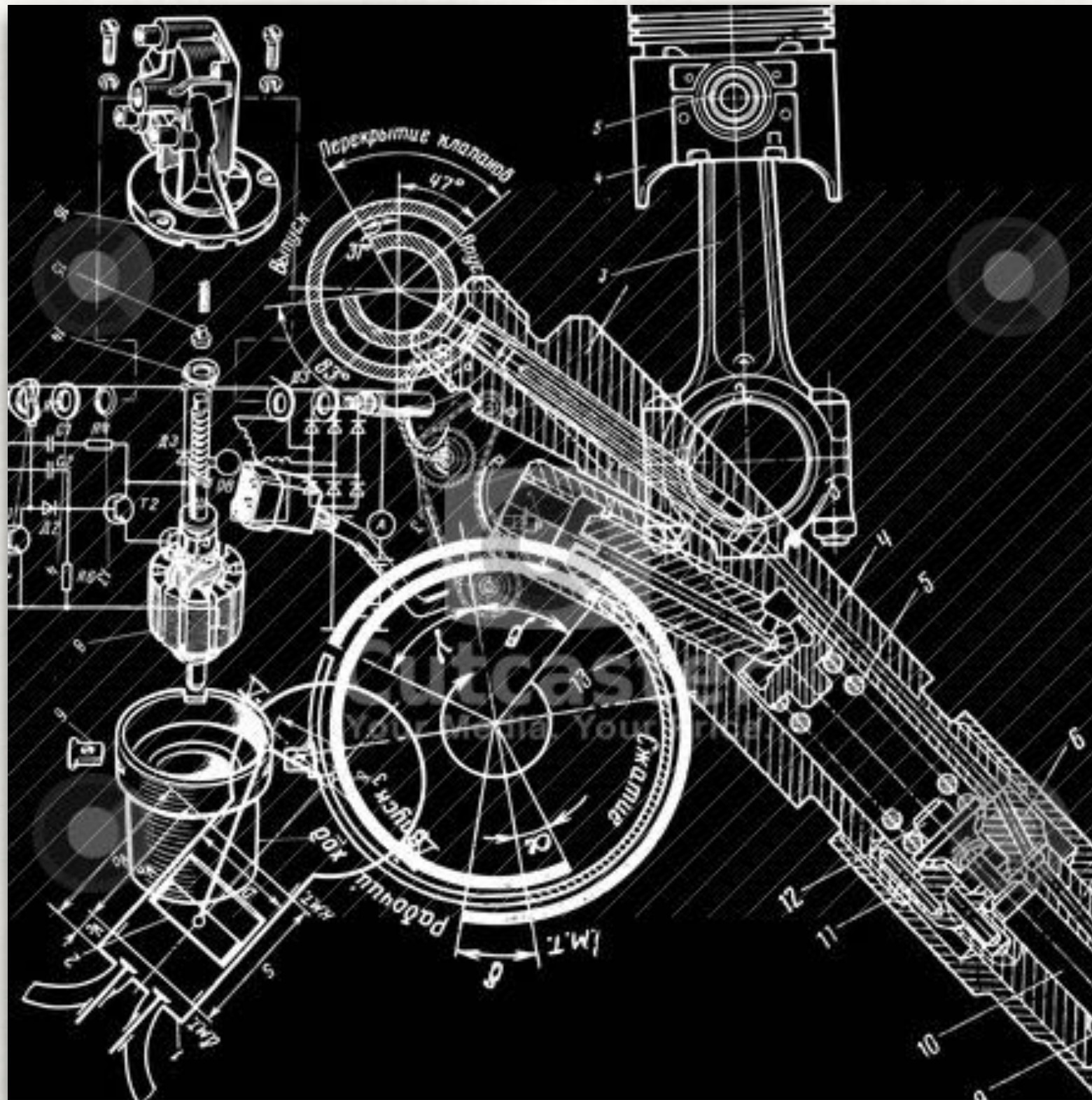


WHAT IS A MODEL?

3DEXPORT.COM - ONLINE STORE



WHAT IS A MODEL?



WHAT IS A MODEL?



THE REAL VALUE OF A MODEL!



FINANCIAL REPORTING IS A VIEW OF THE PAST

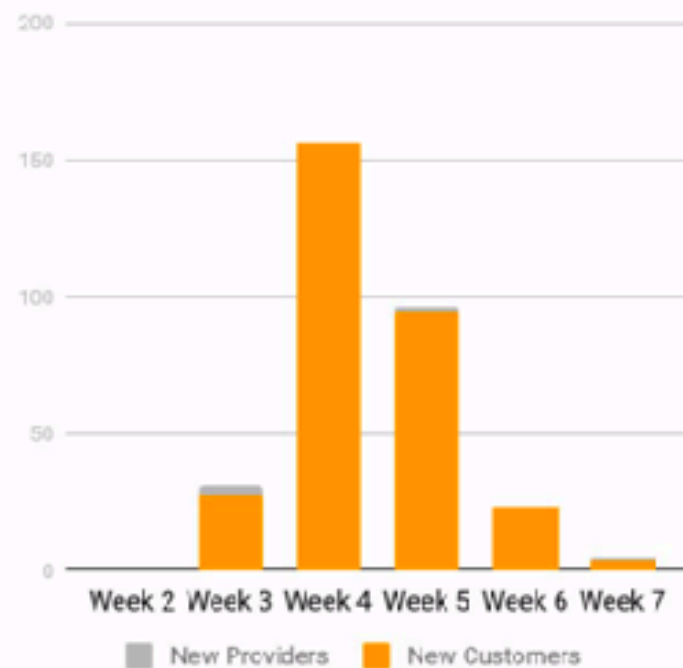


KPI'S ARE WHAT IS HAPPENING NOW



KPI'S ARE WHAT IS HAPPENING NOW

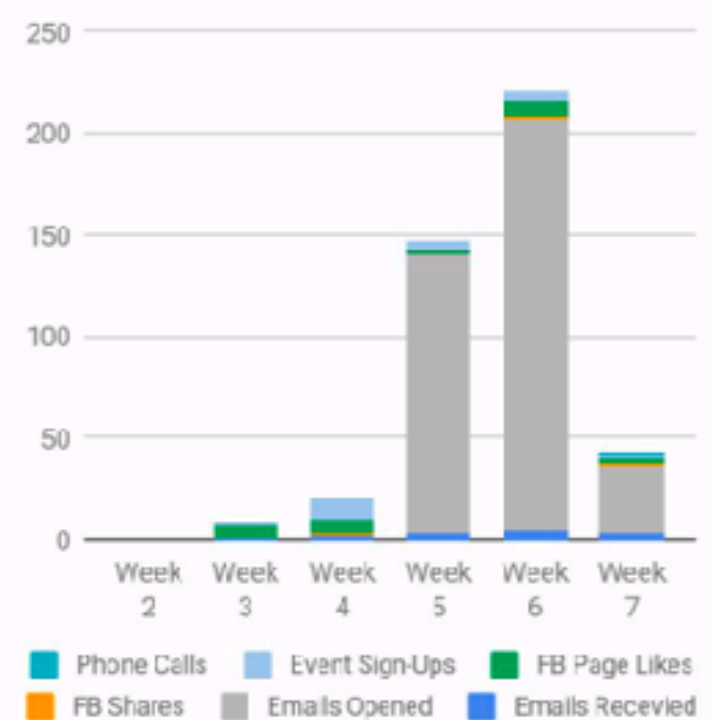
Net Change in Community Size



Cost Per Acquisition (CPA)



Net Change in Engagement



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FINANCIAL MODEL IS THE FUTURE



FINANCIAL MODEL IS THE FUTURE



FINANCIAL MODEL IS THE FUTURE



OUTPUT FROM THE MODEL

- **A set of financial projections**
 - Income Statement
 - Balance Sheet
 - Statement of cash flows

OUTPUT FROM THE MODEL

- Income Statement
 - Revenue
 - Expenses
 - Net Income (Profit)
 - For a ***PERIOD OF TIME***

OUTPUT FROM THE MODEL

- Balance Sheet
 - Assets
 - Liabilities
 - Equity
 - For a ***INSTANT IN TIME***
(*Assets = Liabilities + Equity*)

OUTPUT FROM THE MODEL

- Statement of Cash Flows
 - Cash in
 - Cash Out
 - Net Cash Flow
 - For a ***PERIOD OF TIME***

OUTPUT FROM THE MODEL

- **A set of financial projections**
 - Income Statement
 - Balance Sheet
 - Statement of cash flows
- **Profit is a matter of opinion, but cash is a matter of fact**
- **There is only one reason investors will give you cash:**
 - They expect to get more in return, while
 - They want to *minimize* their risk.

WHAT IS MOST IMPORTANT?

• REVENUE

- It is the most difficult to predict
- It is the most difficult to control
- It is the reason most businesses fail

WALK THROUGH A MODEL



DOLLAR CAVE CLUB

Dollar Cave Club is the latest in a series of companies that make recurring purchases easy and painless. Sign up for our \$29.99 monthly subscription and we will send you a box each month with essentials for your Man Cave. One month it is a classic poker set, the next an amazing set of beer steins. If you cannot wait to get your favorite dart board, you can come to the site directly and buy anything we sell.

We get most of our new customers from SEO, advertising on Google and Facebook. We have such a highly desirable audience that many people want to advertise to our visitors on our site as well.

Subscribers can “add-on” to their monthly subscription by selecting any items in our catalogue and shipping is free! Our churn has been around 4% per month and as our traffic to the site is growing as well as our sales.

THINGS WE KNOW...

- Subscription Price \$29.99
- Churn = 4% Monthly
- Something about SEO, SEM and Facebook
- Add-ons to subscriptions
- Some advertising revenue
- Look at assumption tab
- Get oriented with the model - detail to summary

THINGS WE DO NOT KNOW...

- What impact does selling ads on our site have?

THINGS WE DO NOT KNOW...

- What impact does selling ads on our site have? (FOCUS!)
- What impact will increasing Ad spend have?
- Can we make Ad spend more realistic? How?
- What if we raise more money?
- What impact does conversion rate have on the business?

QUESTIONS?

BUILDING THE MODEL

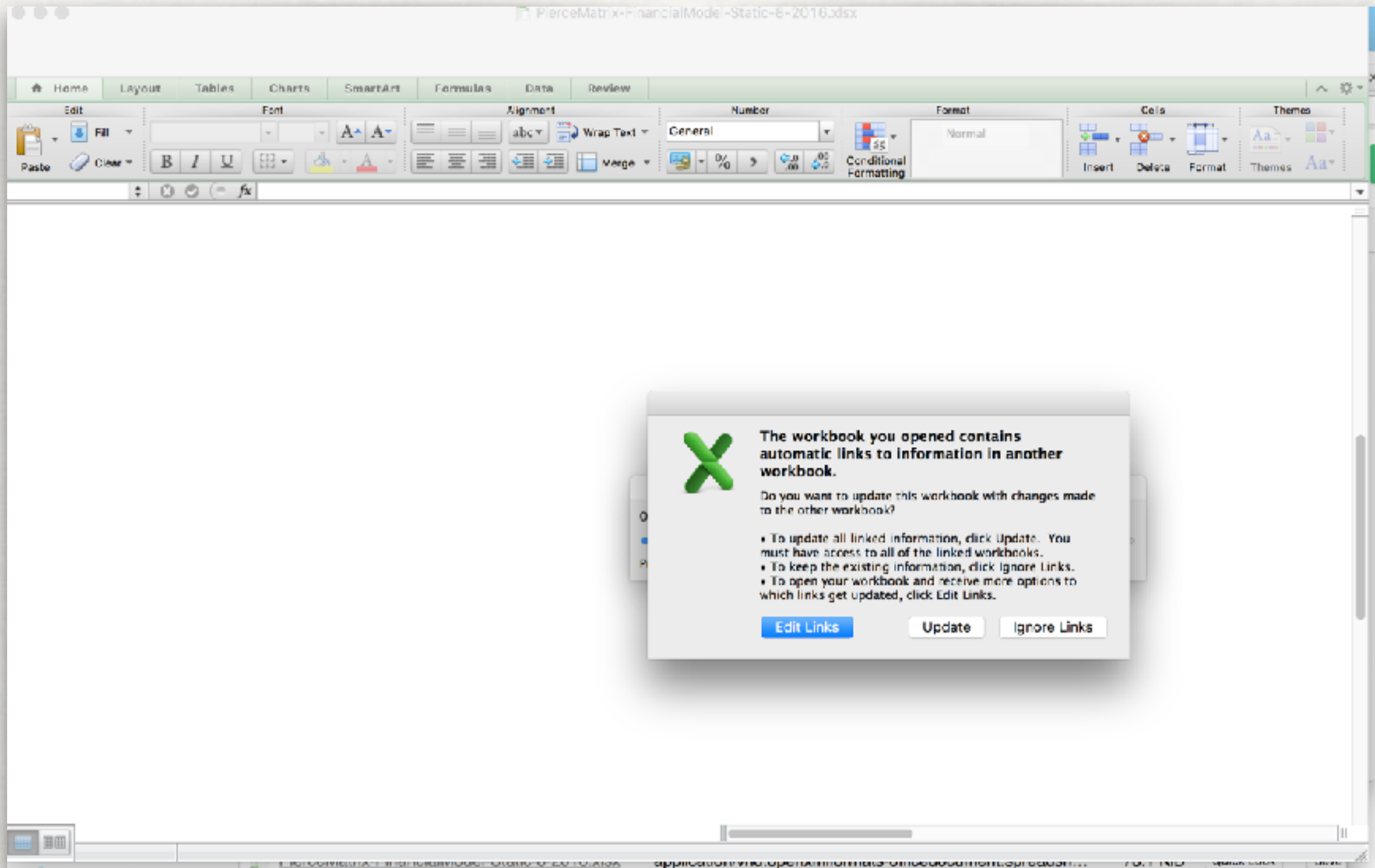
FORMATTING THE INCOME STATEMENT

- Revenue
- Direct Expenses
 - Gross Profit
- Indirect Expenses
 - Results from Operations (EBITDA)
- Other Income
- Other Expenses
- Net Income

ORDER MATTERS

- **Start with the assumptions**

START WITH THE ASSUMPTIONS



ORDER MATTERS

- Start with the assumptions
- Lay out the monthly income statement
- Figure out where revenue comes from

Subscription Revenue Formula (each month)

$$\text{Revenue}_{\text{Subscription}} = (\text{Monthly Price}) * (\# \text{ Subscribers})$$

Blue = Input

Subscription Revenue Formula (each month)

$$\text{Revenue}_{\text{Subscription}} = (\text{Monthly Price}) * (\# \text{ Subscribers})$$

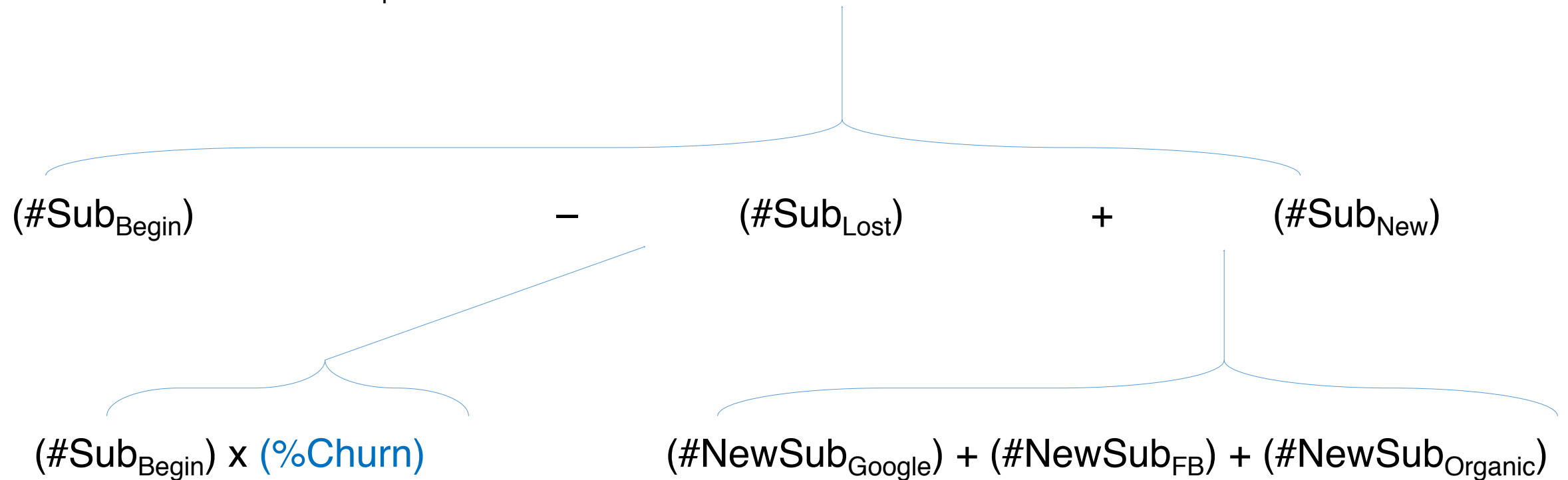
The diagram illustrates the calculation of the number of subscribers at the end of the month. A horizontal line with a slight curve at its ends spans the width of the equation. Below this line, from left to right, are the terms: $(\# \text{Sub}_{\text{Begin}})$, a minus sign $-$, $(\# \text{Sub}_{\text{Lost}})$, a plus sign $+$, and $(\# \text{Sub}_{\text{New}})$. A vertical line extends upwards from the center of the horizontal line, connecting to the $(\# \text{Subscribers})$ term in the formula above.

$$(\# \text{Sub}_{\text{Begin}}) - (\# \text{Sub}_{\text{Lost}}) + (\# \text{Sub}_{\text{New}})$$

Blue = Input

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Subscription Revenue Formula (each month)

$$\text{Revenue}_{\text{Subscription}} = (\text{Monthly Price}) * (\# \text{ Subscribers})$$

(#Sub_{Begin})

—

(#Sub_{Lost})

+

(#Sub_{New})

(#Sub_{Begin}) x (%Churn)

(#NewSub_{Google}) + (#NewSub_{FB}) + (#NewSub_{Organic})

For each channel...

(#NewSub_{Google}) = (Traffic_{Google}) * (%Conversion_{Google})

Blue = Input

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For each channel...

(#NewSub_{Google}) = (Traffic_{Google}) * (%Conversion_{Google})

(SEMSpend_{Google}) ÷ (CPC_{Google})

Blue = Input

ORDER MATTERS

- Start with the assumptions
- Lay out the monthly income statement
- Figure out where revenue comes from
(Build supporting detail tabs)
- Repeat with Expenses
- Create Balance Sheet
- Create Statement of Cash Flow
- Roll up monthly pages to annual summaries

USING THE MODEL

USING THE MODEL (FUNDRAISING)

- **NEVER Send the model!**
(Hold it hostage to get another meeting, send after the meeting)
- **Set the tone of the meeting**
(The only thing I know for sure is that the model is wrong....)
- **Use the meeting to work WITH the investor**
- **KNOW your model!**
(what levers you can and cannot pull)

USING THE MODEL (OPERATING)

- Duplicate (keep the original!)
- Update the working copy each month
 - Tweak assumptions to get close to actuals
 - Overwrite monthly number with actuals
- New assumptions predict the future better

SHARING THIS MODEL WITH YOU

- Use it as a reference NOT a template
- ALWAYS build from scratch
- Even for your own company

WRAPPING UP

- **Financial Model as a tool for Fundraising:**
 - **Set context** (The only thing I know for sure is this is wrong...)
 - **Communicate Clearly** (label cells, long descriptions, etc.)
 - **Speak the investor's language** (Financial Statements, Excel, ...)
- **Financial Model as a tool for Managing:**
 - Built by a founder, managed by a founder
 - Monthly process to update and improve
 - See the future and use it to **PLAN** (runway, etc.)

FINANCIAL MODELING

Questions?

@TroyHenikoff

Troy.Henikoff@MATHVenturePartners.com

RESOURCES

[Financial Modeling - Part 1](#)

[Financial Modeling - Part 2](#)

[Financial Modeling - Part 3](#)

[Financial Modeling - Part 4](#)

[More tips and short videos](#)