TIM 80C  Lecture 15  (5/14/15)

Agenda

1) Review Financial Strategy
   - Cash Flow Analysis
   - Financing
   - Accounting

2) Homework 4

3) Financial Strategy: Funding Plan

4) Project Phase III

5) Return Graded Homework 3
HomeWork 4

Problem 1: Decision Analysis (No discounting)

a) Return on Investment = \( \frac{\text{net profit}}{\text{invested capital}} \)

\[
= \frac{$11,000 - $10,000}{$10,000} = 10\%
\]

Problem 2: Decision Analysis with discounting

\[
NPV = \frac{$12,000}{(1+d)^2} + \frac{$1,000}{(1+d)^1} + \frac{-$10,000}{(1+d)^0}
\]

Annual discount factor \( d = 6\% \)
Problem 4: Apples Financials

Income Statement on 27 September 2014

Total Revenue: $182,795 B

Net Income: $39,510 B

Return on Sales (Profit Margin) = \frac{\text{Net Income}}{\text{Total Revenue}}

= \frac{\$39,510 B}{\$182,795 B}

= 0.216 \% (very good)

Due to Apples' Supply Chain (TIM 125)
Balance Sheet on 27 September 2014

Total Assets: $231,834B

Total Liabilities: $120,292B

Total Equity: Total Assets - Total Liabilities
(Book Value)

= $231,834 - $120,292B

= $111,642B

Market to Book Value = \frac{\text{Market Cap}}{\text{Book Value}}

= \frac{\$751,468}{\$111,642B}

\approx 6.7

(Market to Book in 2014 \approx 6.7)
Financial Strategy: Funding Plan

The Funding Plan is a time phased plan that when and how the Start-up will raise the necessary capital.

Process for Creating a Funding Plan:

1) Set the funding objectives for 3-5 years (how much capital is needed based on the cash flow analysis).

Example

Seed Capital ($1M+): develop a working prototype

$100,000 in Year 1

Round A ($10M+): product development

$2M in Year 2

Round B ($100M+): product launch (manufacturing, marketing, etc)

$10M in Year 4
2) Decide the amount of equity that will be exchanged for funding.

\[ \text{Dilution} = \% \text{ reduction in ownership} \]

**Example**

Seed Money: 30% dilution

Funders willing to give up 30% of the company for $100,000.

3) Determine the funding source(s)

a) Private sources of funding
   - Founder's personal savings
   - Friends and family (not recommended)
   - Angel investors (wealthy individuals for investments with risk/reward)
b) Financial Institutions (Professional Investors)
   - Venture Capitalists (Andreessen Horowitz, Kleiner Perkins, Khosla Ventures)
   - Investment Banks (Merrill Lynch, Goldman Sachs)

c) Government Funding
   - Defense (DoD, NASA, etc)
   - Public Research (NSF, NIH, EPA, etc)

d) Crowd Sourcing (generally not for equity)

e) Large Companies
   - Microsoft, Cisco, Intel, etc

f) Bank Loans (debt, not equity)

4) Obtain Funding
   - Compelling Product Idea (Conceptual Design)
   - Business Plan (BS, MS, BS/CS, FS)
   - Prototype/mockup (generally required for VCs)
   - Presentation (10-15 minutes pitch)
Every group must meet with the instructor (Tyler) today during office hours.

EZ 553 4:00 - 7:00 pm

Bring your business plan (aka project binder) to project review.