

# Intro to Startup Finance

There are ~~no~~ dumb questions

What is the average EBITDA multiple  
for my sector?

What is my DCF valuation?

Where do I find investors who will  
give me money and leave me  
alone?

# Don't Fear Finance

If you search startup finance you'll find financial models that were created for established companies

**NOT STARTUPS**

# Information Overload

| Row # |                                      | 2012        | 2013         | 2014         | 2015          | 2016          |
|-------|--------------------------------------|-------------|--------------|--------------|---------------|---------------|
| 7     | # Subscribers                        | 664         | 2,196        | 4,317        | 8,603         | 18,036        |
| 8     | # Employees                          | 11          | 17           | 27           | 45            | 83            |
| 9     | # Subscribers/Employee               | 60.6        | 128.7        | 161.6        | 191.9         | 216.1         |
| 10    | Revenue                              | \$ 419,532  | \$ 2,800,703 | \$ 6,752,991 | \$ 13,954,910 | \$ 28,533,269 |
| 11    | Revenue/Subscriber                   | 632         | 1,275        | 1,564        | 1,622         | 1,582         |
| 12    | Revenue/Employee                     | 38,316      | 164,154      | 252,819      | 311,300       | 341,846       |
| 13    | EBITDA                               | (1,541,099) | (531,933)    | 1,277,309    | 4,572,954     | 10,968,685    |
| 14    | EBITDA/Subscriber                    | (2,321)     | (242)        | 296          | 532           | 608           |
| 15    | EBITDA \$/Employee                   | (140,747)   | (31,177)     | 47,820       | 102,012       | 131,412       |
| 16    | TTM Revenue                          | 419,532     | 2,800,703    | 6,752,991    | 13,954,910    | 28,533,269    |
| 17    | TTM EBITDA                           | (1,541,099) | (531,933)    | 1,277,309    | 4,572,954     | 10,968,685    |
| 18    | Run-Rate Rolling Three-Month Revenue | 938,532     | 3,938,672    | 8,453,360    | 17,358,744    | 35,452,392    |
| 19    | Run-Rate Rolling Three-Month EBITDA  | (1,314,351) | 119,346      | 2,285,048    | 6,459,184     | 14,728,722    |
| 20    | Run-Rate Annualized Monthly Revenue  | 1,076,832   | 4,179,648    | 8,812,596    | 18,079,164    | 36,942,768    |
| 21    | Run-Rate Annualized Monthly EBITDA   | (1,212,504) | 292,053      | 2,482,956    | 6,771,215     | 15,519,819    |
| 22    | Free Cash Flow to Equity             | (1,417,559) | (626,348)    | 889,209      | 3,065,343     | 7,341,351     |
| 23    | Total Debt                           | -           | -            | -            | -             | -             |
| 24    | Average Inventory                    | -           | -            | -            | -             | -             |
| 25    | Average AR                           | 31,222      | 222,618      | 546,663      | 1,130,734     | 2,312,274     |
| 26    | Average AP                           | \$ 12,845   | \$ 85,855    | \$ 208,314   | \$ 432,419    | \$ 897,691    |
| 27    | DIOH (Inv/COGS)                      | -           | -            | -            | -             | -             |
| 28    | DSO (AR/Rev)                         | 27.2        | 29.0         | 29.5         | 29.6          | 29.6          |
| 29    | DPO (AP/COGS)                        | 44.7        | 44.8         | 45.0         | 45.2          | 45.9          |
| 30    | Cash Conversion Cycle (DIOH+DSO-DPO) | (17.5)      | (15.7)       | (15.5)       | (15.7)        | (16.4)        |
| 31    | Current Ratio (CA/CL)                | 13.1        | 7.4          | 7.1          | 8.3           | 9.6           |
| 32    | Quick Ratio ((CA-Inv)/CL)            | 13.1        | 7.4          | 7.1          | 8.3           | 9.6           |
| 33    | Cash Ratio ((Cash + Securities)/CL)  | 12.8        | 6.5          | 5.8          | 6.7           | 7.8           |
| 34    | Operating CF Ratio (CFO/CL)          | (5.5)       | (1.6)        | 1.5          | 3.2           | 4.2           |
| 35    | Debt Coverage Ratio (FCF/Debt)       | N/A         | N/A          | N/A          | N/A           | N/A           |
| 36    | Total Debt/TTM EBITDA                | -           | -            | -            | -             | -             |
| 37    | Total Debt/Annualized EBITDA         | -           | -            | -            | -             | -             |

# Know Your Numbers

“There’s nothing like numbers  
to f\*\*\* up a good story.” Josh  
Kopelman



# The Salient Six

- ① Revenue
- ② Cost of Revenue/Goods (COGS)
- ③ Research + Development (R&D)
- ④ Sales, General, and Admin (SG&A)
- ⑤ Operating Income (Loss)
- ⑥ Cash

# Startup Financial Model

|                        | Month 1          | Month 2     | Month 3     | Month 4     | Month 5     | Month 6     | Month 7     |
|------------------------|------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Revenue                | \$31,000         | \$35,650    | \$40,998    | \$47,147    | \$54,219    | \$62,352    | \$81,058    |
| COGS                   | \$18,850         | \$21,690    | \$24,959    | \$28,720    | \$33,050    | \$38,033    | \$48,446    |
| Gross Revenue          | \$12,150         | \$13,960    | \$16,039    | \$18,427    | \$21,169    | \$24,319    | \$32,612    |
| R&D                    | \$21,833         | \$21,833    | \$21,833    | \$21,833    | \$21,833    | \$21,833    | \$21,833    |
| SG&A                   | \$105,167        | \$66,667    | \$66,667    | \$66,667    | \$66,667    | \$66,667    | \$66,667    |
| Operating Income       | -\$114,850       | -\$74,540   | -\$72,461   | -\$70,073   | -\$67,331   | -\$64,181   | -\$55,888   |
| <b>Startup Capital</b> | <b>\$500,000</b> |             |             |             |             |             |             |
| Monthly Cash Flow (+)  | 31,000           | 35,650      | 40,998      | 47,147      | 54,219      | 62,352      | 81,058      |
| Monthly Burn Rate (-)  | 145,850          | 110,190     | 113,459     | 117,220     | 121,550     | 126,533     | 136,946     |
| Net Monthly Cash       | (\$114,850)      | (\$74,540)  | (\$72,461)  | (\$70,073)  | (\$67,331)  | (\$64,181)  | (\$55,888)  |
| Cummulative Cash Flow  | (\$114,850)      | (\$189,390) | (\$261,851) | (\$331,924) | (\$399,255) | (\$463,436) | (\$519,324) |
| Total Cash Available   | \$385,150        | \$310,610   | \$238,149   | \$168,076   | \$100,745   | \$36,564    | -\$19,324   |



- ❑ With \$500,000, you will run out of capital in month seven
- ❑ You should secure capital by month six

# Standard Metrics

## Standard Metrics

**ARPU**                      *Average Revenue Per User (Customer)*

**CAC**                        *Customer Acquisition Cost*

**DAU**                        *Daily Active Users*

**MAU**                        *Monthly Active Users*

**Churn Rate**                *The % of users/customers lost*

**Viral Coefficient**        *Effectiveness of digital promos*

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# Determine Source of Capital

Amount Needed + Personal Goals

\$1 k to \$2 million

friends + family  
angel investors  
crowd funding  
grants + loans

\$2 million to \$50 million

venture capital  
hedge funds  
private equity

# Finding Investors

Build the relationship NOW

# How to Meet Anyone

Master the art of cold calling  
to expand networking circles

Remember: Investors WANT to meet you

# Funding Materials

Develop a Compelling Story Based on the Problem You're Solving

1. business model canvas
2. pitch deck
3. executive summary
4. elevator pitch

# The 10 Slides You Need

- ① Problem/Opportunity
- ② Solution
- ③ Market Size
- ④ Team
- ⑤ Sales, Marketing + Distribution
- ⑥ Customers/Traction
- ⑦ Competitive Landscape
- ⑧ Press/Testimonials
- ⑨ Financials
- ⑩ Capital Needs



# Valuations

You don't need a DCF

Research the market to get a  
valuation range

# Investor Math for \$1M

| <u>Pre Money</u> | <u>Post Money</u> | <u>% of Equity</u> |
|------------------|-------------------|--------------------|
| \$9 m            | \$10 m            | 10%                |
| \$3 m            | \$4 m             | 25%                |
| \$6 m            | \$7 m             | 15%                |

Your Numbers  
Don't Define You

# Stay in Touch!

Finance for Entrepreneurs

[www.financeforentrepreneurs.co](http://www.financeforentrepreneurs.co)

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