



# Financial Projections

Entrepreneurship Meet-Up #106

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# Disclaimer

This is not financial advice.

No singular way to do this.

Request to use what will be applicable and discard that will not apply to you.



# Why do financial projections?

Type the number in the chat box:

1. Required section in business plan
2. Investors asks for this
3. Don't know

# Why?

- ▶ Plan for an economically viable business
  - ▶ What will you do for worst case scenario situation?  
(Forecast by definition is forward looking and is never accurate)
- ▶ Fund raising
  - ▶ How much money do you need?
  - ▶ What will you do with the money?

# Who?

- ▶ The audience for the financials projections:
  - ▶ You (founder)
  - ▶ Your co-founder & employees
  - ▶ Your investors

# When?

	REVENUE	COSTS	SO WHAT TO DO?
Very early stage (pre-product; pre-revenue)	<b>100% of your numbers are fictional</b>	<b>100% of your numbers are fictional</b>	<b>Focus on plans to establish</b>
Pre-seed or first funding	<b>~ 50% of numbers are fictional</b>	<b>~ 50% of numbers are fictional</b>	<b>Focus on real numbers; burn rate &amp; runway</b>
Seed/Series A funding	<b>100% accurate numbers</b>	<b>100% accurate numbers</b>	<b>You have numbers to tell a story</b>

# ► What we will cover today?

- ▶ What you need very early stage (before you start?)
- ▶ Early stage numbers (that matter)



# BASICS

of some of the jargons



# 1. Burn



How much money does the company spend every month?

If some spend is one-off ( example - legal costs to set up company) , then use average burn per month

## 2. Runway

Based on your current burn, how many months can you survive?

Runway (in months) = Cash at hand / Burn

# 3. Growth rate


$$\frac{(\text{Revenue (2}^{\text{nd}} \text{ month)} - \text{Revenue (1}^{\text{st}} \text{ month)})}{\text{Revenue (1}^{\text{st}} \text{ month)}}$$

# ▶ Very Early stage

- ▶ What funds you require to get to market
  - ▶ Goal – First revenue
  - ▶ If long tail, development of product/ proof-of-concept
- ▶ Two scenarios
  - ▶ Absolute bare-numbers – what is the minimum funds required
  - ▶ 2X of this number – justify what you will do more

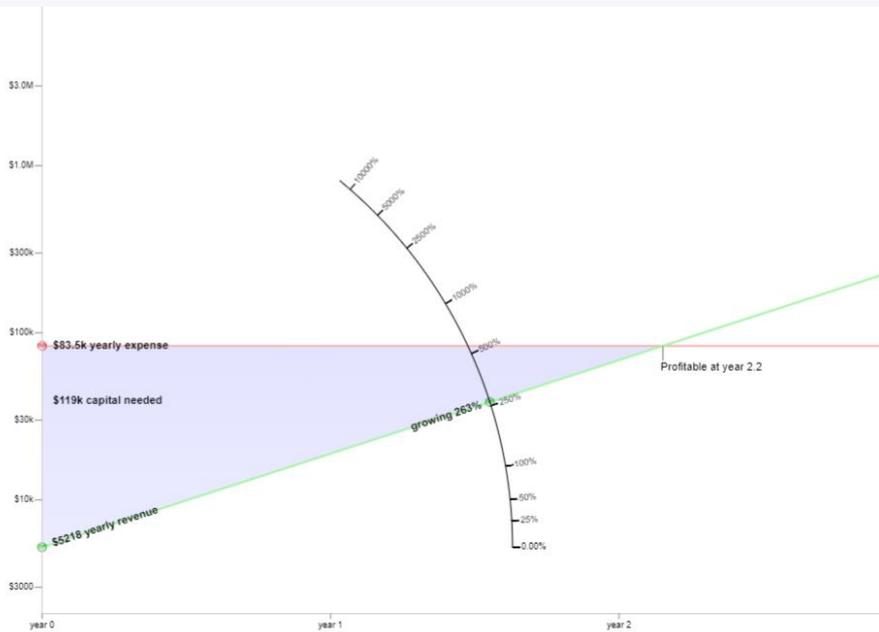
# ▶ Very Early stage

- ▶ Avoid Sales projections – Every startup wants the J-curve growth. Investors see this \***every**\* time
- ▶ If investors want detailed projections and balanced sheet, then it's a data point they are not suited for you at this stage
- ▶ Projection to be on,
  - ▶ Calculate Burn and Runway
  - ▶ First hire – Salary \* 1.5 ( don't forget cost to the company)

# ▶ Early stage

- ▶ Assumption -> Startup has product and early revenue
- ▶ **Default alive Vs Default Dead** -"Assuming burn remains constant, growth is constant, do they make it profitability on the money left? By default company by default alive or dead?" Paul Graham [Essay](#)
- ▶ **Fatal Pinch** "= default dead + slow growth + not enough time to fix it". Paul Graham [Essay](#)

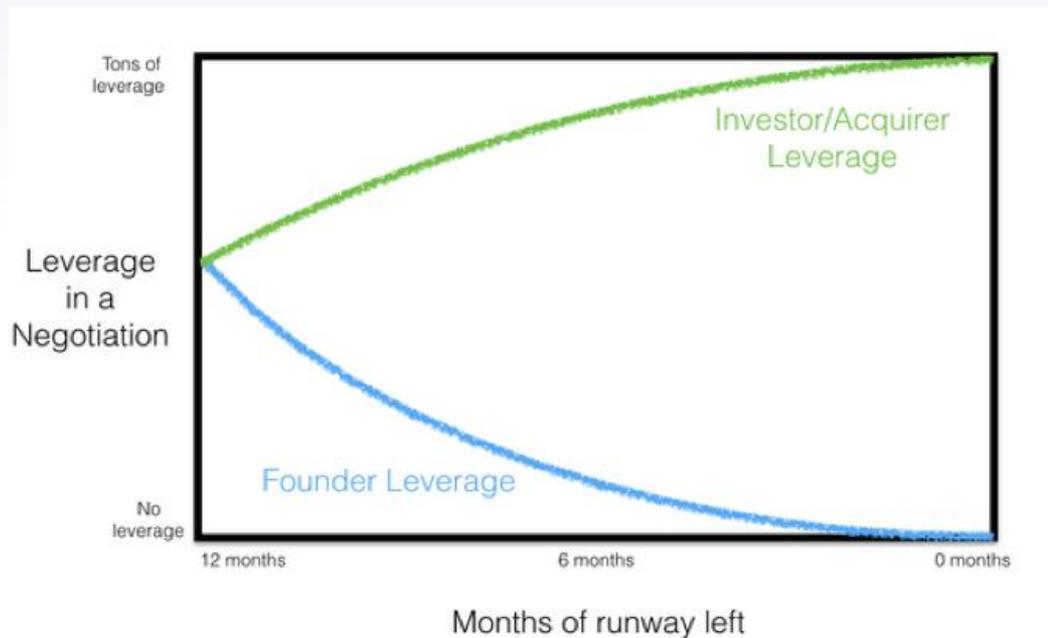
# Early stage - Profitability



<http://growth.tlb.org/#>

- ▶ Use to calculate how long it will take to be profitable based on your assumptions

# Early stage - Leverage



- ▶ Over hiring is the root cause of burn
- ▶ Treat hiring as investment
- ▶ The point of no return is ~ 2 months

Source: [Y combinatory Library](#)

# Valuations

The company valuations are not a science. It follows supply vs. demand

- ▶ Raise for your runway. Don't over raise.
- ▶ What equity range you want to give away?

Investment memos:

- ▶ Bessemer - <https://www.bvp.com/memos>
- ▶ Sri Ram - <https://sriramk.com/memos>

 The Information



EXCLUSIVE STARTUPS VENTURE CAPITAL

## A \$200 Million Seed Valuation for Roam Shows Investor Frenzy for Note-Taking Apps

By Kate Clark

# ▶ Valuations

- ▶ There are many valuation methods. Some of them
  - ▶ VC method – terminal value
  - ▶ Discounted Cash Flow
  - ▶ First Chicago
  - ▶ Replacement Value/ Cost to Duplicate
  - ▶ .....

Overview can be found here - [Link](#)

# Thanks!

The Ask!

- Any feedback to improve  
would be appreciated

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