

ENGG 683 – Financial Projections

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Financial projections

- You need to develop financial projection for the first two years as a startup.
- Shows investors, grant agencies, and banks forecasts of you cash flow, income, and balance sheet.
 - What do you intend to use the money for?
 - How will the money help you grow?
 - Identify your financial needs
 - Optimize your spending
 - Monitor your cashflow

- It is normal to start with rough estimates since sales and income is hard to predict at the beginning.
- Create your estimates for the first year monthly then for the second year, you can change to quarterly or yearly.

What is financial projection?

- Looking into the *near* and *distant* future to map a path to *growth*, *innovation*, and *competitive strength*.
- Financial projections are part of an initial business plan and use a venture's financial statements to help business owners forecast their upcoming **expenses** and **revenue** in a strategically useful way.
- Short-term vs long-term projections

Why do you need financial projections?

- You need to build an economically viable business.
- You need to raise funds for your startup.
- You need to inform yourself and your shareholders/stakeholders.

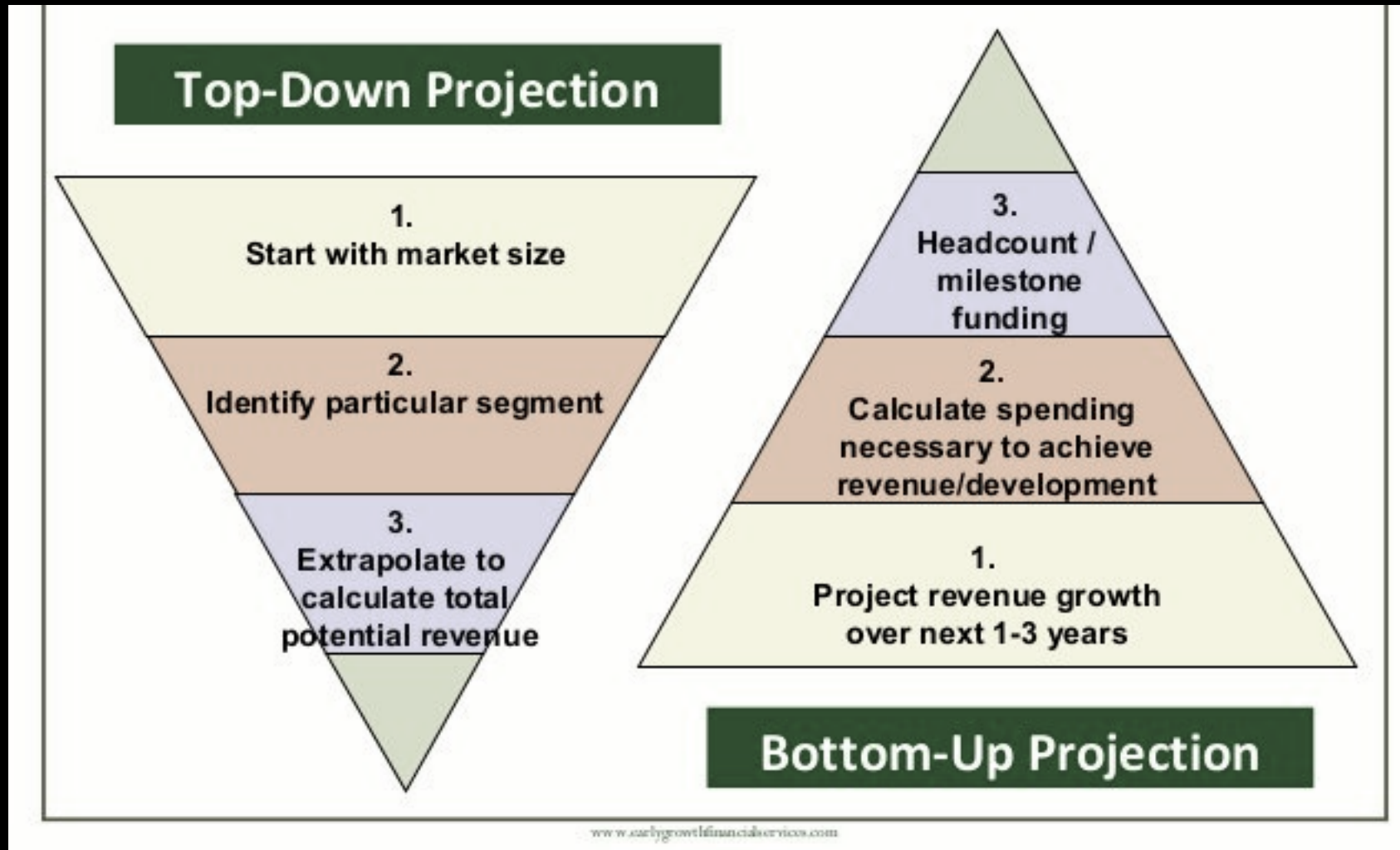
Core Components

*Profit & Loss
Statement (P&L,
Income Statement)*

Cash Flow
Statement

Balance
Sheet

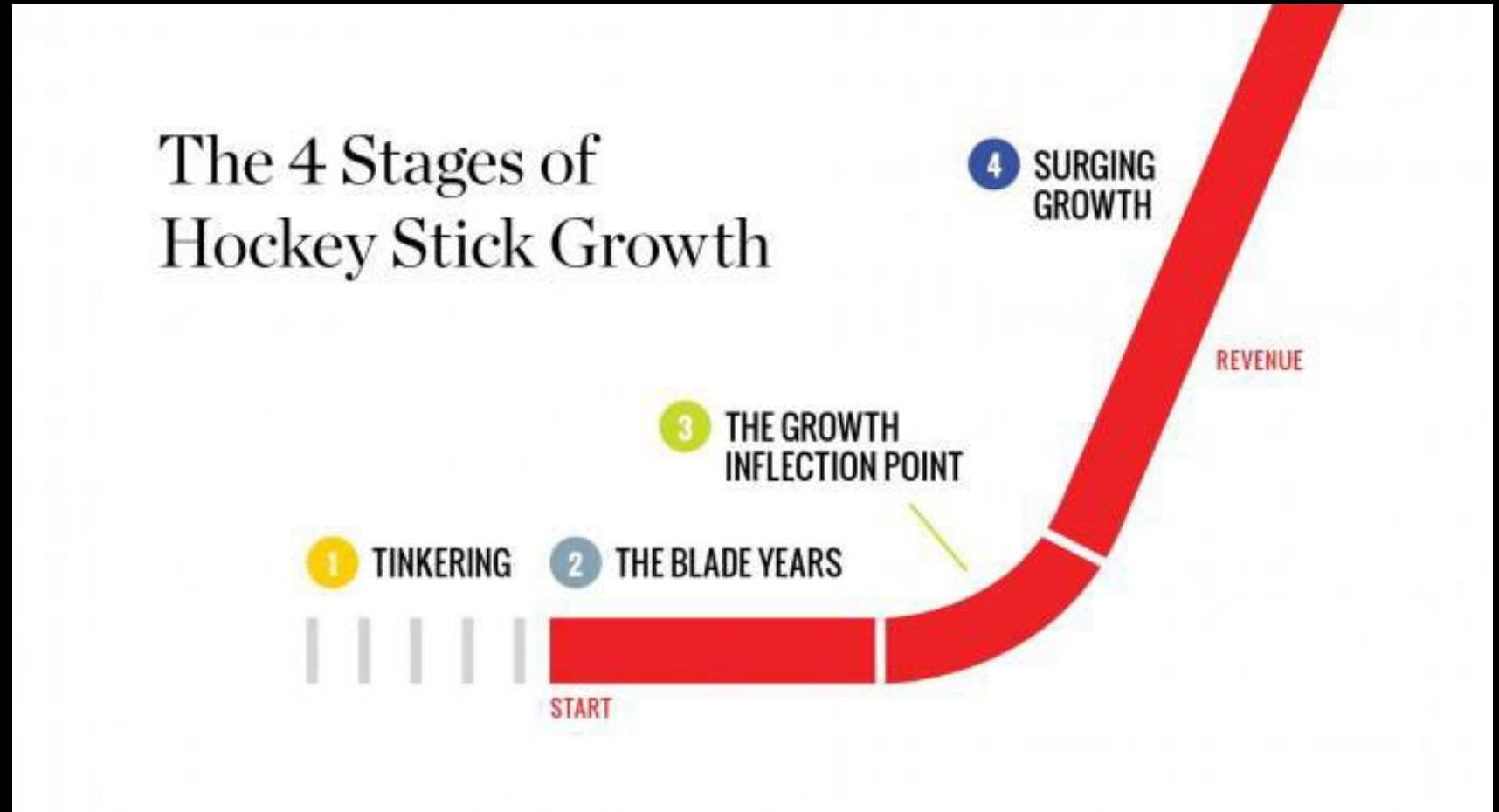
Financial Modeling Approaches



P&L Elements

- Revenue
- Cost Of Goods Sold (COGS)
- Operating Expenses
- Non-Operating Income/Expense

Revenue



Source: The Hockey Stick Principles, Flatiron Books

COGS – Cost of Goods Sold

Rule of thumb:

"Would this expense have been an expense even if no sales were generated?"

Operating Expenses (OPEX)

- Professional Fees
- Rent
- Utilities
- Office supplies
- Legal costs
- Sales and marketing
- Payroll
- Insurance costs
- Other

Non-operating Expenses/Income

- Bank Loans
- Investors
- Return of Investment
- Debt
- Others

Template

REVENUES		
Revenue stream 1		
Revenue stream 2		
Total revenues		0
EXPENSES		
Cost of Goods Sold		
Material cost		
Labour cost		
Tech & infrastructure cost		
Others		
		0
Gross Profit		0
Gross Margin (%)		#DIV/0!
Operating expenses		
Utilities		
General & administrative		
Advertising and marketing		
Occupancy		
Professional fees (IP, consultancy, etc.)		
Research & Development		
Repair and maintenance		
Others		
Total operating expenses		0
OPERATING INCOME		0
NON-OPERATING ITEMS		
Non-operating income		
Non-operating expenses		
EARNINGS BEFORE TAXES		0
INCOME TAXES		
NET INCOME		0

Activity

- You will be provided by 3 new businesses
- You are required to create a one year projection for one business

Activity

1. A new digital only, subscription-based magazine (weekly with ads)
2. A new platform matching programmers with projects (free registration, commission based)
3. A new cloud-based storage company that charges you monthly based on the used space

THANKS!