

# New Ventures BC 2023

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## Financial Models 101

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# Some tips for competition



NVBC is a great experience- deliverables and deadlines are helpful motivators



Don't worry about winning- It is just a nice bonus!



Get a good editor and keep it clear and professional



Be real (Use case study example)



Be a confident thought leader



Tell an interesting story (Ted Talk)



**The financial model is critical and is generally the lowest scoring category in the competition**



Don't be afraid to ask for help- it leads to opportunities- both sales and investment

# Financial Model

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What to include?  
(Historic + 3-5 years  
**“Projections”/**  
**“Proformas”**)



What will my  
business finances  
look like in the future  
if you invest today?



(GAAP/IFRS- but you  
don't need to be an  
accountant!)



Balance Sheets  
Profit and Loss  
Cash flows



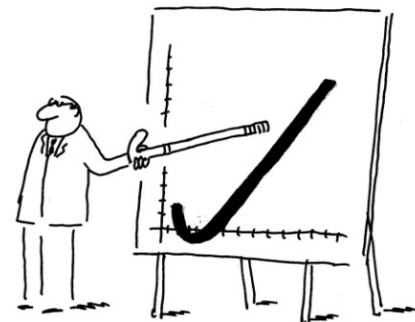
**Build in excel:** Bottom up  
and Top down- Monthly  
to Annual



Key Performance  
Indicators and  
Assumptions



**Financial model  
drives your  
valuation- convert  
idea to cash**



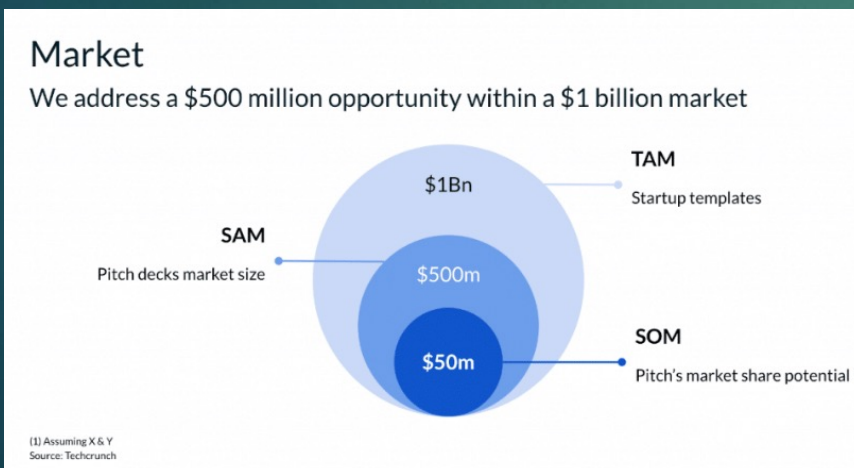
Financial  
Modeling is a  
**Critical**  
Process that  
never ends!

## The Numbers Supporting Your Story:

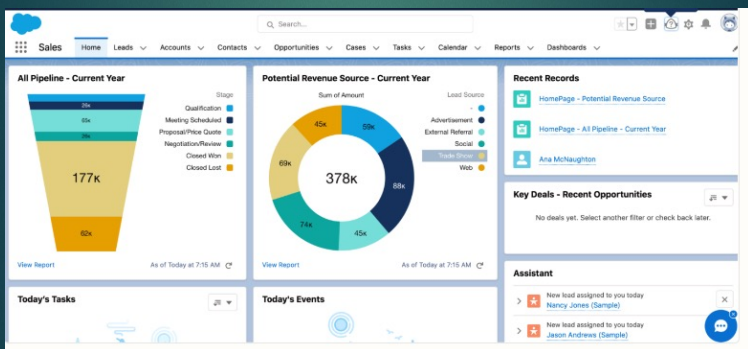
- **Step 1- Market Analysis**
- **Step 2- Opportunity Analysis**
- **Step 3- Sales to Revenue to Cash**
- **Step 4- Key Performance Indicators**
- **Step 5- Gross Margin- how much profit on each sale**
- **Step 6- Milestones and Valuation**
- **Case studies** are ideal for financial model- easier for investor to understand

# Step 1- Market Analysis

- This is your chance to truly enlighten us that you know the industry you're in. TEDTalk
- Everyone has a billion \$ opportunity but often fail to model how they will capture some of it.
- 1% of \$50 Billion dollar opportunity but why?
- Analyze the industry segment based on your problem/solution to quantify the potential
- Better marketing? Cooler/Better Product? Cheaper product? First mover? Get clever!
- Competitive landscape- current pricing/potential time savings/cost savings- build a believable ROI that solves an "Industry problem"



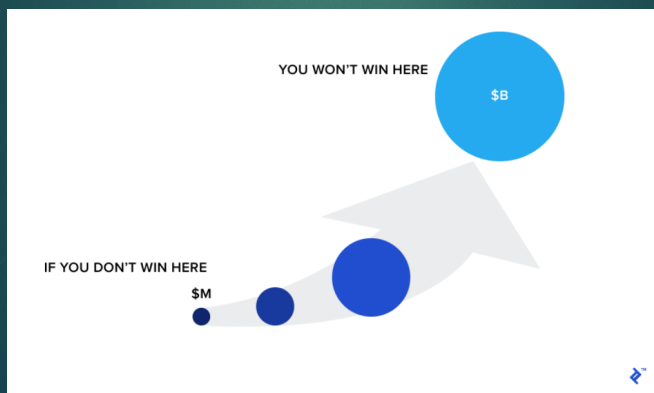
# Step 2- Opportunity Analysis



- Demonstrate you know how sales works.
- All great entrepreneurs/CEO's need to be great salespeople.
- Selling something means you can really help customers understand how your solution helps them.
- Build your model with your sales brochure and price list in hand.
- Know who your first or next 10 customers will be and why.
- Foundation of a Sales Pipeline that derives and predicts future sales (Weighted Pipeline)
- Rate of Growth- Be Realistic (Sensitivities)

# Step 3- Sales, to Revenue, to Cash

- Demonstrate you know the difference and how sales transforms into your how you deliver things and get paid
- Even SAAS may not equate Sales = Cash (although the closest)
- Demonstrate you know how to run a business, by understanding how working capital management works.
- Telling this story demonstrates you know how to run an actual business
- Pitching “dreams” rarely work well
- Go sell something small first, delivery, collect, repeat faster and better
- Good investors will look for these issues so get ahead of it.



# Step 4- Gross Margins

## Profit Potential Economics

- How do we price our offerings? Lower cost/premium cost
- What does it cost to deliver what you're selling per unit?
- How do you drive down variable costs and increase margins? Economies of scale.
- Other innovative ways to compete that overlap into your financial model
- Gross margin trending
- Simplicity is ideal here

### Simple, High-Margin Business Model

We take low-value raw materials, such as cranberry pomace, and turn it into high-value bioactive extracts.



Cranberry Pomace:  
1 tonne = \$1K



Produces Cranberry Extract:  
42kg of 8% PAC<sup>1</sup> extract = \$11K



# Step 5- Key Performance Indicators

## KPIs and Key Terms

- Head count
- Social Media Metrics
- Customer count
- Customer acquisition costs (CAC)?
- Customer Satisfaction – Churn rate– Recurring customers
- Renewal rates – Lifetime Customer Value
- Break even points

# Step 6- Valuation Milestones and Exit

## **What is your value?**

Net Present Value of all future Cash Flows (Real Value)

## **Value is a Sum of the Parts:**

Team, Tech, Opportunity, Risk

Understand how companies in your industry are valued?

- Multiple of Revenue/Income
- Subscribers, # of Engineers
- ▶ Timelines for key achievements
- ▶ Use of Proceeds
- ▶ When will you get bought/go IPO?

# Projected Income Statement

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ABC Company FIVE YEAR PROJECTED STATEMENTS OF PROFIT AND LOSS (in Canadian Dollars) (Unaudited)											
	Actual 2021	Actual 2022	2023	Projections			2025	2026			
				2024							
<b>REVENUES</b>											
Primary Offering	-	15,000	210,000	840,000	1,680,000	2,520,000					
Secondary Offering	-	15,000	60,000	330,000	1,485,000	2,970,000					
Services	-	60,000	150,000	300,000	450,000	675,000					
<b>TOTAL REVENUE</b>	-	<b>90,000</b>	<b>420,000</b>	<b>1,470,000</b>	<b>3,615,000</b>	<b>6,165,000</b>					
<b>LESS COST OF REVENUE</b>											
COS A	-	15,000	189,000	630,000	1,008,000	1,260,000					
COS B	-	15,000	57,000	56,100	222,750	445,500					
COS Services	-	48,000	112,500	219,000	324,000	472,500					
<b>TOTAL COST OF REVENUE</b>	-	<b>78,000</b>	<b>358,500</b>	<b>905,100</b>	<b>1,554,750</b>	<b>2,178,000</b>					
<b>GROSS MARGIN</b>											
Product A	-	-	0%	21,000	10%	210,000	25%	672,000	40%	1,260,000	50%
Product B	-	-	0%	3,000	5%	273,900	83%	1,262,250	85%	2,524,500	85%
Services	-	12,000	20%	37,500	25%	81,000	27%	126,000	28%	202,500	30%
<b>TOTAL GROSS MARGIN</b>	-	<b>12,000</b>	<b>61,500</b>	<b>564,900</b>	<b>2,060,250</b>	<b>3,987,000</b>					
<b>OPERATING EXPENSES</b>											
R&D/Operations	10,000	185,200	376,480	366,480	366,480	366,480					
Sales & Marketing	-	104,300	351,440	402,400	429,880	461,960					
General and Administration	5,000	164,500	339,160	349,160	354,160	344,160					
Facilities	500	49,700	73,700	70,200	70,200	70,200					
SR&ED/ TAX recovery	-	(45,220)	(99,560)	(110,580)	(116,280)	(116,280)					
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 15,500</b>	<b>\$ 458,480</b>	<b>\$ 1,077,660</b>	<b>\$ 1,077,660</b>	<b>\$ 1,104,440</b>	<b>\$ 1,126,520</b>					
<b>INCOME (LOSS) FROM OPERATIONS</b>	<b>\$ (15,500)</b>	<b>\$ (446,480)</b>	<b>\$ (1,016,160)</b>	<b>\$ (512,760)</b>	<b>\$ 955,810</b>	<b>\$ 2,860,480</b>					
<b>NON- OPERATING REVENUES</b>											
Total Government Funding*	-	21,000	44,000	15,000	-	-					
<b>OTHER EXPENSES</b>											
Amortization	-	(239)	(216)	(195)	(177)	(160)					
Interest and other	-	375	2,215	3,974	7,081	11,126					
Stock-based compensation	-	-	-	-	-	-					
<b>INCOME (LOSS) BEFORE INCOME TAX</b>	<b>\$ (15,500)</b>	<b>\$ (425,344)</b>	<b>\$ (970,161)</b>	<b>\$ (493,982)</b>	<b>\$ 962,714</b>	<b>\$ 2,871,446</b>					
Tax Provision (after loss carryforwards)	-	-	-	-	-	(746,576)					
<b>INCOME (LOSS)</b>	<b>(15,500)</b>	<b>(425,344)</b>	<b>(970,161)</b>	<b>(493,982)</b>	<b>962,714</b>	<b>2,124,870</b>					
Headcount (Non-Hourly)	1	10	25	-	-	-					
Non-GAAP Metrics / KPI	1	2	2	3	3	3					

<b>Balance Sheets</b>		Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23
<b>Assets</b>														
Cash and equivalents	10,000	44,685	26,777	6,861	13,362	(3,620)	402,718	334,738	291,194	237,268	175,204	171,953	109,353	
Accounts Receivable	-	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	15,000	15,000	15,000	
Prepays and lease deposits	500	500	500	500	500	500	500	500	500	500	500	500	500	
Inventory (assume flat once selling)	-	-	-	-	-	-	-	-	-	-	-	-	-	
SR&ED and ITC Receivable	-	1,900	3,800	5,700	7,600	9,500	12,160	17,670	23,180	28,690	34,200	39,710	45,220	
	10,500	52,085	36,077	18,061	26,462	11,380	420,378	357,908	319,874	271,458	224,904	227,163	170,073	
Fixed Assets and LT Assets	2,500	2,479	12,459	12,355	12,252	12,150	12,048	11,948	11,848	11,750	11,652	11,555	11,458	
	<b>13,000</b>	<b>54,564</b>	<b>48,535</b>	<b>30,416</b>	<b>38,713</b>	<b>23,529</b>	<b>432,427</b>	<b>369,856</b>	<b>331,723</b>	<b>283,207</b>	<b>236,556</b>	<b>238,717</b>	<b>181,532</b>	
<b>Liabilities &amp; Equity</b>														
Accounts Payable	1,000	6,105	5,607	8,106	8,465	7,841	12,940	12,736	12,982	16,355	14,602	15,574	16,699	
Accrued liabilities	1,000	5,000	15,000	20,000	30,000	40,000	10,000	10,000	10,000	10,000	10,000	10,000	5,000	
Shareholder Loan	25,000	75,000	75,000	75,000	100,000	100,000	100,000	75,000	75,000	75,000	75,000	75,000	75,000	
Government or other Loan	-	-	-	-	-	-	-	-	-	-	-	50,000	50,000	
	<b>27,000</b>	<b>86,105</b>	<b>95,607</b>	<b>103,106</b>	<b>138,465</b>	<b>147,841</b>	<b>122,940</b>	<b>97,736</b>	<b>97,982</b>	<b>101,355</b>	<b>99,602</b>	<b>150,574</b>	<b>146,699</b>	
Common Shares / Cost of Capital	100	100	100	100	100	100	475,100	475,100	475,100	475,100	475,100	475,100	475,100	
Contributed Surplus/Warrants/Compens.	-	-	-	-	-	-	-	-	-	-	-	-	-	
Deficit	(14,100)	(31,641)	(47,172)	(72,790)	(99,852)	(124,411)	(165,613)	(202,980)	(241,360)	(293,248)	(338,146)	(386,957)	(440,267)	
	<b>(14,000)</b>	<b>(31,541)</b>	<b>(47,072)</b>	<b>(72,690)</b>	<b>(99,752)</b>	<b>(124,311)</b>	<b>309,487</b>	<b>272,120</b>	<b>233,740</b>	<b>181,852</b>	<b>136,954</b>	<b>88,143</b>	<b>34,833</b>	
	<b>13,000</b>	<b>54,564</b>	<b>48,535</b>	<b>30,416</b>	<b>38,713</b>	<b>23,529</b>	<b>432,427</b>	<b>369,856</b>	<b>331,723</b>	<b>283,207</b>	<b>236,556</b>	<b>238,717</b>	<b>181,532</b>	

# Projected Balance Sheet

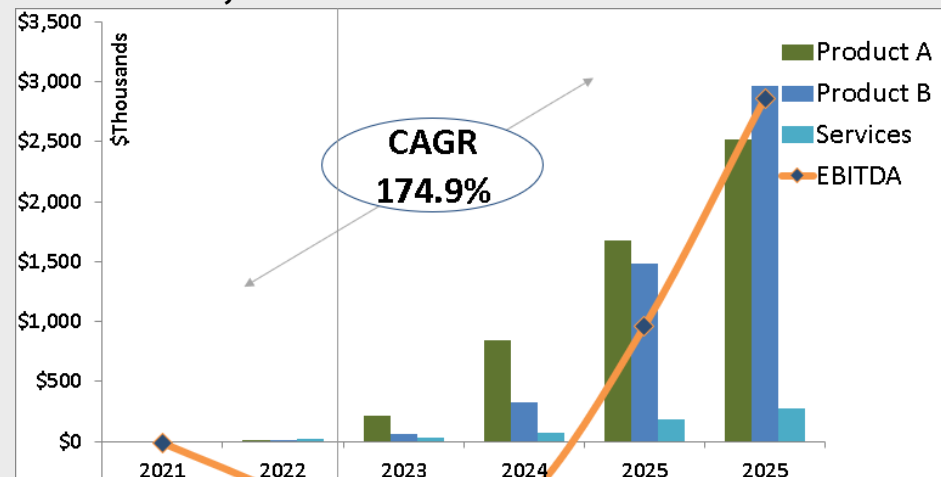
## Cash Flows

	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23
<b>Operations</b>													
Net Earnings (Loss)		(17,541)	(15,531)	(25,618)	(27,062)	(24,554)	(41,197)	(37,361)	(38,375)	(51,883)	(44,893)	(48,805)	(53,305)
Reconciliation:													
Depreciation		21	21	104	103	102	101	100	100	99	98	97	96
Stock-based compensation		-	-	-	-	-	-	-	-	-	-	-	-
<b>Changes in assets and liabilities:</b>													
Accounts receivable		(5,000)	-	-	-	-	-	-	-	-	(10,000)	-	-
SRED & ITC receivable		(1,900)	(1,900)	(1,900)	(1,900)	(1,900)	(2,660)	(5,510)	(5,510)	(5,510)	(5,510)	(5,510)	(5,510)
Prepaid and other assets		-	-	-	-	-	-	-	-	-	-	-	-
Inventory		-	-	-	-	-	-	-	-	-	-	-	-
Accounts payable and accruals		9,105	9,502	7,499	10,359	9,377	(24,901)	(204)	246	3,373	(1,753)	972	(3,875)
Cash from operations		(15,315)	(7,908)	(19,915)	(18,500)	(16,975)	(68,656)	(42,975)	(43,539)	(53,921)	(62,058)	(53,247)	(62,594)
<b>Investing :</b>													
Purchase of fixed assets		-	(10,000)	-	-	-	-	-	-	-	-	-	-
Cash used in investing		-	(10,000)	-	-	-	-	-	-	-	-	-	-
<b>Financing:</b>													
Shareholder loans		50,000	-	-	50,000	-	-	-	-	-	-	-	-
Shareholder Repayments		-	-	-	-	-	-	(25,000)	-	-	-	-	-
Other loans		-	-	-	-	-	-	-	-	-	-	50,000	-
Other loan repayments		-	-	-	-	-	-	-	-	-	-	-	-
Equity investments/SAFES		-	-	-	-	-	475,000	-	-	-	-	-	-
Cash from financing		50,000	-	-	50,000	-	475,000	(25,000)	-	-	-	50,000	-
<b>Net cash increase/decrease</b>		34,685	(17,908)	(19,915)	31,500	(16,975)	406,344	(67,975)	(43,539)	(53,921)	(62,058)	(3,247)	(62,594)
<b>Opening cash</b>		<b>10,000</b>	<b>44,685</b>	<b>26,777</b>	<b>6,861</b>	<b>38,362</b>	<b>21,386</b>	<b>427,730</b>	<b>359,755</b>	<b>316,217</b>	<b>262,295</b>	<b>200,237</b>	<b>196,990</b>
<b>Ending cash</b>	<b>10,000</b>	<b>44,685</b>	<b>26,777</b>	<b>6,861</b>	<b>38,362</b>	<b>21,386</b>	<b>427,730</b>	<b>359,755</b>	<b>316,217</b>	<b>262,295</b>	<b>200,237</b>	<b>196,990</b>	<b>134,396</b>

# Projected Cash Flows

# Concluding Remarks

- **Keep it Simple Stupid (KISS)**
- **Enlighten the judges (Know your #'s)**
- **Find a Comparative Public Company- SEDAR.com and EDGAR (sec.gov)**
- **Know your key metrics and build business processes that focus on improving these metrics**
- **Use Google- there are lots of great examples- ie. SAAS Metrics/Retail Metrics, etc.**



# Questions



# Appendix A- BC Tech Model- 10 Rules



Incorporate - simple  
reverse vesting  
common shares for  
founder teams



Raise your first \$25k  
from friends and  
family



Get good at  
expense reporting  
(separate Self from  
Inc.)



Register immediately  
to get your GST  
back!



Build real SR&ED and  
optimize Proxy rules



# Appendix A- BC Tech Model- 10 Rules



Register as an EBC  
(30% incentive for  
BC angel investors)



Leverage the NRC-  
IRAP, NSERC, etc.



Angel circuit- links  
to customers and  
maybe even \$



Find customers  
who will help build  
your product



Build partnerships  
and networks early