



# *Financial Statements + Financing Ventures*



MGMT 6260  
ESHIP FINANCE  
FALL 2023

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# AGENDA

**1**

## **WELCOME BACK! (3 min.)**

Syllabus change, Oct. 25 Save The Date + Flying Pigs

**2**

## **CAVEATS/REVIEW OF SHARES (25 min.)**

Employees, incentives and equity for early-stage.

**3**

## **REVIEW OF VALUATION (15 min.)**

A quick overview -- and your choices.

**4**

## **REVIEW OF IRR (10 min.)**

One last check -- and as the last step.

**5**

## **BREAK (5 min.)**

Stretch the legs.

**6**

## **FINANCIAL STATEMENTS (25 min.)**

Balance sheets and income statements.

**7**

## **FINANCING VENTURES (10 min.)**

You have options.

**8**

## **TEAM FORMATION + SIM (5 min.)**

Looking ahead to Thursday and beyond.

# REVIEW OF SHARES

## TWO NUMBERS, SOME DECISIONS CONVERT THE DECIMAL

# REVIEW OF VALUATIONS

## WHICH COMPANY?

# IRR CHECK NOW REASSESS

# BREAK

# FINANCIAL STATEMENTS V. FINANCIAL PERFORMANCE

## ACCOUNTING

TUESDAY 9.5

BALANCE SHEETS

INCOME STATEMENTS

## ACTIVITY

THURSDAY 9.7

CASH FLOW

P/L

# BALANCE SHEETS

## OWN v. OWE



# BALANCE SHEETS

## THREE PRIMARY COMPONENTS

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ASSETS

LIABILITIES

OWNER'S EQUITY

**The purpose of the balance sheet is to reveal  
the financial status of a business as of a specific point in time.**

# BALANCE SHEETS

## ASSETS

**Assets are economic resources.**

**An asset has the ability to provide future benefits to the company.**

## LIABILITIES

**Liabilities are creditors' claims on the assets of a firm.**

**The claims result from benefits the firm has previously received from the creditors.**

# THE SIMPLE EQUATION

$$\text{Assets} = \text{Liabilities} + \text{Equity}$$



**What the company owns  
(used to generate income)**

**Finance through debt  
Equity, financed by selling stock**

**How the assets of the company are financed**

**In short, this is how you get to market value  
Share price x # shares issued**

# ASSETS

A SNAPSHOT OF THE INVESTING AND FINANCING ACTIVITIES OF A FIRM  
BALANCE SHEET OF EVIDUS: DECEMBER 31, 2022

## ON THE SHEET

1

**Current Assets**  
(liquid in less than a year)

2

**Fixed Assets**

3

**Other Assets**

## TYPE/EXAMPLES

**Cash**  
**Accounts Receivable**  
**Inventories**

**Property, plant and equipment**  
(less depreciation)

**Intangibles (less depreciation)**  
**Investment Securities**

# LIABILITIES

A SNAPSHOT OF THE INVESTING AND FINANCING ACTIVITIES OF A FIRM  
BALANCE SHEET OF EVIDUS: DECEMBER 31, 2022

## TYPE/EXAMPLES

Accounts Payable  
Salaries Payable  
~~Accrued Expenses~~  
Income Taxes Payable  
Short Term Debt

Bonds issued  
Bank loans

Common Stock  
Additional Paid-in Capital  
Retained Earnings

## ON THE SHEET

1

Current Liabilities  
(payable in less than a year)

2

Long-Term Liabilities

3

Shareholders' Equity

# BALANCE SHEETS

## WHY THIS MATTERS

**The balance sheet for startups is used to calculate your debt-to-equity ratio.  
The debt-to-equity ratio compares the amount of debt a startup owes to its shareholder equity.**

# BALANCE SHEETS

## DEBT-TO-EQUITY RATIO

A financial ratio indicating the relative proportion of shareholders' equity and debt used to finance a company's assets. Closely related to leveraging, the ratio is also known as risk, gearing or leverage.

### DEBT

Any short-term borrowings, long-term debt, and any debt-like items on the company's balance sheet.

### EQUITY

The equity component is inclusive of any equity contributed by the owners (i.e. founders), equity raised in the capital markets, and retained earnings. = \*

If I forget, please  
remind me to (re)explain.

# BALANCE SHEETS

## DEBT-TO-EQUITY RATIO EQUATION

$$D/E = \frac{\text{Any short-term borrowings, long-term debt, and any debt-like items on the company's balance sheet.}}{\text{Shareholder's Equity}}$$



# BALANCE SHEETS DEBT-TO-EQUITY RATIO EQUATION

## LEVERAGE TRANSLATION (1)

A higher ratio indicates a levered firm, which means a company is stable with significant cash flow generation, but not preferable when a company is in decline.

A lower ratio indicates a firm is less levered and closer to being fully equity financed.

# INCOME STATEMENTS

# INCOME STATEMENT: PURPOSE

To demonstrate the profitability of an organization's operations over a **fixed period of time** by illustrating how proceeds from **operations (i.e. revenues)** are transformed into **net income (profits and losses)**.

## NOTE

This is why “cost of goods sold” (COGS) will appear on an income statement and not show up on balance sheet.

# **INCOME STATEMENT: IMPORTANCE**

**1**

**This information is important for management of the company to set strategy and priorities.**

**2**

**Helps investors determine if the company is a good investment.**

**3**

**Gives banks/investors an idea of how risky a loan/investment would be to a company.**

# INCOME STATEMENT: SIMPLE EQUATION

$$\text{Assets} = \text{Liabilities} + \text{Contributed Capital} + \text{Retained Earnings, Beginning of Period} + \text{Revenues - Expenses for Period} - \text{Dividends for Period}$$

It's just a balance equation over a time period.

# INCOME STATEMENT: SIMPLE EQUATION

$$\text{Assets} = \text{Liabilities} + \text{Contributed Capital} + \text{Retained Earnings, Beginning of Period} + \text{Revenues - Expenses for Period} - \text{Dividends for Period}$$

*Usually money  
from investors.*

*This is how much  
profit you made and  
deposited  
into the bank account  
from **before** this time  
period*

*This is the  
profit you  
made this  
time period*

*If you make a  
ton of money,  
you may pay  
investors a  
dividend*

# FINANCING VENTURES

## YOU HAVE OPTIONS

# FINANCING VENTURES

A non-exhaustive list.

PERSONAL INVESTMENT

F3

VENTURE CAPITAL

ANGEL INVESTORS

CROWDFUNDING

INCUBATOR/ACCELERATOR

VENTURE STUDIO

LOANS

GRANT/SUBSIDIES



# FINANCING VENTURES

## PERSONAL INVESTMENT

*Considerable risk, as it puts the founders' personal finances in jeopardy, however, you don't give up equity or need to go into debt.*

## F3

*Friends, Family + Fools. We all have one of these three and often this comes with more flexible negotiation options. Risk? Mainly relationships.*

## ANGEL INVESTORS

*Wealthy individuals who invest in startups, usually at the early stages with their own capital. Often referred to as high net-worth individuals.*

## VENTURE CAPITAL

*Firms with accredited investor/HNW individuals that can provide capital financing, tech expertise, and managerial experience.*

## CROWDFUNDING

*Project funding from a large number of people, often through digital means in exchange for goods and in some cases, equity crowdfunding depending on state law.*

# FINANCING VENTURES

## INCUBATOR/ACCELERATOR

*Provides resources for early- to growth-stage concepts and operates similarly to VCs to produce MVPs or next-level P/S advancement.*

## VENTURE STUDIO

*Incubates own ideas or ideas from their partners. Team builds MVPs, then validates the idea by finding product/market fit and customers.*

## LOANS

*Bad idea -- but sometimes necessary.*

## GRANT/SUBSIDIES

*Often government-backed and often do not have to be repaid but are used for defined purposes. Subsidies are direct contributions, tax breaks, and other special assistance that governments provide businesses to offset operating costs over a lengthy time period.*

# TEAM FORMATION + SIMULATION