

Speak Finance

The Language of Business

Presented by Charles Swan / The
Virtual CFO

Why is Understanding Finance Critical?

- ▶ Investors and Lenders
 - Scale of business
 - Size business
- ▶ More than just accounting and money
- ▶ Non monetary measurements

Prepare your Business Model

- ▶ What are the elements of our business model:
- ▶ What do we sell?
- ▶ What are the compelling benefits for our target customers?
- ▶ What is our competitive advantage?
- ▶ Pricing strategy? Costs? Revenues?
- ▶ Sales strategy and distribution channels?
- ▶ Service and support strategies?
- ▶ Can I quantify our business model in financial terms?

Business Model Statement

- ▶ We will sell # systems/licenses/subscriptions to ## customers
 - Through (direct sales/distributors/partners) at
 - \$ per customer/unit / subscription
 - With a cost of \$ per customer acquired
 - At % margin and
 - Become profitable / cash positive in the # quarter of 20XX
- ▶ At that rate we will be running at an annualized \$\$ revenue rate

Prepare your Operating Budget

- ▶ What are the key drivers of my operations over the coming 12 months?
- ▶ How can I get a better handle on each of these drivers so that I can predict them more accurately?
- ▶ What flexibility do I have to adjust if we miss our budget?
- ▶ Is our current budget so out of date that we should revise it?
- ▶ How do our budget assumptions compare with other similar companies?

How do I Prepare an Operating Budget

- ▶ Use this budget preparation process with your team:
 - Agree on your strategic and financial goals and priorities for the next 12 months.
 - Have each senior manager put together a budget for his or her group, based on these goals and the company's resources, constraints, and prior experience.
 - Encourage creative solutions to get more accomplished with fewer resources.
 - Come together as a team and reconcile group budgets with overall company goals.
 - Encourage creative approaches to reorganizing programs and resources to get more accomplished.
 - You will find that you have to adjust some of your goals and methods as well as adjusting some of your group budgets.

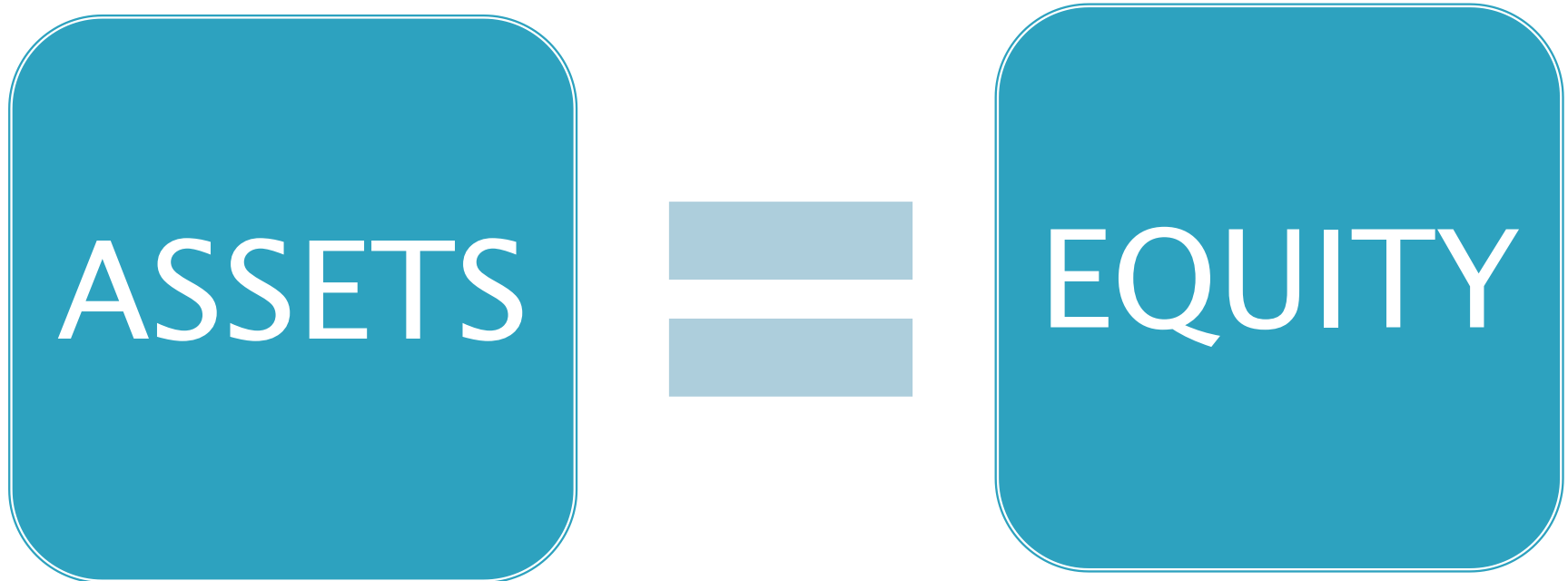
Prepare your Strategic Plan

- ▶ What are the key drivers and milestones that will affect my costs and revenues?
- ▶ What are the assumptions underlying our customer acquisition and revenue plan? Are they realistic?
- ▶ Are there similar companies that have gone down our path before? Can we compare their historical experience with our forecast?
- ▶ If we are seeking investment, do our projected capital requirements match what we're asking for?

Basic Financial Statements

- ▶ Balance Sheet
- ▶ Statement of Stockholders Equity
- ▶ Income Statement
- ▶ Statement of Cash Flows

FUNDAMENTAL ACCOUNTING EQUATION



Balance sheet

- ▶ Current Assets
 - Cash
 - Accounts Receivable
 - Inventory
 - Total Current Assets
- ▶ Property & Equipment
- ▶ Current Liabilities
 - Accounts Payable
 - Accrued expenses
 - Total Current Liabilities
- ▶ Long Term Debt
- ▶ Stockholders' Equity
 - Invested
 - Accumulated earnings

Assets

Equity

Statement of Stockholders Equity

- ▶ Retained Earnings
- ▶ Common Stock
- ▶ Preferred Stock

Capitalization Table

- ▶ Common Stock
- ▶ Preferred Stock
- ▶ Stock Options
- ▶ Warrants
- ▶ Convertible Debt

Income Statement

- ▶ Revenue
- ▶ Cost of Sales
 - Margin
- ▶ SG & A expense
 - R & D
 - Pretax Income
- ▶ Income Taxes
 - Net Income

Statement of Cash Flows

- ▶ Cash from Operating Activities
 - Net Income
 - Working capital changes
- ▶ Cash from Investing Activities
 - Land and buildings
 - Computers, servers
- ▶ Cash from Financing Activities
 - Debt
 - Equity

Managing Your Business

- ▶ What did we think would happen last month? What actually happened? Why was there a difference?
- ▶ Can we tell if we are on track to hit our critical milestones?
- ▶ Is the team set up to succeed?
- ▶ Are we measuring and monitoring the right things?
- ▶ What adjustments do we need to make to get on track?

Useful Metrics

- ▶ Bookings
- ▶ Shipments
- ▶ Revenue
- ▶ Margin
- ▶ Earnings

Useful Metrics – Ratios

- ▶ Liquidity:
 - Current Ratio
 - Quick Ratio
 - Average days in receivables
 - Inventory turns
- ▶ Leverage
 - Debt – Equity
 - Equity – Assets

Useful Metrics – More Ratios

- ▶ Operating
 - Return on Equity
 - Return on Assets
 - Inventory Turnover
 - Days Sales in Receivables
 - Interest Coverage
 - Earnings per Share

Avoid these Common Mistakes made by Entrepreneurs!

- ▶ Run out of Cash
- ▶ Lack of Corporate Governance
- ▶ Failure to comply with Tax and Securities laws
- ▶ Fail to implement meaningful accounting system from the start
- ▶ Not have right finance and legal support!

Resources – How do I accomplish

- ▶ Have right team
- ▶ Entire team buys into the vision
- ▶ Have right legal advice
- ▶ Have accounting resources
- ▶ Have right finance and tax advice

Q&A

Thank You

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