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

Adrame Ndione
Co-Founder & Managing Partner Vertis Capital
Senator World Business Angel Forum
MD Gambia Angel Investors Network
I Want Money!

Equity Sources Of Money

- Equity
- Grants
- Bank loans
- IPOs
- Leasing

KICKSTARTER TRAVEL JACKET WITH 15 FEATURES
The World's Best TRAVEL JACKET with 15 Features || BAUBAX

$9,192,055 pledged of $20,000 goal
44,949 backers

Mail Online India
Indian innovators get $1 million to fund high-tech health solutions

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.

<table>
<thead>
<tr>
<th>TYPE</th>
<th>COST</th>
<th>PAYBACK TERMS</th>
<th>ADVANTAGES</th>
<th>DISADVANTAGES</th>
<th>NATURE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Friends &amp; Family</td>
<td>Low</td>
<td>None / Very flexible</td>
<td>Easy, cheap, flexible</td>
<td>Can create friction.</td>
<td>Passive</td>
</tr>
<tr>
<td>Angel investors / Impact investors</td>
<td>Medium</td>
<td>Flexible</td>
<td>Flexible, best value</td>
<td>Share ownership. No or low real value addition.</td>
<td>Passive / Active</td>
</tr>
<tr>
<td>Venture capital / Private Equity</td>
<td>Medium / High</td>
<td>5-7 years</td>
<td>Can get large amounts</td>
<td>Hard to get; share ownership</td>
<td>Passive / Active</td>
</tr>
<tr>
<td>Strategic investors</td>
<td>Medium</td>
<td>Flexible</td>
<td>Can get to large amount / Best deal</td>
<td>Very hard to get; share ownership</td>
<td>Active</td>
</tr>
</tbody>
</table>
Why is it important?
• 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
• I have heard that I don’t have to build a business plan with financial projections because no one actually reads it....

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

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

*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)**

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!
Step 1: 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

- TRIPS BOOKED (WORLDWIDE)
  - Total Available Market: 1.9 Billion+
- BUDGET & ONLINE TRIPS
  - Serviceable Available Market: 532M
- TRIPS W/AB&B
  - Market Share: 10.6M

Revenue estimation

We take a 10% commission on each transaction.

- TRIPS W/AB&B
  - Share of Market: 10.6M
- AVG FEE
  - $70/night @ 3 nights
- REVENUE
  - 2008-2011
  - $200M
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 you present to the investors in your Business Plan! This need to be short, clear, and contain all relevant information.

<table>
<thead>
<tr>
<th>Operating Budget</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
<th>Y1</th>
<th>Y2</th>
<th>Y3</th>
<th>Y4</th>
<th>Y5</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REVENUES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product A</td>
<td>200</td>
<td>3.000</td>
<td>8.600</td>
<td>19.500</td>
<td>31.300</td>
<td>66.000</td>
<td>145.200</td>
<td>332.750</td>
<td>585.640</td>
</tr>
<tr>
<td>Product B</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>20.000</td>
<td>44.000</td>
<td>96.800</td>
<td>159.720</td>
</tr>
<tr>
<td>Product C</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>15.000</td>
<td>31.000</td>
<td>66.000</td>
<td>159.720</td>
</tr>
<tr>
<td>Gross Revenues</td>
<td>200</td>
<td>3.000</td>
<td>8.600</td>
<td>19.500</td>
<td>31.300</td>
<td>86.000</td>
<td>204.200</td>
<td>460.550</td>
<td>811.360</td>
</tr>
<tr>
<td>Costs of goods sold</td>
<td>80</td>
<td>1.200</td>
<td>3.440</td>
<td>7.800</td>
<td>12.520</td>
<td>33.075</td>
<td>76.569</td>
<td>165.425</td>
<td>280.539</td>
</tr>
<tr>
<td><strong>Net Revenues</strong></td>
<td>120</td>
<td>1.800</td>
<td>5.160</td>
<td>11.700</td>
<td>18.780</td>
<td>52.925</td>
<td>127.631</td>
<td>295.125</td>
<td>530.821</td>
</tr>
<tr>
<td><strong>EXPENDITURES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personnel costs</td>
<td>0</td>
<td>4.500</td>
<td>9.000</td>
<td>17.700</td>
<td>31.200</td>
<td>34.320</td>
<td>37.752</td>
<td>41.527</td>
<td>45.680</td>
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<tr>
<td>Marketing costs</td>
<td>0</td>
<td>150</td>
<td>1.200</td>
<td>300</td>
<td>1.650</td>
<td>2.475</td>
<td>3.713</td>
<td>5.569</td>
<td>8.353</td>
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<tr>
<td>Office costs</td>
<td>0</td>
<td>400</td>
<td>600</td>
<td>600</td>
<td>1.600</td>
<td>2.400</td>
<td>3.600</td>
<td>5.400</td>
<td>8.100</td>
</tr>
<tr>
<td>Other costs</td>
<td>800</td>
<td>1.250</td>
<td>750</td>
<td>1.250</td>
<td>4.050</td>
<td>6.075</td>
<td>9.113</td>
<td>13.669</td>
<td>20.503</td>
</tr>
<tr>
<td>Investments</td>
<td>28.900</td>
<td>3.900</td>
<td>0</td>
<td>0</td>
<td>32.800</td>
<td>40.000</td>
<td>40.000</td>
<td>60.000</td>
<td>60.000</td>
</tr>
<tr>
<td><strong>Total costs &amp; investments</strong></td>
<td>29.700</td>
<td>10.200</td>
<td>11.550</td>
<td>19.850</td>
<td>71.300</td>
<td>85.270</td>
<td>94.177</td>
<td>126.165</td>
<td>142.636</td>
</tr>
<tr>
<td><strong>RESULT</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Excl. tax &amp; depreciation)</td>
<td><strong>-29.580</strong></td>
<td><strong>-8.400</strong></td>
<td><strong>-6.390</strong></td>
<td><strong>-8.150</strong></td>
<td><strong>-52.520</strong></td>
<td><strong>-32.345</strong></td>
<td><strong>33.454</strong></td>
<td><strong>168.961</strong></td>
<td><strong>388.185</strong></td>
</tr>
</tbody>
</table>
Step 4: Request for finance

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

<table>
<thead>
<tr>
<th>Cash statement (EUR)</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
<th>Y1</th>
<th>Y2</th>
<th>Y3</th>
<th>Y4</th>
<th>Y5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Invested before Q1</td>
<td>10.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash balance begin</td>
<td>0</td>
<td>20.420</td>
<td>12.020</td>
<td>30.630</td>
<td>0</td>
<td>22.480</td>
<td>20.135</td>
<td>53.589</td>
<td>222.550</td>
</tr>
<tr>
<td>Own Investment</td>
<td>10.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Secured Investment</td>
<td>15.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NEED FOR INVESTMENT</td>
<td>25.00</td>
<td>25.000</td>
<td></td>
<td></td>
<td>50.00</td>
<td>30.000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit/Loss/investment</td>
<td>-29.58</td>
<td>-8.400</td>
<td>-6.390</td>
<td>-8.150</td>
<td>-52.520</td>
<td>-32.345</td>
<td>33.454</td>
<td>168.961</td>
<td>388.185</td>
</tr>
</tbody>
</table>

• 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

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>N+1</th>
<th>N+2</th>
<th>N+3</th>
<th>N+4</th>
<th>N+5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover</td>
<td>170</td>
<td>194</td>
<td>228</td>
<td>267</td>
<td>316</td>
<td></td>
</tr>
<tr>
<td>Expenses</td>
<td>(120)</td>
<td>(130)</td>
<td>(150)</td>
<td>(175)</td>
<td>(210)</td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>(40)</td>
<td>(40)</td>
<td>(40)</td>
<td>(40)</td>
<td>(40)</td>
<td></td>
</tr>
<tr>
<td>EBIT</td>
<td>10</td>
<td>24</td>
<td>38</td>
<td>52</td>
<td>66</td>
<td></td>
</tr>
<tr>
<td>TAX (33,33%)</td>
<td>3,33</td>
<td>8</td>
<td>12,67</td>
<td>17,33</td>
<td>22</td>
<td></td>
</tr>
<tr>
<td>Profit</td>
<td>6,67</td>
<td>16</td>
<td>25,33</td>
<td>34,67</td>
<td>44</td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>40</td>
<td>40</td>
<td>40</td>
<td>40</td>
<td>40</td>
<td></td>
</tr>
<tr>
<td>Free Cash flow</td>
<td>(200)</td>
<td>46,67</td>
<td>56</td>
<td>65,33</td>
<td>74,67</td>
<td>84</td>
</tr>
<tr>
<td>Discounted Cash flow (5%)</td>
<td>(200)</td>
<td>44,44</td>
<td>50,79</td>
<td>56,44</td>
<td>61,43</td>
<td>65,82</td>
</tr>
<tr>
<td>Payback</td>
<td>(200)</td>
<td>(155,56)</td>
<td>(104,77)</td>
<td>(48,33)</td>
<td>13,10</td>
<td>78,92</td>
</tr>
<tr>
<td>NPV</td>
<td>78,92</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IRR</td>
<td>16,95%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
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
DM me on LinkedIn adramendione/ or twitter @AdrameNd
adrame.ndione@vertiscapital.net
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!