UNIT 12: Financing new ventures

Welcome to the Beehive presentation – Introduction to Financing New Ventures. In this session, we'll outline and summarize the key components of an investor ready financial model for your business idea.

When a startup is looking for finance to develop and scale the business, the following documents are usually required. The first of these is the business plan which details everything about the founders, team, product, market, operations and finance. This document should ideally be a maximum of 20 pages long. If it's any longer, no one will read it! The second document required, which is also part of the business plan, is the financial model and this is what we are going to focus on today in our presentation. The third document is the pitch deck or slide deck, which provides an overview of the business plan and is often used when pitching to investors and other stakeholders.

Ok, so what does a financial model look like? Well in the example on the right, we have the annualized figures over four years for our fictional business called Xyzee Co. Ltd. The model includes the profit and loss account, cashflow statement and the Statement of Financial Position, or sometimes called the Balance Sheet.

Let's quickly examine each of these financial documents in more detail. The profit and loss account shows all sales and expenditure projected for a financial period, typically, a calendar year. The top section of the Profit and Loss account presents the sales figures. We normally show these by product/service so that investors can get a feel for the main revenue generators in the business, while also highlighting some of the secondary revenue streams as well. Direct costs are deducted from sales to give us the gross profit, or gross margin. The direct costs in our example consist of manufacturing and shipping costs associated with the manufacture of the product. Overheads are then deducted from the gross profit figure to give us the operating profit. As this is the actual profit derived from trading, it is a key indicator of the potential returns in the business and is also a figure, which will be reviewed by potential investors. When interest payments, depreciation and tax are deducted from the operating profit, you then end up with the Net Profit for the period.

The cash flow differs from the profit and loss account in that it shows the actual cash receipts and cash expenditure in a given period. It also shows other items not included in the profit and loss account such as the amount of investment received in the period, any expenditure on capital items such as hardware/software, fixtures and fittings etc. The cashflow statement is similar to the bank account of a business in that shows all cash movements in and out of the business. Maintaining positive cashflow balances at all times is essential for a startup business. More often than not, startups lose money in the first couple of years and these losses can only be sustained if the business has sufficient cash reserves to enable it to reach break-even point. Hence the need for adequate investment and careful cashflow management! Banks are generally not an option for a startup, startups are just too risky, so the funding has to be provided by equity investment, and this needs to be used wisely.

The final document is the Statement of Financial Position, sometimes called the Balance sheet. This is a snapshot of the company's assets and liabilities at the end of a given period. Some of key things to review in this document are the bank balances at the end of period. These should be positive and ideally a startup should have sufficient funds to sustain the business over the next six months or longer. Any amounts due from customers, figures known as debtors should also be reviewed. Short term creditors should also be reviewed in the context of whether there is sufficient funds to pay all short term creditors? The bottom half of the Statement of Financial Position shows the longer term funding structure of the business and the retained earnings/losses. These are very relevant in the longer term but for a startup, the key issue is to have sufficient funds to pay the company's outgoings over the next 12-18 months as the business scales.