SHETRADES INVEST: ACCESS TO FINANCE FOR WOMEN IN THE TECH SECTOR

A WEBINAR COURSE IN SUPPORT OF THE EQUALS LEADERSHIP COALITION

Session 1: How to Develop Financial Projections
03 March 2020
13:00- 14:00 (GMT +1)

Hosted by ITC, EQUALS and Vertis Capital

Course Agenda

Schedule (tentative):

3 March 2020: Creating financial projections – Part 1

25 March 2020: Creating financial projections – Part 2

21 April 2020: Understanding investor requirements

26 May 2020: Identifying the right financial instruments for your technology company

23 June 2020: How to get ready for corporate contracts

7 July 2020: Course assignment due

21 July 2020: Course completion, final evaluation, and awarding of certificates

August -September 2020: one-on-one mentorship opportunity with experts for participants who successfully completed the course.

*Please note that exact webinar dates and time will be confirmed 1-2 weeks ahead of time and the order of the topics are subject to change depending on the availability of experts.

Session Objectives:

1) Learn how financial projections are fundamental to understanding ones business needs and attracting investors
2) Learn how to forecast future revenues and expenses
3) Learn how to translate business ideas into numbers

Proposed Agenda:

I. Introduction to the Course (10 minutes)
II. Guest Presentation (40 min)
III. Q&A (10 min)

Questions from the Audience:

- Please type your question in the chat box, including your name and organization.
- If time does not allow your question to be answered during the session, the moderator will send it to the guest speaker to respond in writing.

Adrame Ndione

Co-Founder & Managing Partner Vertis Capital

Senator World Business Angel Forum

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VERTIS CAPITAL

Vertis Capital is an upcoming West Africa venture capital and accelerator firm that aim at solving investment issues for small businesses in Africa.

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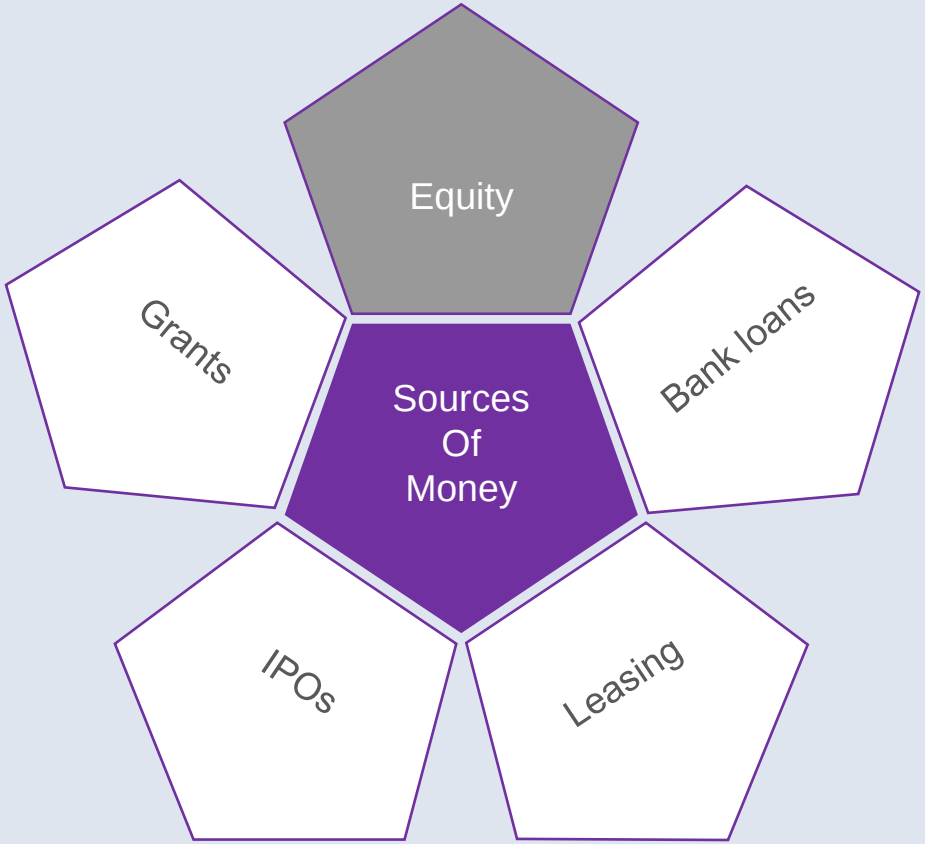

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FORTUNE

Kellogg's Venture Capital Fund Has Made Its First Investment

Equity Financing

*Equity is where the money raised gives the investor an **ownership** interest.*

TYPE	COST	PAYBACK TERMS	ADVANTAGES	DISADVANTAGES	NATURE
Friends & Family	Low	None / Very flexible	Easy, cheap, flexible	Can create friction.	Passive
Angel investors / Impact investors	Medium	Flexible	Flexible, best value	Share ownership. No or low real value addition.	Passive / Active
Venture capital / Private Equity	Medium / High	5-7 years	Can get large amounts	Hard to get; share ownership	Passive / Active
Strategic investors	Medium	Flexible	Can get to large amount / Best deal	Very hard to get; share ownership	Active

Why is it important?

What's In For Me?

- The financial plan is one of the most challenging parts of the business plan. Most entrepreneurs can convince investors of their product and the need in the market of their product, but when it comes to the financial plan they should convince investors too, in their own field of expertise, finance.

- The investor is looking for a Return on Investment (RoI)

- The investor is reviewing the financial figures because they are already attracted to the product and/or idea. But now the investor is looking at the quality of the figures and the estimations.

- They are done using an excel spreadsheet.

4 main Objectives

1. Show investors **how you plan to make money**
2. Translate your business idea **into numbers**
3. Model different scenarios - **“what if?**”
4. Cash planning

Yeah But….

- I have heard that I don't have to build a business plan with financial projections because no one actually reads it….

*Investors are more **interested in the assumptions made,** not the exact bottom line*

- Projections are just imaginary anyway, so what does it matter what I put in?….

*Projections that have not been planned properly make investors **question your understanding of your business model.***

Building projections: How it works

Have an **Assumptions page**: this allows flexibility – change assumptions for different growth scenarios

Assumptions are the backbone of your projections, so you should know them **COLD**

Fundamental components of model:

A. **Profit and loss (Profitability)**
B. **Balance Sheet (Financing requirements)**
C. **Cash flow (Cash management)**
D. **Return for the investor (Interest, Dividend, Capital Gain)**

If you are lacking in this area invest some time and effort in acquiring basic financial literacy and excel.

Above schedules should be presented by **month or year**

Excel is your friend but be **careful with cell references** – it is easy to make a mistake!

Step1: Always start with costs

The costs are **not that difficult** to forecast.

Include details of **relevant expenses / activities** related to:

- COGS
- Selling
- Marketing
- Engineering and development
- General and administrative
- Payroll expenses (salaries and payroll taxes)
- Other compensations (bonuses commission)
- Investments

Legal and accounting
Insurance

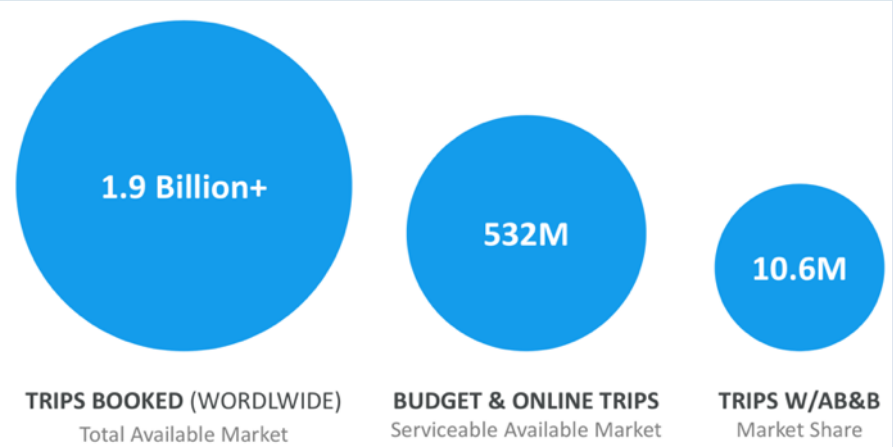
Step 2: then revenues

- This section is **more difficult** to predict.
- As a starting point, produce a **well-supported research** that outlines the **size of market**. When you know what type of client will be interested in your product(s) and you know how many potential clients there are, then you have to **estimate what percentage of the market** might be realistic for you to reach by year 5. Once this is determined you can calculate backwards to year 1. All **revenue projections** must be backed up with a **sales plan, if already exiting**.

- The second step is to **break down the first year into 12 months**. In this month-to-month breakdown you want to show how the **number of clients** is expected to increase. Here, investors are looking to **see how fast you are planning to grow** the business. They will be asking themselves if this analysis is realistic, too aggressive, or too slow.

Revenue estimation : airbnb first pitch

Market size from market analysis



Revenue estimation

Step 3: Summary for the business plan

The figures in step 1 and 2 can be researched and worked out in detail and in depth, but what do your present to the investors in **your Business Plan**! This need to be **short, clear, and contain all relevant information**.

Operating Budget	Q1	Q2	Q3	Q4	Y1	Y2	Y3	Y4	Y5
REVENUES									
Product A	200	3.000	8.600	19.500	31.300	66.000	145.200	332.750	585.640
Product B	0	0	0	0	0	20.000	44.000	96.800	159.720
Product C	0	0	0	0	0	0	15.000	31.000	66.000
Gross Revenues	200	3.000	8.600	19.500	31.300	86.000	204.200	460.550	811.360
Costs of goods sold	80	1.200	3.440	7.800	12.520	33.075	76.569	165.425	280.539
Net Revenues	120	1.800	5.160	11.700	18.780	52.925	127.631	295.125	530.821
EXPENDITURES									
Personnel costs	0	4.500	9.000	17.700	31.200	34.320	37.752	41.527	45.680
Marketing costs	0	150	1.200	300	1.650	2.475	3.713	5.569	8.353
Office costs	0	400	600	600	1.600	2.400	3.600	5.400	8.100
Other costs	800	1.250	750	1.250	4.050	6.075	9.113	13.669	20.503
Investments	28.900	3.900	0	0	32.800	40.000	40.000	60.000	60.000
Total costs & investments (excl. tax and depreciation)	29.700	10.200	11.550	19.850	71.300	85.270	94.177	126.165	142.636
RESULT (Excl. tax & depreciation, incl. investments)	-29.580	-8.400	-6.390	-8.150	-52.520	-32.345	33.454	168.961	388.185

Step 4: Request for finance

- Here we take a closer look at the investments made so far, **secured investments** and the **request for investment**.

Cash statement (EUR)	Q1	Q2	Q3	Q4	Y1	Y2	Y3	Y4	Y5
Invested before Q1	10.000								
Cash balance begin	0	20.420	12.020	30.630	0	22.480	20.135	53.589	222.550
Own Investment	10.000				10.000				
Secured Investment	15.000				15.000				
NEED FOR INVESTMENT	25.000		25.000		50.000	30.000			
Profit/Loss/investment	-29.580	-8.400	-6.390	-8.150	-52.520	-32.345	33.454	168.961	388.185
Cash Balance end	20.420	12.020	30.630	22.480	22.480	20.135	53.589	222.550	610.735

- It is important to support the figures with an introduction and short, clear, and to the point explanation.

Step 5: Calculate the return

NPV: Net present Value

Payback period

IRR: Internal rate of return

Are few profitability indicators

	N	N+1	N+2	N+3	N+4	N+5
Turnover		170	194	228	267	316
Expenses		(120)	(130)	(150)	(175)	(210)
Depreciation		(40)	(40)	(40)	(40)	(40)
EBIT		10	24	38	52	66
TAX (33,33%)		3,33	8	12,67	17,33	22
Profit		6,67	16	25,33	34,67	44
Depreciation		40	40	40	40	40
Free Cash flow	(200)	46,67	56	65,33	74,67	84
Discounted Cash flow (5%)	(200)	44,44	50,79	56,44	61,43	65,82
Payback	(200)	(155,56)	(104,77)	(48,33)	13,10	78,92
NPV	78,92					
IRR	16,95%					

What If?

- **Worst-case** scenarios should answer **“What happens if there is no outside capital?”**
- **Best-case** scenario should answer **“What does this business look like if everything goes right?”**
- **Most-likely** scenarios should answer **“What does this business look like following comparable companies’ growth paths?”**

Top mistakes in financial projections

1. Stating “These are Conservative” or “There is no competition”
2. Relying on a short-term exit at a high multiple
3. No Assumptions Listed or Top Down Assumptions
4. Assumptions Not Based on Data
5. No Scenario Analysis
6. Stating projections to the USD.01
7. No Written Explanation / Failing to summarize projections
8. Excluding Loan Payments or investment to receive
9. Excluding Taxes
10. Excluding Depreciation
11. No Breakeven Analysis
12. Excluding salaries (even for the entrepreneur…)

8 tips for financial projections

Tip 1: Be clear about what **drives** the business

Tip 2: Show that you have **facts backing up your assumptions**

Tip 3: Be optimistic, but also **realistic**

Tip 4: **Know your audience!** Pay attention to the investor's goals and interests

Tip 5: Choose the **right level of detail**

Tip 6: Make projections for **3 to 5 years**

Tip 7: Cash plan on a monthly/yearly basis

Tip 8: Get help if you need it

THANK YOU!
Q&A

Get in touch!

Get the most out of this webinar
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Questions? Contact Us

For any course-related inquiries, please contact: womenandtrade@intracen.org and copy pmcdougall@intracen.org (using subject line: “EQUALS SheTrades Invest Course”)

For any questions about the EQUALS Global Partnership, please contact: equals@itu.int

Thank you!