

FINANCE CAPSTONE

Contactz LLC

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Executive Summary

Contactz is an early-stage tech startup developing a mobile app aimed at revolutionizing how people network and connect with one another. The app provides a simple and intuitive interface that allows users to search for and connect with other users based on their professional or personal interests.

To support the development and launch of the app, Contactz plans to raise \$600,000 in funding through an SBA loan and a partnership with an Angel Investor. The company will use this funding to cover startup and operating expenses for six months before it sees any revenue.

Contactz has estimated its financial projections for the first four years, forecasting positive EBIT in Q4 of year 1, followed by rapid growth in EBIT, net income, and FCF in years 2, 3, and 4. If these projections are accurate, the company hopes to distribute dividends to its shareholders starting in year 2.

Contactz's team is made up of seven employees, including a CEO, CTO, CFO, Sales and Marketing Director, Senior Software Engineer, and two junior engineers. They plan to focus on growth in its early stages, spending around 60% of its revenue on Opex in the second, third, and fourth years.

Overall, Contactz's unique app and experienced team make it an exciting investment opportunity for those looking to invest in a high-growth tech startup.

Business Description

Contactz is a versatile app that not only stores your contacts but also facilitates staying connected and forging new connections. It allows you to form or join communities. You tag yourself with your skills and interests, and this tagging system plays a crucial role in connecting with others. If you need someone with a specific skill, you can search for it, and the app will display matching contacts. You can also send messages to all app users with that skill, forming skill-specific communities. The same applies to interests or things you want to learn more about.

You can search for people by name or tags to find those with the skills or interests you seek. It's even possible to search in other people's contact lists to expand your network. When doing so, you only see the information they've chosen to share, like their name, workplace, and skills. If you find someone in your contact's list that you'd like to meet, you can ask your contact for an introduction.

To make it easier for your contacts to gauge the seriousness of referrals, you can classify them as very close, close, or distant and specify your relationship with them (friend, family, coworker, etc.). You retain control over the information you share with your network.

These features are beneficial for startups and small businesses, helping them connect with the right people or companies. Companies can register, list their services and skills, and identify their needs. This simplifies company discovery and networking.

The app simplifies contact management by enabling you to upload contacts from an Excel file, grant access to your phone's contacts, and add contacts by scanning business cards or handwritten notes. It also removes duplicate contacts and lets you add notes for easy reference.

The app creates different types of communities:

1. Personal communities with selected contacts.
2. Company-specific communities.
3. Communities of collaborating companies.
4. Open communities accessible to anyone. The app tracks when you last interacted with your contacts and sends reminders if it's been a while.

We're introducing an AI feature that reviews your last conversation and suggests topics for your next chat. It also recommends when to follow up and can even draft texts for you, powered by OpenAI.

The app aims to foster a community focused on giving and helping. You emphasize what you can offer rather than what you need, making networking more straightforward.

We prioritize an excellent customer experience and user-friendliness. You can access your contacts online or offline.

We also take data security seriously, implementing measures to protect user data and offering an opt-out for those who don't want their information shared with others or companies.

Market analysis

Target market

- Freelancers and independent Professionals: They work with multiple clients and need to manage their contacts. This is a great place to expand their customer base.
- Entrepreneurs and small business owners: This app will help them manage their contacts, track potential clients, and build professional networks.
- Non-profit organizations: Build relationships with donors, sponsors, and volunteers. The software can help them manage contacts and engage with their supporters.
- Students: Can use this app to manage their professional networks and collaborate with peers.
- Recruiters: This app will have a powerful search engine that allows them to search by various criteria and skills. It will enable companies to post jobs in networks with potential candidates. Recruiters can also reach out to candidates and connect with them on the app.
- Salespeople: This app can be a valuable tool for salespeople because it allows them to identify and engage with potential clients, build relationships, and leverage their existing network to drive new business.
- Non-Professionals: Anyone who wants to connect with people from their contacts or outside their contact base.

Market trends and opportunities

- Increasing demand for professional networking: In business nowadays, it's all about whom you know and what your network is like.
- Increased demand for finding suiting communities: Many people struggle to find communities where they feel like they belong, and there is an increasing demand for places that can connect people with similar interests.
- Increased use of data and Analytics: With a large database of professional profiles, Contactz can provide valuable insights to sales and recruitment professionals and businesses wanting this data.

- Rising importance of personal branding: As the job market becomes more competitive, individuals recognize the importance of building and maintaining their brand. Contactz can help individuals manage their professional image and showcase their skills and achievements to potential clients, employers, and peers.

Competitive analysis

Salesforce

Strengths

- Most widely used CRM in the market
- Have AI-powered sales and marketing automation features.
- Customizable to meet the needs of different businesses.
- Integrates with many third-party apps and tools.
- Good at customer experience and support.

Weaknesses

- Can be complex and challenging to set up and use.
- Expensive compared to some other CRM Systems.
- May require additional training to utilize its features fully.

HubSpot

Strengths

- Offers a free version.
- Known for its user-friendly interface.
- Has marketing, sales, and customer service tools.
- Customizable
- Integrates with third-party apps.
- Just Launched an AI-powered content assistant and ChatSpot.ai.

Weaknesses

- Offer fewer features than some other CRM systems.
- The free version has limited reporting capabilities.
- Can be hard to migrate data from other systems to HubSpot

LinkedIn

Strengths

- It is widely recognized and the go-to platform for professional networking.
- It has a huge user base of about 900 million members from over 200 countries.
- It offers a wide range of features, including job postings, company pages, groups, and messaging.

- It has a good search engine for finding people, jobs, and companies.
- It also has a strong brand recognition and reputation.

Weaknesses

- Not very focused on personal relationships and very geared towards professional networking
- It can be “too large,” making it difficult to stand out among large numbers of users.
- Their premium feature is expensive.

Contactz will be something in between a CRM system and LinkedIn. It will have fewer sales, marketing, and customer service tools than a full CRM system, but it will offer an easy way of connecting with new people and be more focused on personal relationships. CRM systems can be costly and time-consuming to set up; maybe your business doesn't even need a full CRM system. On LinkedIn, you don't have the opportunity to add notes or phone numbers to your connections. In Contactz, you get many features of a simple CRM system and the opportunity to network and create communities.

Sales and marketing plan

Branding, messaging, and advertising strategy

We plan to develop a brand identity, name, and logo with an eye-catching color pallet. We also plan to brand this as a useful tool and not just a feed to scroll through. The focus on giving back and helping others is meant to be a refreshing change from the often-self-serving nature of social networking apps. Another important branding will be that this is a tool that is easy to use and understand. To get this message out, we will create case studies and blog posts demonstrating the software's value to potential customers and highlighting the software's features about how it solves customers' problems.

Our marketing channels will focus on creating social media and website presence through creating informative and engaging content like blog posts, case studies, and tutorials. We will also be using paid advertising on Google, Facebook, Instagram, LinkedIn, and a variety of newspapers to reach a wider audience, as well as email marketing. We plan on spending about \$5,000 quarterly on marketing the first year.

Sales strategy

Advertising model: The plan is to offer advertising opportunities to companies or individuals looking to promote their products or services to users of the app. We will offer ads displayed in various forms, such as sponsored texts, videos, or posts. That will reach targeted users based on specific demographics, interests, and behaviors based on the data that we collect. This revenue will be driven by a bidding system that allows advertisers to compete for the space they want. The more advertisers competing for one space, the higher the price will be. Therefore, we expect to be able to charge more for ads as our user base gets larger.

Commission-based model: We will also offer commission-based opportunities to companies that find talent or work through the app, such as job postings or partnerships with service providers. We will charge a flat fee of \$250 for a 30-day job posting. This price is at the lower end of what you can expect to pay, and we expect to increase the price as our user base increases.

Data-driven Model: Utilize the data collected from the app to offer insights or sell data to companies looking better to understand their target audience or the job market. I plan on this being a freemium model, meaning that everyone has access to a basic level of data for free, but the more advanced data and features will be available with a subscription costing \$50 a month, which is \$10 less than LinkedIn Premium Business. The data you get access to through this model is similar to what you can access with the LinkedIn Premium Business, but because we are a new company without brand recognition, we think people are not willing to pay as much for our premium version.

Opportunity:

Subscription model: Eventually, I plan to use our success and userbase to expand into the CRM space, making a complete CRM system connected to this app that companies and private persons can access through a subscription.

Sales Forecast

The market size for this product is very large because it can be used by everyone who has a phone and speaks English, with the potential to translate the app and expand into an even bigger global market. 85% of American adults used a smartphone in 2022, which leaves about 283 million potential users. LinkedIn had 190 million US accounts in February 2023, and there were over 300 million people in the US using social media in March 2023. The CRM market is about \$42.2 billion, and the social media market is about 94 billion dollars. Combined, that is a market size of \$136 billion.

This app is entering a huge market with big and strong competitors. Therefore, the biggest challenge will be to grab a significant market share. Therefore, as a base case, I aim for 100,000 users during the first six months, followed by 200% growth in the second year, then 100% growth in the third year, then 50% in the fourth year. I am aiming for a large user base because for this app to be useful, it will need a lot of users, so if there is low interest in the app from the beginning, there will be an issue getting it to be useful.

The big social media platform's yearly Average Revenue Per User (ARPU) ranges from TikTok leading the field at around \$60 per user to Pinterest at about \$4. LinkedIn had a yearly ARPU of

\$25, Facebook \$30, Instagram \$5, and Twitter \$9 in 2021. Based on this, I think the average revenue per user for Contactz will be around \$15 per year because there will be a lot of interaction in the app, and we will sell job postings and data analysis on top of the ad revenue. Based on the historical growth in ARPU of other similar companies, I think the ad revenue per user will grow by 5% each year after the first year.

Ownership and management plan

Legal structure of the business

Contactz will operate as a Limited Liability Company (LLC), offering personal liability protection for the owner. This LLC structure provides flexibility in choosing how the business is taxed, allowing options such as sole proprietorship, partnership, S-corp, or C-corp. It is notably more straightforward to establish and manage compared to a corporation, with fewer requirements like annual meetings and a board of directors. Additionally, having an LLC enhances the company's credibility and professionalism in the eyes of potential customers.

Team Roles and Responsibilities

1. Hannah - CEO:
 - Responsible for shaping the company's overall strategy, vision, and direction.
 - Manages aspects such as hiring, technology planning, and development planning in collaboration with the CTO.
 - In the early stages, actively contributes to the software engineering team for software development.
 - Over time, will transition into a more administrative role as the company grows.
2. Angel Investor - CFO:
 - Tasked with fundraising activities.
 - Oversees financial operations, including budgeting, forecasting, and financial analysis.
 - Manages relationships with stakeholders.
 - The Angel Investor brings a track record of creating value from startup ventures.
3. CTO (Chief Technology Officer):
 - Experienced in leading software engineering teams.
 - Collaborates with the CEO to drive technology planning and development strategy.
 - Shares responsibility with the software engineers for software maintenance and troubleshooting.
 - Ensures the security and integrity of the technology infrastructure.
4. Sales and Marketing Director:

- Will be a seasoned professional with expertise in ad sales and marketing.
- Responsibilities encompass analyzing sales and marketing data.
- Develops effective marketing and sales strategies to drive business growth and customer acquisition.

Operating Plan

Apart from our management team, we intend to expand our workforce by hiring one experienced software engineer and two younger, energetic engineers with innovative ideas and a strong desire to advance in their field. This will bring our total employee count to seven individuals.

For our office space, we plan to rent in Salt Lake City at a cost of \$35,000 per year. This estimate accounts for seven employees, each allocated 200 square feet of space at a rate of \$25 per square foot. Additionally, we budget \$2,550 per employee for computer monitors and related equipment, along with an extra \$10,000 for office essentials such as furniture and printers.

Furthermore, we will invest in a customized AI tool from Open AI, utilizing their most powerful model, "Davinci." The pricing structure includes 0.03 dollars per 1,000 tokens trained and 0.12 dollars per 1,000 tokens used. Given our belief that this app will become an indispensable daily tool for users, we anticipate that 40% of our users will be active on a daily basis, with each user utilizing 200 tokens daily. We'll also incur an initial cost of \$8,000 for the tool's training and customization.

Technology Plan

Platform and infrastructure requirements

- Database management system/Hosting environment: We will use Firebase as DBMS, and hosting environment charges based on users are approximately \$0.0005 per user per month when there are over 50,000 users. This will provide necessary resources, such as CPU, memory, and storage, and support the chosen technologies. It is also a widely used system that can handle high traffic and usage.
- Security measures: The software will store sensitive personal and business information, so security measures must be in place to protect the data from unauthorized access or theft. The development team will need to implement appropriate security measures, such as encryption, access control, and regular security audits.
- Mobile compatibility: Depending on the target users, the software may need to be compatible with mobile devices, such as smartphones, tablets, and computers.
- Scalability: The software should be designed to handle increased usage and traffic as the user base grows. The development team will need to implement a scalable architecture and infrastructure to accommodate future growth.
- Backup and disaster recovery: The software should have a backup and disaster recovery plan in place to ensure that data can be recovered in case of a hardware failure, software issue, or other unexpected event.
- Integration with other systems: The software may need to integrate with other systems, such as email clients or social media platforms, to provide additional functionality.
- Communication channel: We plan on using Slack as a communication channel for all our employees, which comes with a monthly charge of \$9 per employee.
- Firewall: For security reasons, we will buy a pfSense firewall for all our employees, a one-time purchase of \$179 per appliance.

Risks and challenges

Developing this app comes with several risks and challenges. Firstly, there are potential technical hurdles, such as the possibility that implementing the AI model may be more complex than

anticipated. There's also the risk of user adoption issues, where users find the app challenging to use, or the way tags connect people is not intuitive.

Additionally, since the app relies on personal data, ensuring data security is crucial. Failing to safeguard users' data can erode trust and credibility, which are vital to the company's success. Moreover, competition is fierce, with numerous social media platforms already connecting people and creating communities. Convincing users of the need for another app in this space may be challenging.

Scalability is another concern. If the app experiences rapid growth, preventing major system crashes is essential to maintain brand recognition and user trust.

Financial plan

Salaries are a significant part of our app development expenses. Initially, we plan to have seven employees, including the CEO, CTO, and CFO, each with a yearly salary of \$100,000. The Sales and Marketing Director will earn \$80,000, the Senior Software Engineer \$95,000, and the two junior engineers \$80,000 annually. These salaries may increase as the company generates more revenue. Additionally, employee benefits are estimated to be around 30% of their salaries.

We've budgeted approximately \$8,000 annually for insurance, covering General Liability Insurance, Professional Liability, Cyber Liability, and Workers Compensation.

Preparing the app for its initial launch will take six months. Thus, we need funding to cover startup and operating costs during this period, given that we won't see a positive EBIT until the fourth quarter of year 1, according to our current sales forecast. To prevent a negative cash balance in the third quarter, we require \$600,000 in funding.

This funding will come from an Angel Investor and an SBA loan. The Angel Investor is a qualified investor who supports our idea and intends to become a 50% partner in the company. They have agreed to invest \$200,000 in convertible notes and will actively participate as the CFO. Due to the high risk of investing in an early-stage startup, the Angel Investor seeks a 30% required return.

To complement this, we will secure an SBA loan of \$400,000 with an interest rate of 9%. We've opted for an SBA loan because, as an early-stage business, we lack inventory, property, or equipment that traditional banks typically use as collateral. SBA loans have more lenient collateral requirements as they are government-backed.

We anticipate that accounts payable will amount to approximately 10% of the cost of goods sold, and wages payable will be around 7% of sales, considering it's a significant part of operating expenses during app development. In the first year, we expect the company to allocate about 60% of its revenue to operating expenses, slightly higher than the standard 50% for tech companies, as we are in an early growth-focused stage.

In addition to Property, Plant, and Equipment (PP&E), we intend to spend \$50,000 in the second year, \$150,000 in the third year, and \$250,000 in the fourth year. This will primarily be for office inventory and computers for new employees as the company expands.

We'll be subject to federal and Utah state taxes, amounting to a combined rate of 25.85%, and will leverage Tax Loss Carryforwards when applicable.

If our projected profits align with expectations, we plan to distribute dividends to our shareholders, with \$50,000 in year 2, \$300,000 in year 3, and \$500,000 in year 4.

Financial Analysis

Assuming our sales projections hold true, Contactz is set to achieve a positive EBIT in the fourth quarter of the first year. In the subsequent years (2, 3, and 4), we expect EBIT to grow rapidly. The same trend is anticipated for net income. In the first year, there's a loss of \$496,000, but we anticipate a significant jump to a positive net income of \$800,000 in the second year, followed by \$1,350,000 in the third year, and \$2,206,000 in the fourth year.

Now, turning to Free Cash Flow (FCF), it starts in the negative territory in the first year but becomes positive in the second year and is expected to grow substantially in the following years. These positive financial trends lead to favorable valuations.

When considering the interest rate as the rate of return, we arrive at a value of \$1,107,748 with a Net Present Value (NPV) of \$707,748. This is promising because it means you've earned \$707,748 on top of the interest rate, which surpasses the initial \$400,000 investment made with the SBA loan. The Internal Rate of Return (IRR) is 28.93%, exceeding the required rate of return of 9%, indicating a sound investment.

In the alternate valuation using the Angel Investor's required return and an investment of \$200,000, we arrive at a considerably lower value of \$375,911. This is reasonable because the required return is significantly higher than the interest rate. The NPV for this investment is \$175,911, which is also favorable as it exceeds 0, indicating the investor will receive more than the required return. The Angel Investor's IRR stands at 39.58%, aligning with the positive NPV, suggesting an attractive return exceeding 30%.

Valuation						
		<i>using Debt as Cost of Investment</i>				
Based on Cost of Borrowing (interest rate)	Time	Year	FCF	PV _{FCF}	Σ PV _{FCF}	FCF
	0					(400,000)
	1	1	(876,381)	(804,020)	(804,020)	(876,381)
	2	2	207,567	174,705	(629,315)	207,567
	3	3	934,557	721,650	92,335	934,557
	4	4	1,433,338	1,015,413	1,107,748	1,433,338
				VALUE _{FCF}	1,107,748	
				NPV Function	707,748	
				IRR	28.93%	
		<i>using Required Return as Cost of Investment</i>				
Based on Investor Required Rate of Return	Time	Year	FCF	PV _{FCF}	Σ PV _{FCF}	FCF
	0					(200,000)
	1	1	(876,381)	(674,140)	(674,140)	(876,381)
	2	2	207,567	122,821	(551,319)	207,567
	3	3	934,557	425,379	(125,940)	934,557
	4	4	1,433,338	501,851	375,911	1,433,338
				VALUE _{FCF}	375,911	
				NPV Function	175,911	
				IRR	39.58%	

Conclusion

In conclusion, Contactz has a promising financial outlook. Although the company will experience a loss in the first year, it is expected to see positive EBIT in Q4 of year 1 and experience rapid growth in EBIT, net income, and FCF over the following years. The valuation analysis shows that the company's value will increase significantly over time, and both the interest rate and the Angel Investor's required return will provide positive NPV, indicating a profitable investment. With the projected profits, the company plans to distribute dividends to shareholders, further increasing their return on investment. Overall, with a sound financial plan and a promising outlook, Contactz has the potential to be a successful and profitable startup.