

Start Up Accounting for Entrepreneurs

October 6, 2020

Topics we will cover

- Setting the scene with recent venture capital funding trends
- How the accounting function evolves in a start up
- Basic accounting controls and why they are important
- The key financial statements (using a recent IPO)
- The FOUR accounting decisions every start up CEO needs to own
- Importance of financial statements in fundraising
- IPO observations
- Confessions of an auditor - mistakes CEO's often make

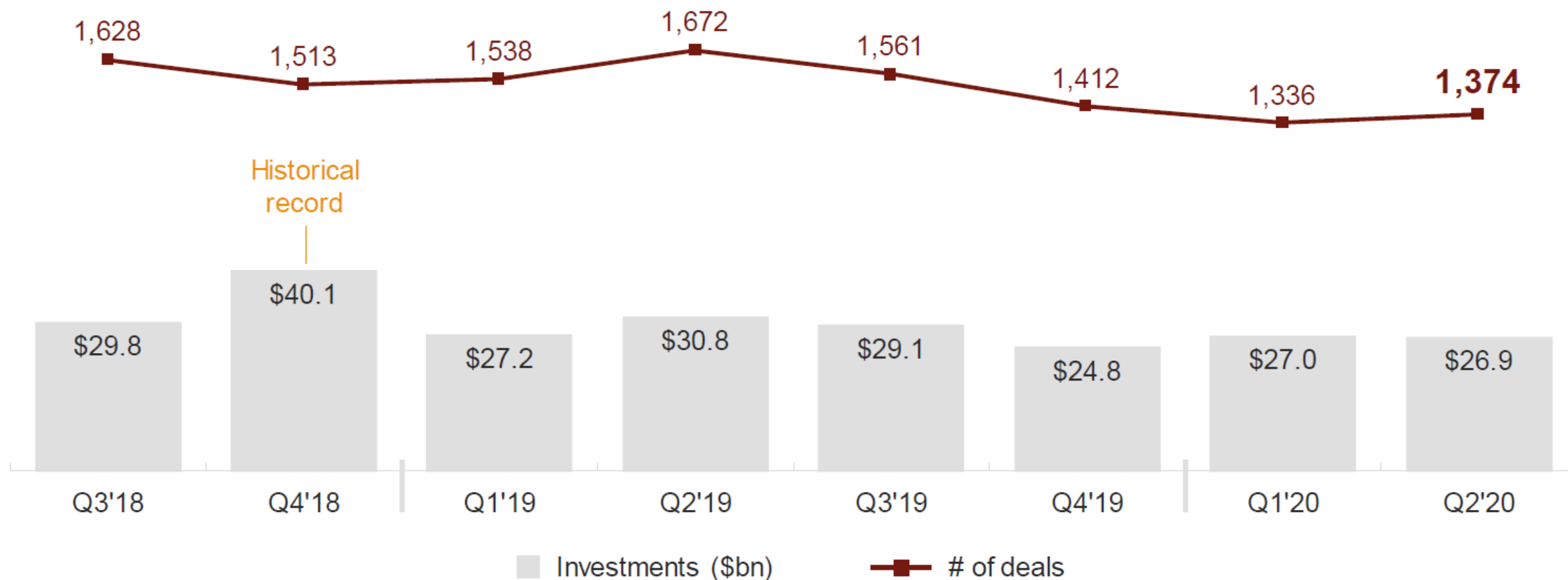
MoneyTree™ Report

Q2 2020



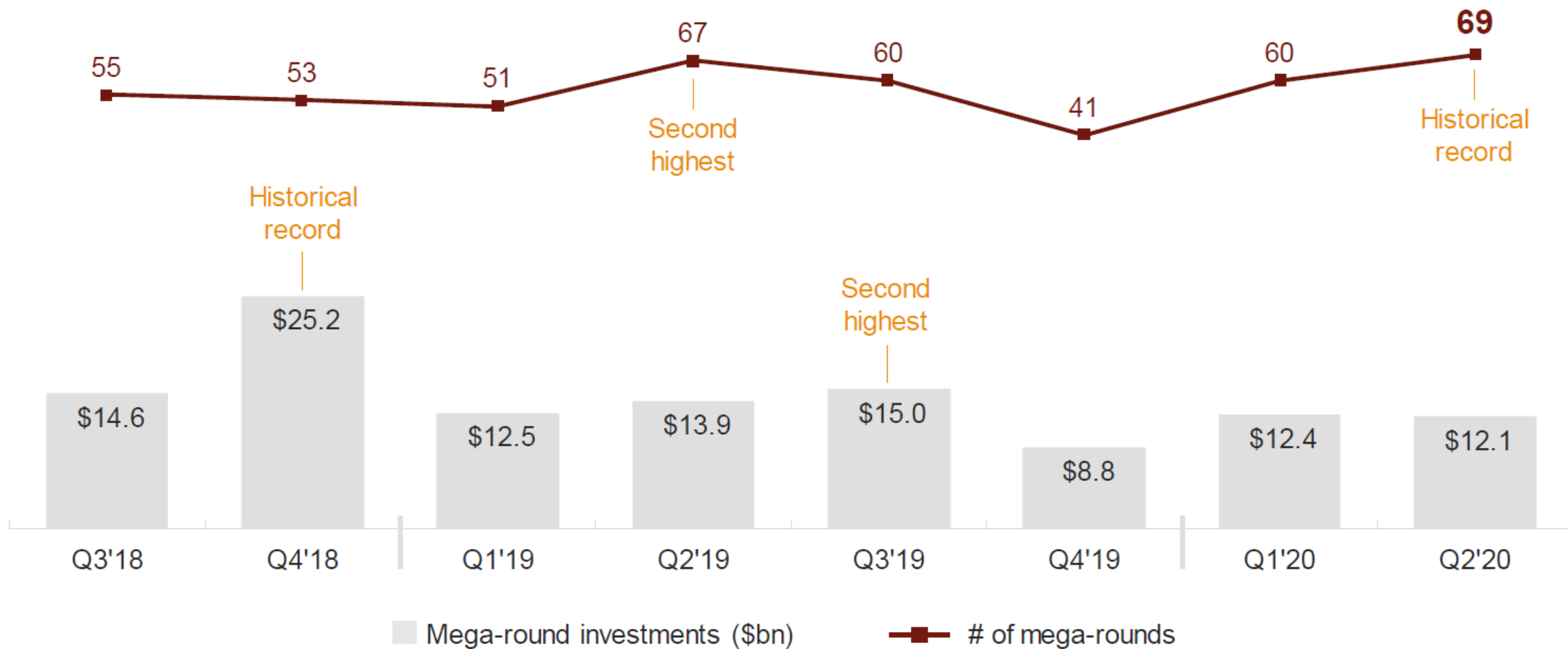
US deal activity reverses 3-quarter decline despite the pandemic

US deals and dollars – Quarterly



Record number of mega-rounds take place in Q2'20

Mega-rounds – Investments and deal count



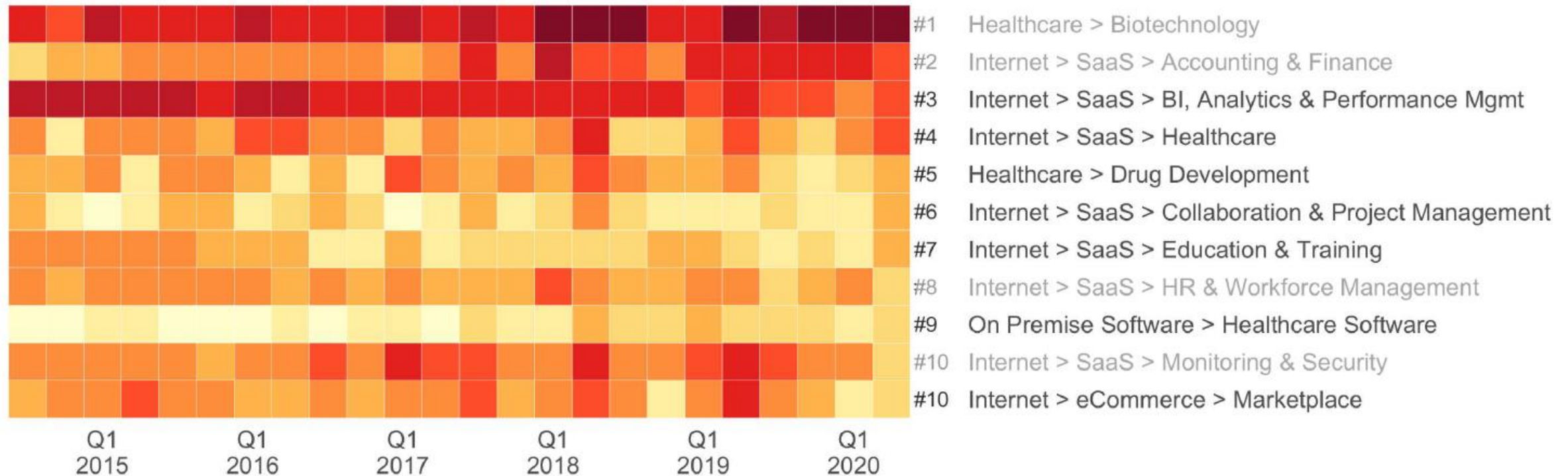
Stripe leads largest US deals with \$600m mega-round

Largest US deals of Q2'20

Company	Investment	Round	Select investors	Vertical
1 Stripe San Francisco, CA	\$600m	Series E+	Andreessen Horowitz, General Catalyst, Google Ventures, Sequoia Capital	Internet Internet Software & Services Payments
2 Palantir Technologies Palo Alto, CA	\$500m	Other	Sompo Japan Nipponkoa	Software (non-internet/mobile) Business Intelligence, Analytics & Performance Mgmt Software
3 Sana Biotechnology Seattle, WA	\$481m	Series A	ARCH Venture Partners, Baillie Gifford & Co., Bezos Expeditions, Google Ventures	Healthcare Biotechnology
4 DoorDash San Francisco, CA	\$400m	Series E+	Durable Capital Partners, Fidelity Investments, T. Rowe Price	Internet E-commerce Food & Grocery
5 Magic Leap Plantation, FL	\$350m	Other	Undisclosed Investor(s)	Software (non-internet/mobile) Scientific, Engineering Software

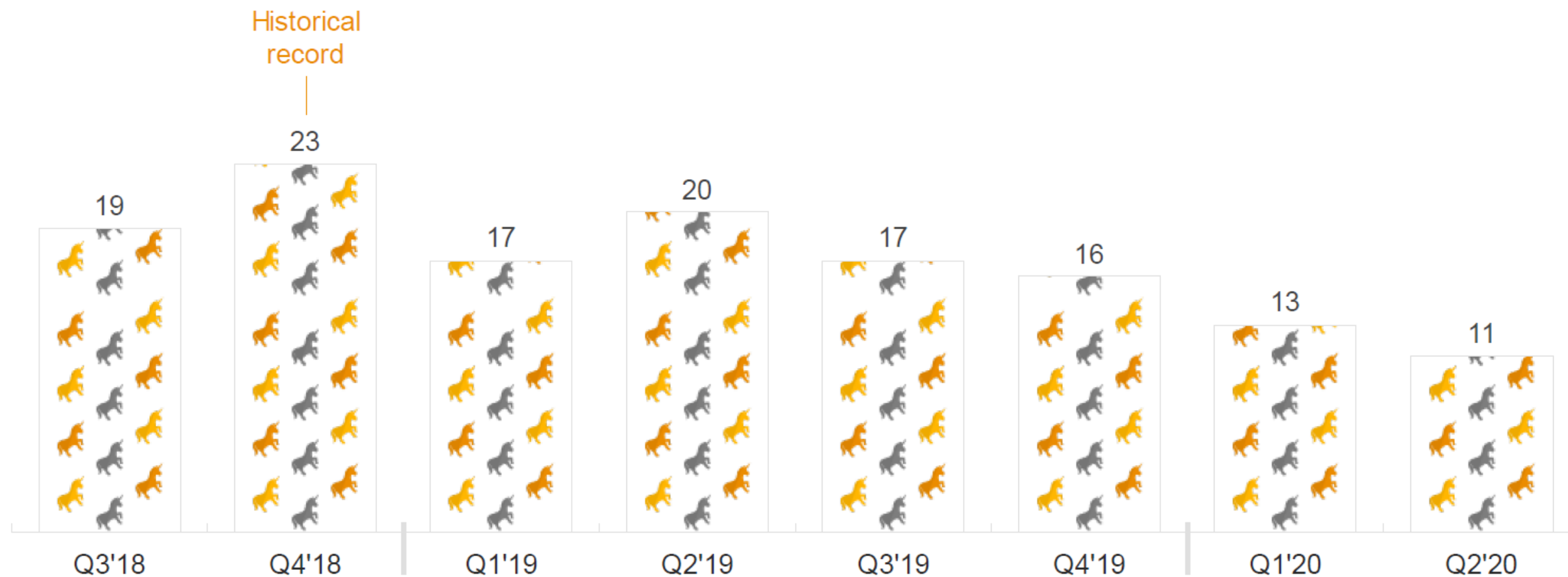
Seven top verticals increased deal activity amid the pandemic

Top 10 verticals by deal activity



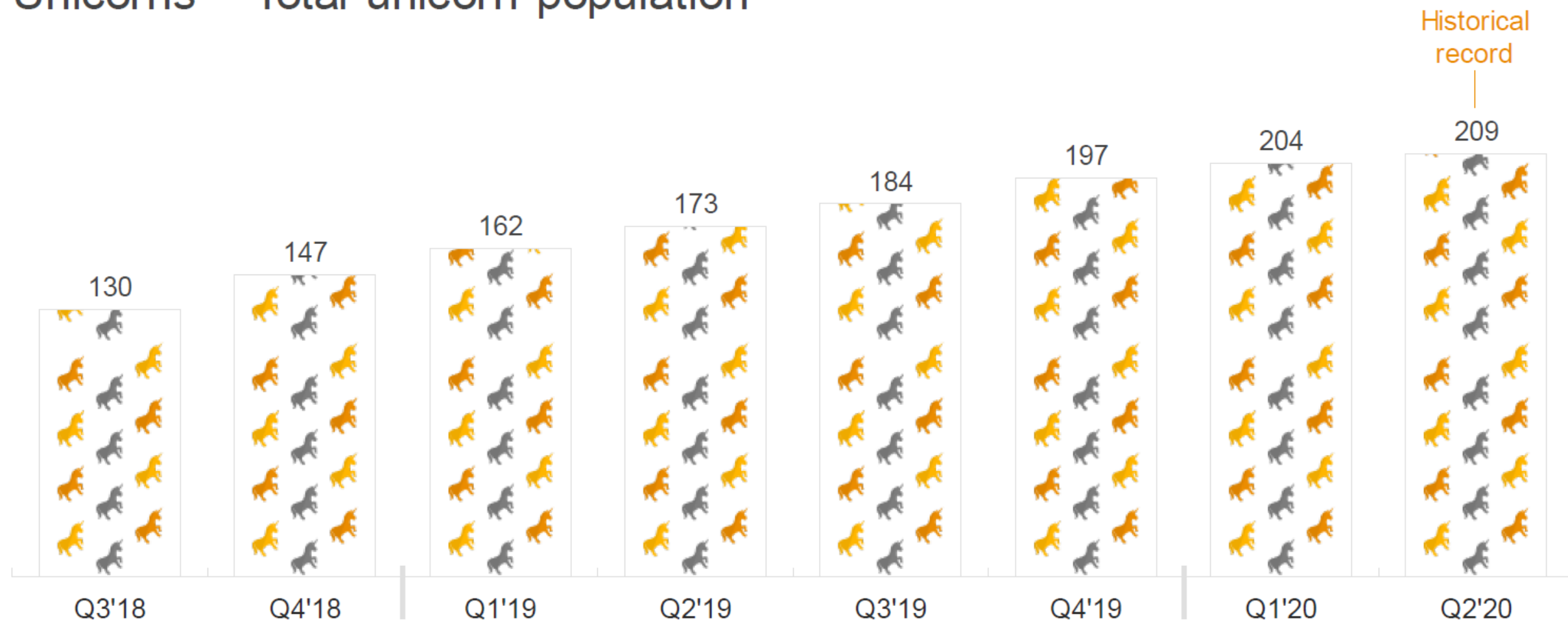
New unicorn births decline for fourth consecutive quarter

Unicorns – New US VC-backed unicorns by quarter



Nonetheless, the total US unicorn population continues to climb

Unicorns – Total unicorn population



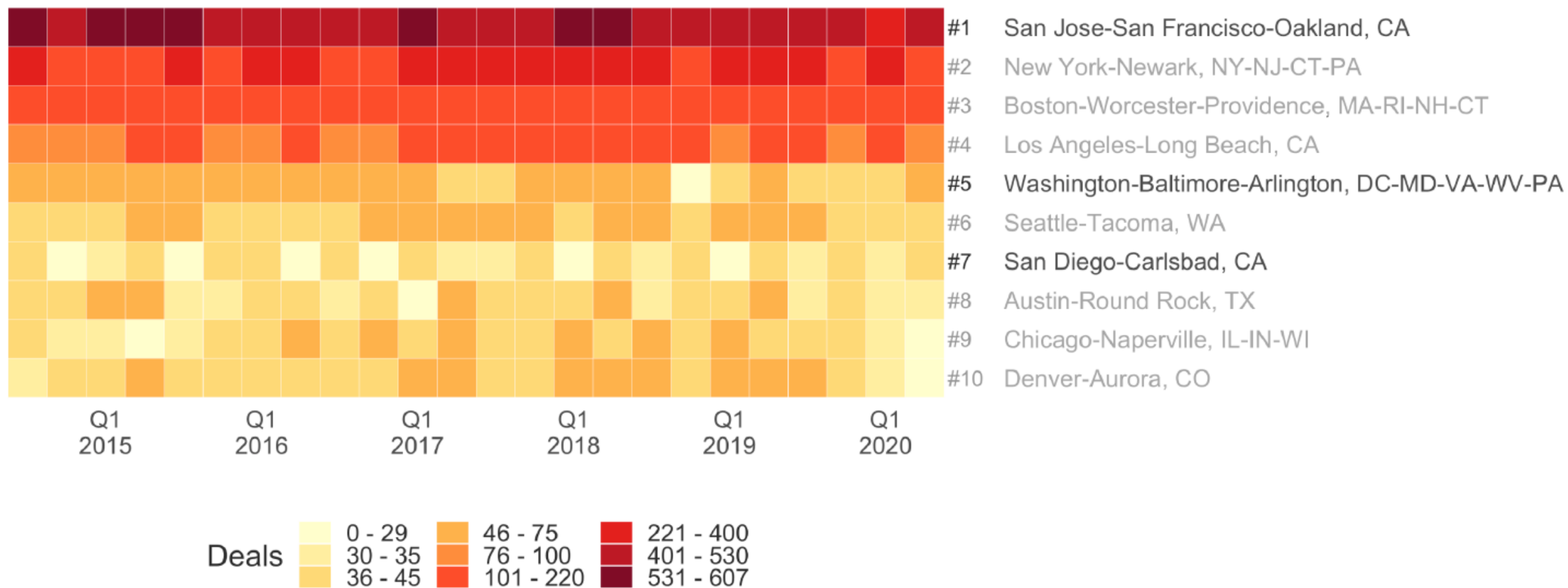
Stripe & SpaceX rise to the top as highest-valued US startups

Top 5 highest-valued US unicorns – Q2'20

Company		Valuation	Vertical	Emerging areas	Select investors
1	Stripe San Francisco, CA	\$36.0bn	Internet Software & Services Payments	Fin Tech	Andreessen Horowitz, General Catalyst, Google Ventures, Sequoia Capital
1	SpaceX Hawthorne, CA	\$36.0bn	Industrial Aerospace & Defense	Space Tech	Founders Fund, Future Ventures, Google, Valor Equity Partners
3	Palantir Technologies Palo Alto, CA	\$20.0bn	Software (non-internet/mobile) Business Intelligence, Analytics & Performance Mgmt Software	Business Intelligence	Sompo Japan Nipponkoa
4	Airbnb San Francisco, CA	\$18.0bn	Internet E-commerce Travel	On-Demand	Silver Lake, TSSP
5	DoorDash San Francisco, CA	\$16.0bn	Internet E-commerce Food & Grocery	On-Demand	Durable Capital Partners, Fidelity Investments, T. Rowe Price

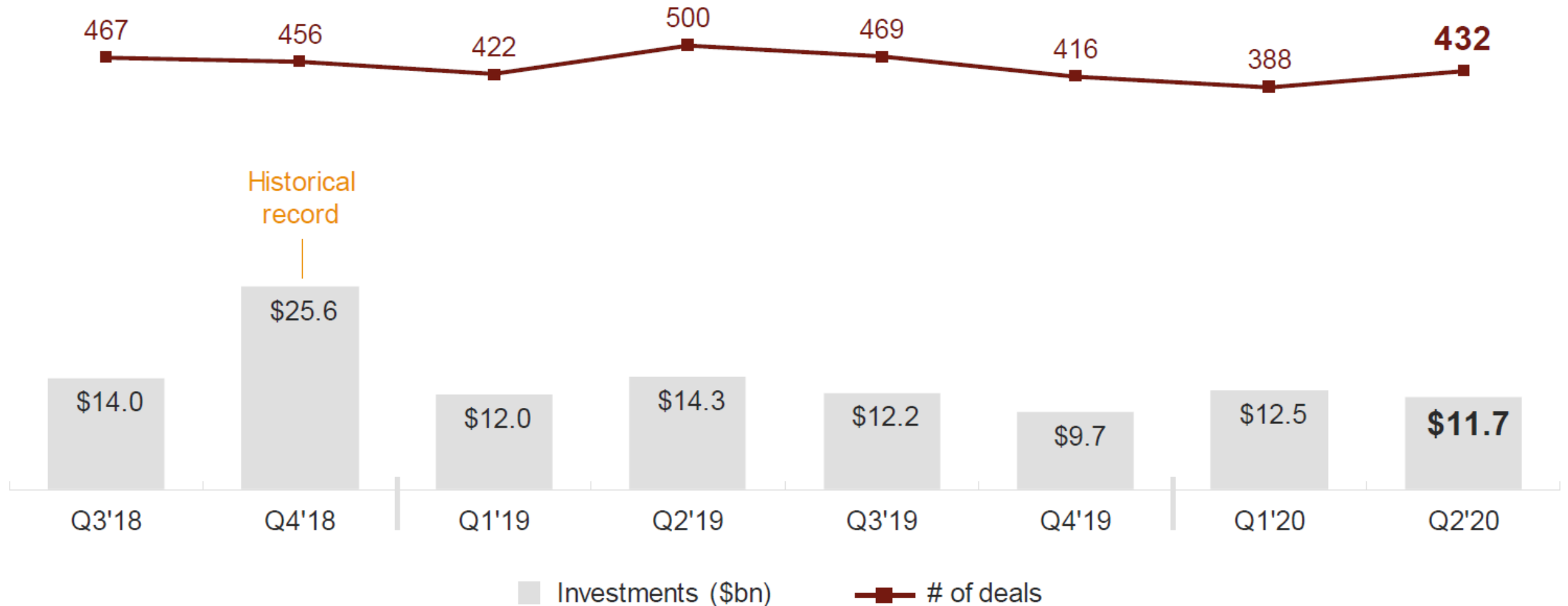
Three metros materially increase deal activity in Q2'20

Top 10 metros by deal activity



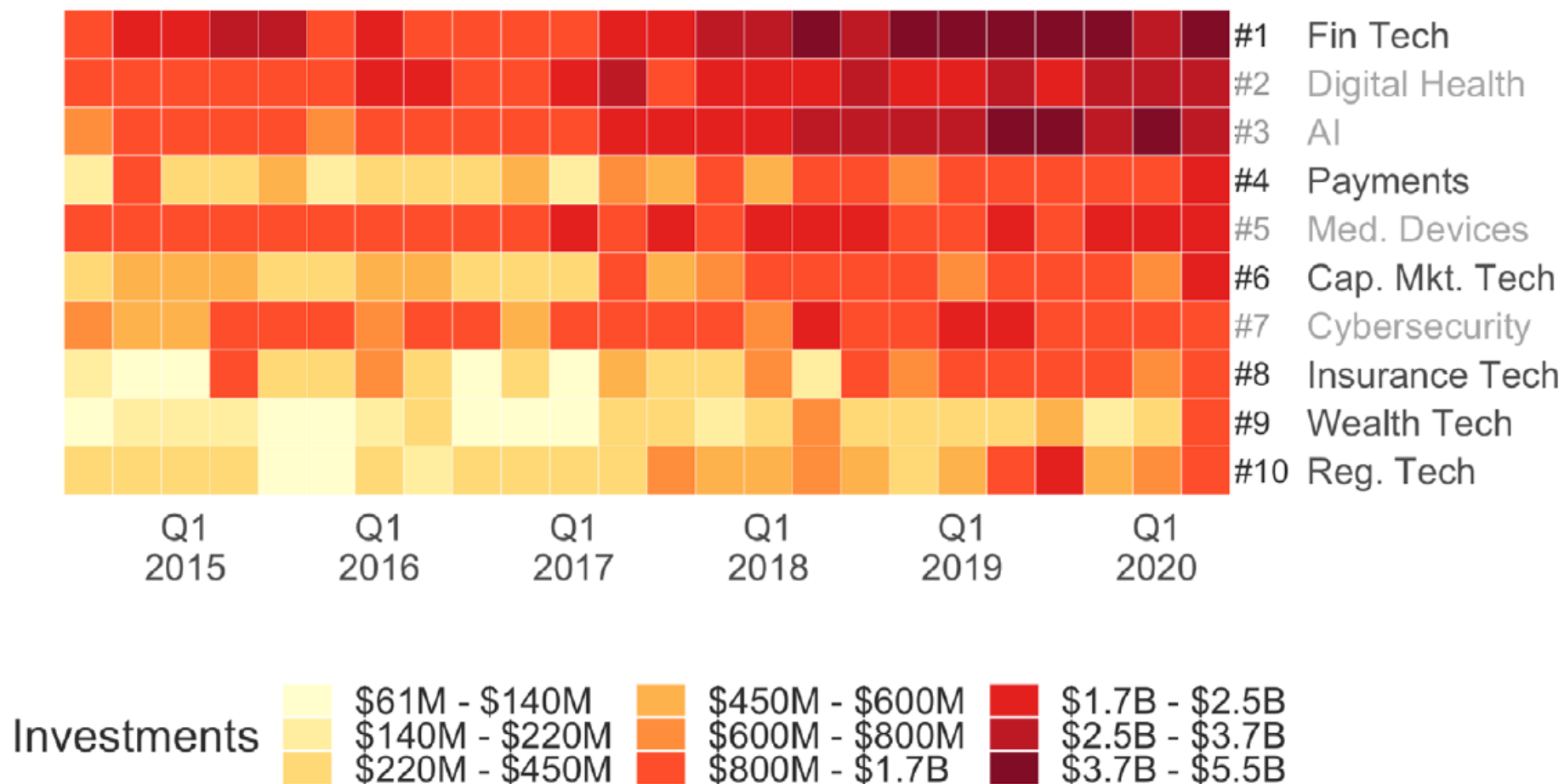
Silicon Valley deals rise despite a quarterly decline in funding

Silicon Valley deals and dollars – Quarterly



Six emerging areas materially increase investments in Q2'20

Top 10 emerging areas by investments



Are VCs keeping busy?

The top 5 VCs each raised \$2bn+ in Q2'20

Top VCs by amount raised in Q2'20

Investor	Funds raised (Q2 2020)	Year founded	Select investments	Location
1 Insight Partners	\$9.5bn	1995	Twitter, Chegg, Shopify, New Relic	New York, NY
2 General Catalyst	\$4.6bn	2000	Stripe, Lemonade, Snap, Livongo	Palo Alto, CA
3 Lightspeed Venture Partners	\$4.2bn	2000	Grubhub, Stitch Fix, Zscaler, TaskRabbit	Menlo Park, CA
4 Summit Partners	\$2.2bn	1984	Uber, Infor, SmartSheet, Lazada	Boston, MA
5 Index Ventures	\$2.0bn	1996	Discord, Sonos, Adyen, Zuora	Menlo Park, CA

SOSV takes the lead in Q2'20 as most active VC

Most active VCs in Q2'20

Investor		Deals	Select investments	Location
1	SOSV	30	Gaia Labs, Catalog Technologies, Machine Medicine	Princeton, NJ
2	Andreessen Horowitz	28	ADDI, Deel, Run the World, insitro	Menlo Park, CA
2	Google Ventures	24	insitro, Lime, Cockroach Labs	Mountain View, CA
4	Sequoia Capital	20	Amplitude, Truework, Vise	Menlo Park, CA
5	Khosla Ventures	16	Clear Labs, Mojo Vision, Codota	San Francisco, CA
5	Accel	16	BetterCloud, Bevy, Anyfin	Palo Alto, CA
5	Index Ventures	16	ServiceTitan, Figma, Expel	Menlo Park, CA

Accounting Life Cycle by Funding Stage

Seed stage

No CFO

Outsourced function

Part time
accounting manager

Manual processes

Simple online
solution

No close cycle

No controls

Basic blocking and
tackling

Basic blocking and tackling that must be done: payroll; paying bills; collecting invoices; budgeting and managing burn rate; complying with taxes; forecasting and board reports

Seed = Angel,
Friends &
Family ~ \$2m

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No controls

Basic blocking and
tackling

Early stage

Part time CFO

Some junior in house
personnel

Supported by
outsourced function

Still manual processes

Simple online solution

Informal close cycle

Informal controls

Mostly basic blocking
and tackling with
some more complexity

Basic blocking and tackling that must be done: payroll; paying bills; collecting invoices; budgeting and managing burn rate; complying with taxes; forecasting and board reports

Early = Series
A VC round ~
\$7m

Accounting Life Cycle by Funding Stage

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No controls
Basic blocking and tackling

Early stage

Part time CFO
Some junior in house personnel
Supported by outsourced function
Still manual processes
Simple online solution
Informal close cycle
Informal controls
Mostly basic blocking and tackling with some more complexity

Expansion stage

CFO or part time CFO
More in house personnel
Using consultants for one off projects
Some automation of processes
Migrated to more fully functional solution
More formal close cycle
Some formal controls
Well run department with some sophisticated financial reporting
Some integration with operations

Basic blocking and tackling that must be done: payroll; paying bills; collecting invoices; budgeting and managing burn rate; complying with taxes; forecasting and board reports

Expansion = Series B & Series C
VC rounds ~\$15m

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Some integration with operations

Later stage

CFO
Full in house team
Experienced Controller
Disciplines around revenue recognition, taxes, international etc
Automated processes
Fully functional solution
Formal consistent close & sophisticated reporting
More formal controls
Fully integrated into operations and seen as a business partner

Basic blocking and tackling that must be done: payroll; paying bills; collecting invoices; budgeting and managing burn rate; complying with taxes; forecasting and board reports

Later = Series D & Series E+ VC rounds ~ \$35m

Controls over cash in a high burn environment

Basic Controls:

- Minimize number of corporate credit card holders and communicate expense policy
- Set approval limits on ordering above \$x and review every payment or transfer above \$x
- Most common fraud is internal - employee fraud
 - Typically abusing credit cards or falsifying expenses
 - Gift cards scheme
 - Laptop scheme
 - Personal expenses
 - Poor judgment - meals and entertainment
- Facilitated by poor hiring process and a lack of segregation of key duties and no supervision

Put basic controls around spending and cash management in place.



Or be prepared to explain to your investors how the accounting manager you hired, spent investors' money on sports franchise games, international flights, dinner at exclusive restaurants and limousine rides.

Yes this happens more often than you would think!

Controls over cash in a high burn environment

Other Controls:

- One common and topical external fraud to watch for is phishing emails for wire transfer schemes.
- Looks like a spoofed email allegedly from the CEO or CFO asking for an emergency wire transfer or citing a “confidential deal” and asking the employee to contact an outside “attorney” for further instruction
- Another is a “request” from a vendor to update bank account information
- It is important to have a clear policy as it happens to companies of all sizes including private companies (many time post funding round)

According to the FBI, Cybercrime in the US cost its victims \$1.4 billion in 2017.



Every company we work with, big and small, private and public has been subject to these phishing emails.

Controls over cash in a high burn environment

How A Tech Billionaire's Company Misplaced \$46.7 Million And Didn't Know It



Nathan Vardi *Forbes Staff*
Following the money trail

At 37, [Robert Pera](#) is a billionaire and controlling owner of an NBA basketball team, the Memphis Grizzlies. A former [Apple](#) AAPL -2.02% executive, he is the founder and chief executive of Ubiquiti Networks, a maker of wireless products based in San Jose, Calif. But not everything has gone smoothly for Pera since Ubiquiti conducted its initial public offering a few years ago and on the day last August that Ubiquiti was releasing its latest financial figures, Pera had to delicately explain to his shareholders how Ubiquiti misplaced \$46.7 million.

According to a November filing that was made public last week of a communication between Ubiquiti and the Securities & Exchange Commission's division of corporate finance, Scott Hellman of the San Francisco office of the FBI emailed Ubiquiti in June 2015 that a large amount of money may have been fraudulently taken from the bank account of Ubiquiti's Hong Kong unit. By that time Ubiquiti had made 14 wire transfers over 17 days to countries like Russia, China, Hungary and Poland, the new disclosure reveals. Presumably, the wire transfers would have continued had the FBI not notified Ubiquiti about the Hong Kong bank account that the FBI was watching.

According to Ubiquiti's letter to the SEC that was recently made public, someone at Ubiquiti received phony emails from a bogus Pera and bogus Tom Evans, a lawyer in the London office of [Latham & Watkins](#). The identities of the senders and recipients of the emails described in the new filing are redacted. One redacted description of an email that Ubiquiti claims came from fraudsters and was received by an employee says that Ubiquiti would be conducting an acquisition that needed to remain confidential and that preparations were required to make several wire transactions. Chakravarthy is the only person who Ubiquiti describes as having received any of the fraudsters' emails.

Chakravarthy received several emails from the purported lawyer, Evans, sent not from a Latham & Watkins email address, but from an account ending with "@consultant.com," according to Ubiquiti. The fake Evans sent email instructions that contained banking details and authorized the payments, says Ubiquiti. The real Evans did not return a call and email from Forbes seeking comment. Ubiquiti claims other emails sent from the fraudsters appeared to have come from a corporate email account. Ubiquiti does not clarify if those emails purportedly came from Pera. The company previously said it did not believe its technology systems had been compromised.

Key Items - Statement of Operations

Revenue

Gross margin

Classification of OPEX

Operating margin

EPS (for public only)

ASANA, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)

	Year Ended January 31,	
	2019	2020
Revenues	\$ 76,770	\$ 142,606
Cost of revenues	13,832	19,881
Gross profit	62,938	122,725
Operating expenses:		
Research and development	42,585	89,675
Sales and marketing	52,106	105,836
General and administrative	20,260	46,845
Total operating expenses	114,951	242,356
Loss from operations	(52,013)	(119,631)
Interest income	1,290	1,755
Interest expense	—	(78)
Other income (expense), net	(177)	(390)
Loss before provision for income taxes	(50,900)	(118,344)
Provision for income taxes	28	245
Net loss	\$ (50,928)	\$ (118,589)
Net loss per share:		
Basic and diluted	\$ (0.78)	\$ (1.69)
Weighted-average shares used in calculating net loss per share:		
Basic and diluted	65,214	70,335

Key Items - Balance Sheet

ASANA, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except per share amounts)

	As of January 31,	
	2019	2020
Assets		
Current assets		
Cash and cash equivalents	\$ 23,778	\$ 306,020
Marketable securities	64,189	45,288
Accounts receivable, net	5,595	12,659
Prepaid expenses and other current assets	9,595	16,667
Total current assets	103,157	380,634
Property and equipment, net	4,099	10,100
Restricted cash, noncurrent	2,802	4,657
Operating lease right-of-use assets	—	20,818
Other assets	3,691	5,483
Total assets	<u>\$ 113,749</u>	<u>\$ 421,692</u>
Liabilities, Redeemable Convertible Preferred Stock, and Stockholders' (Deficit) Equity		
Current liabilities		
Accounts payable	\$ 3,647	\$ 7,549
Accrued expenses and other current liabilities	7,930	18,241
Deferred revenue	31,918	62,725
Operating lease liabilities, current	—	11,613
Total current liabilities	43,495	100,128
Term loan, net	—	—
Convertible notes, net—related party	—	203,097
Operating lease liabilities, noncurrent	—	10,472
Other liabilities	801	2,729
Redeemable convertible preferred stock warrant liability	94	—
Total liabilities	<u>44,390</u>	<u>316,426</u>
Commitments and contingencies (Note 7)		

Cash balance

Accounts receivable

Working capital

Intangible assets

Deferred revenue

Debt financing

Shareholders equity

Stockholders' (deficit) equity		
Common stock, \$0.00001 par value; 540,000, 540,000, and 540,000 shares authorized as of January 31, 2019, January 31, 2020, and July 31, 2020 (unaudited), respectively; 68,257, 76,688, and 77,738 shares issued and outstanding as of January 31, 2019, January 31, 2020, and July 31, 2020 (unaudited), respectively; 151,316 shares issued and outstanding as of July 31, 2020, pro forma (unaudited)	1	1
Additional paid-in capital	30,215	184,522
Accumulated other comprehensive loss	(80)	(102)
Accumulated deficit	(211,147)	(329,736)
Total stockholders' (deficit) equity	<u>(181,011)</u>	<u>(145,315)</u>
Total liabilities, redeemable convertible preferred stock, and stockholders' (deficit) equity	<u>\$ 113,749</u>	<u>\$ 421,692</u>

Key Items - Cash Flow Statement

ASANA, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended January 31,	
	2019	2020
Cash flows from operating activities		
Net loss	\$ (50,928)	\$ (118,589)
Adjustments to reconcile net loss to net cash used in operating activities:		
Allowance for doubtful accounts	95	653
Depreciation and amortization	4,231	2,233
Amortization of deferred contract acquisition costs	322	1,607
Stock-based compensation expense	8,547	48,386
Net accretion of discount of marketable securities	(820)	(1,016)
Change in fair value of redeemable convertible preferred stock warrant liability	35	117
Non-cash lease expense	—	8,228
Amortization of discount on convertible notes and term loan issuance costs	—	49
Non-cash interest expense	—	29
Changes in operating assets and liabilities:		
Accounts receivable	(3,427)	(7,718)
Prepaid expenses and other current assets	(4,534)	(8,688)
Other assets	(3,690)	(1,791)
Accounts payable	362	3,472
Accrued expenses and other current liabilities	4,023	8,321
Deferred revenue	15,089	32,189
Operating lease liabilities	—	(7,618)
Other liabilities	515	—
Net cash used in operating activities	(30,180)	(40,136)

Cash flows from operating activities

Free cash flow

Cash flows from financing activities

Servicing debt

Going concern evaluation

Cash flows from investing activities		
Purchases of marketable securities	(103,205)	(77,759)
Sales of marketable securities	—	4,282
Maturities of marketable securities	61,950	93,394
Purchases of property and equipment	(2,850)	(6,878)
Capitalized internal-use software	(557)	(384)
Net cash provided by (used in) investing activities	(44,662)	12,655
Cash flows from financing activities		
Proceeds from issuance of redeemable convertible preferred stock, net of issuance costs	51,006	—
Proceeds from term loan, net of issuance costs	—	—
Proceeds from issuance of convertible notes—related party	—	300,000
Taxes paid related to net share settlement of equity awards	—	—
Repurchases of common stock	(14)	(77)
Proceeds from exercise of stock options	4,301	11,674
Net cash provided by financing activities	55,293	311,597
Effect of foreign exchange rates on cash and cash equivalents and restricted cash	4	(19)
Net increase (decrease) in cash, cash equivalents, and restricted cash	(19,545)	284,097
Cash, cash equivalents, and restricted cash		
Beginning of period	46,125	26,580
End of period	\$ 26,580	\$ 310,677

Key metrics (specific to the business)

Asana helps teams orchestrate their work so they can achieve their missions, faster.



3.5M+

free activated accounts
since inception

82K+

paying customers

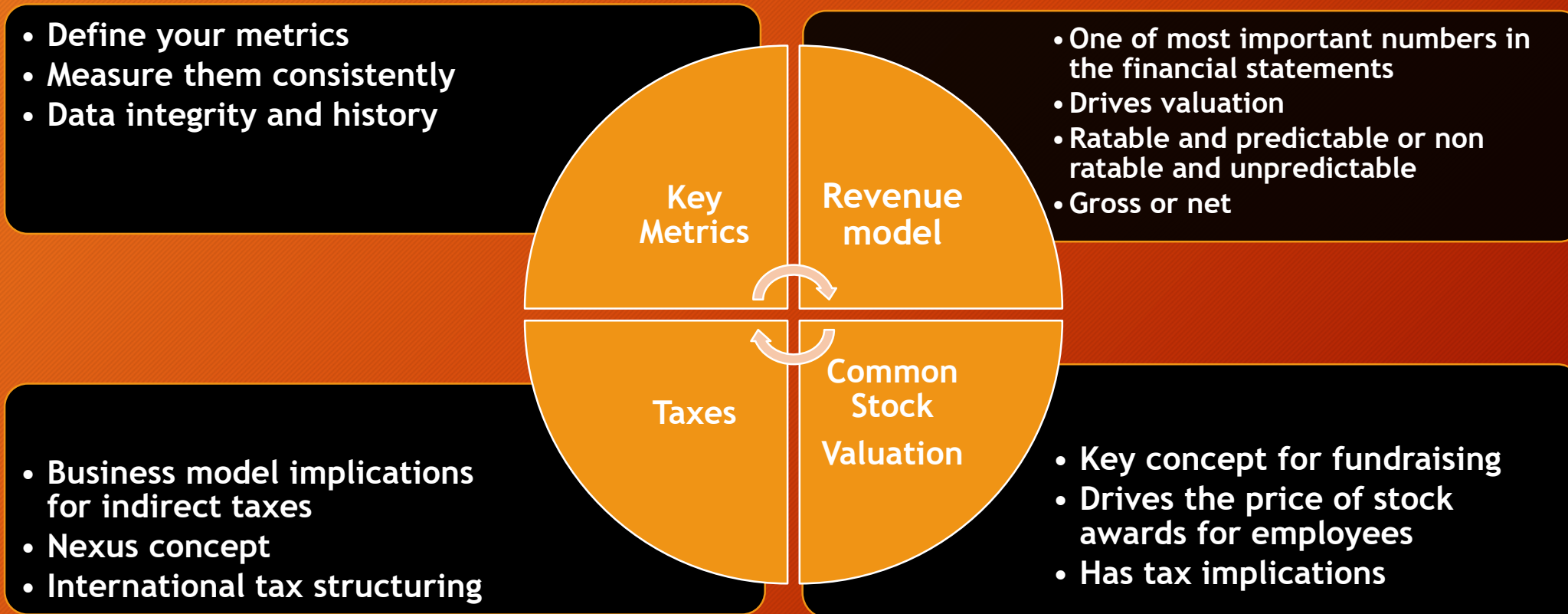
1.3M+

paid users

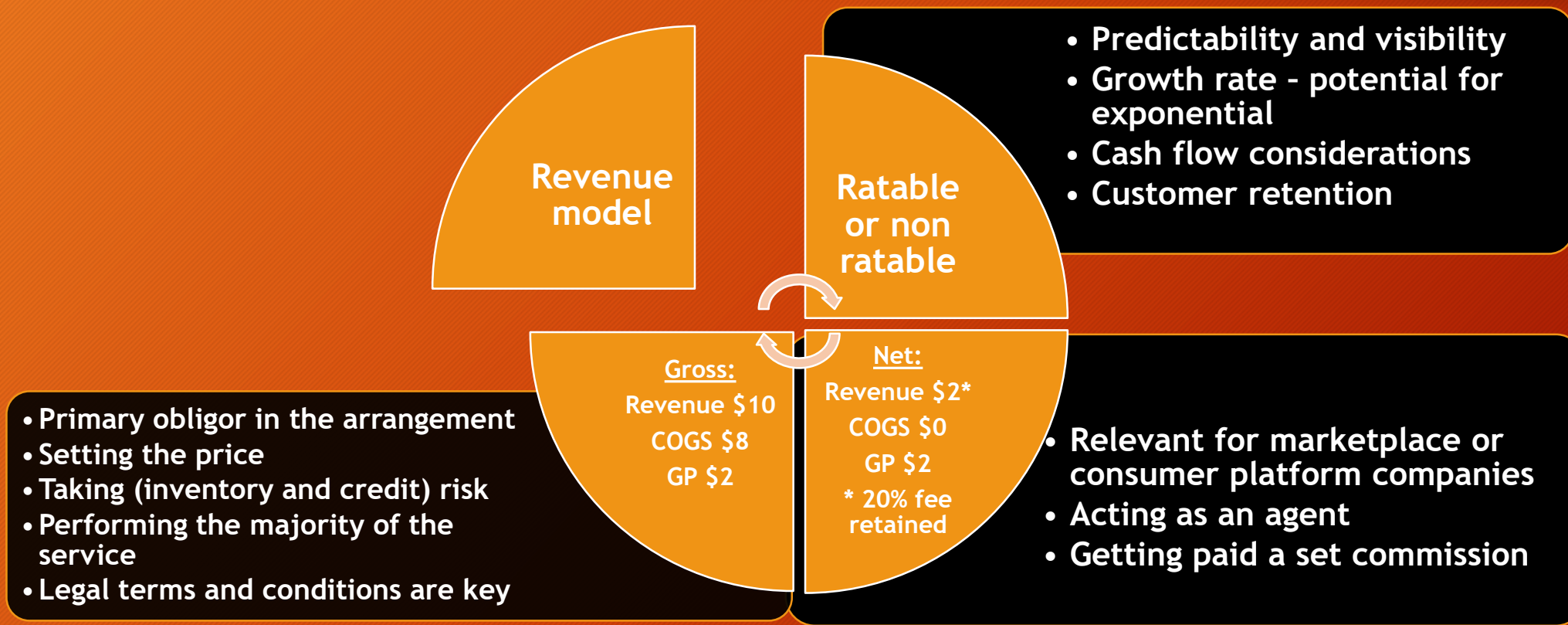
190

countries

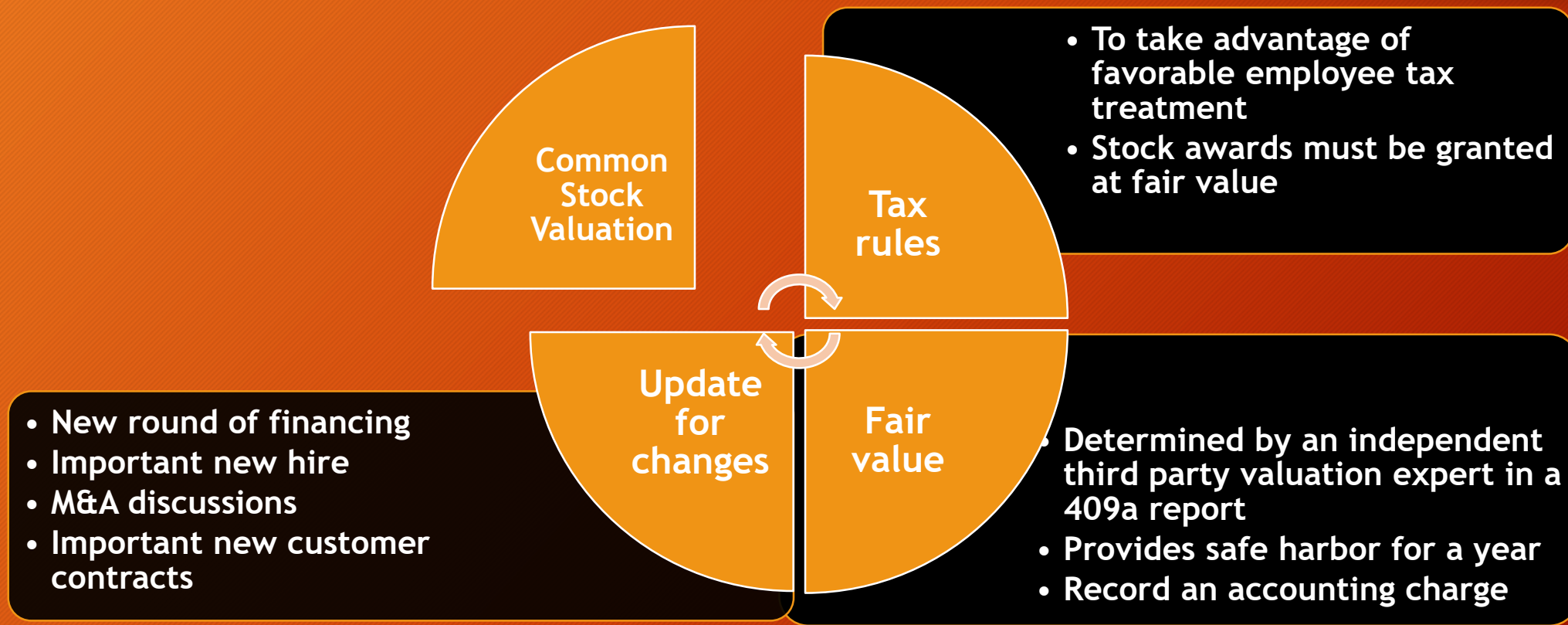
Four Decisions you should own



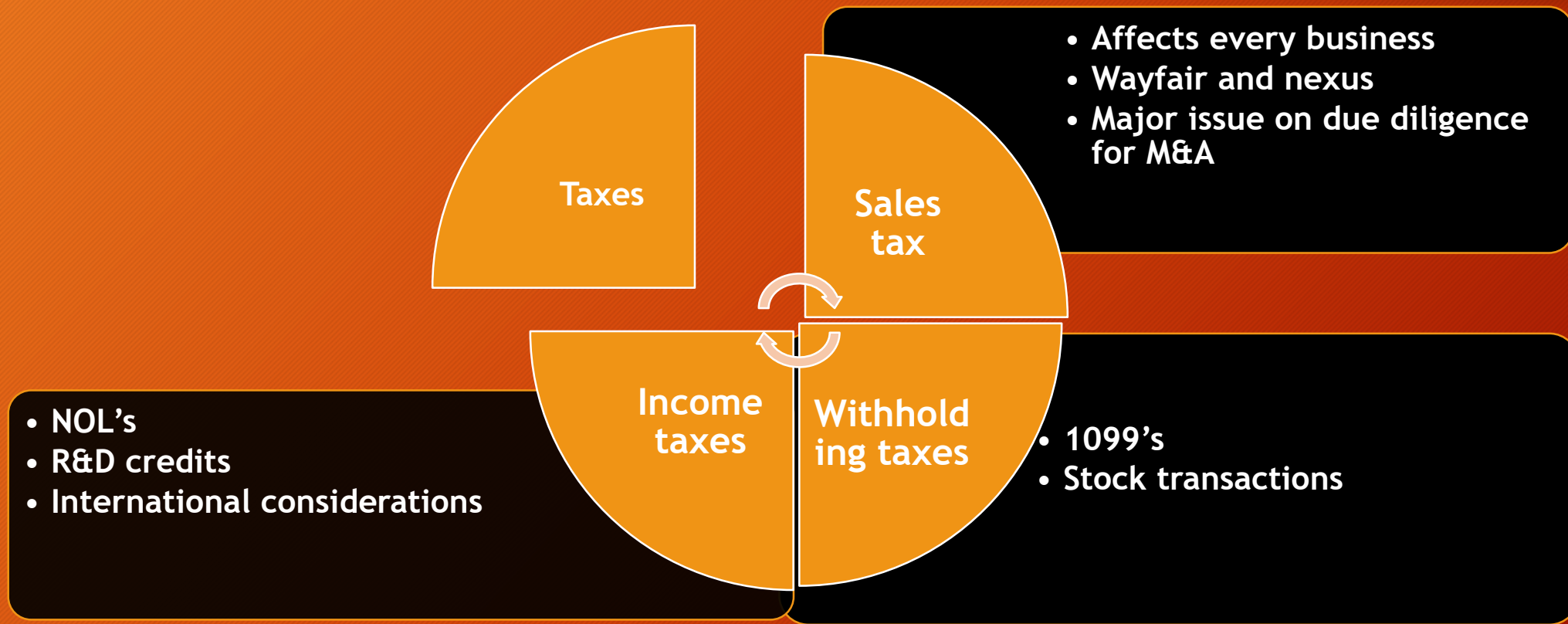
Revenue Model - deeper dive



Common Stock Valuation - deeper dive



Taxes- deeper dive



Fundraising - accounting information

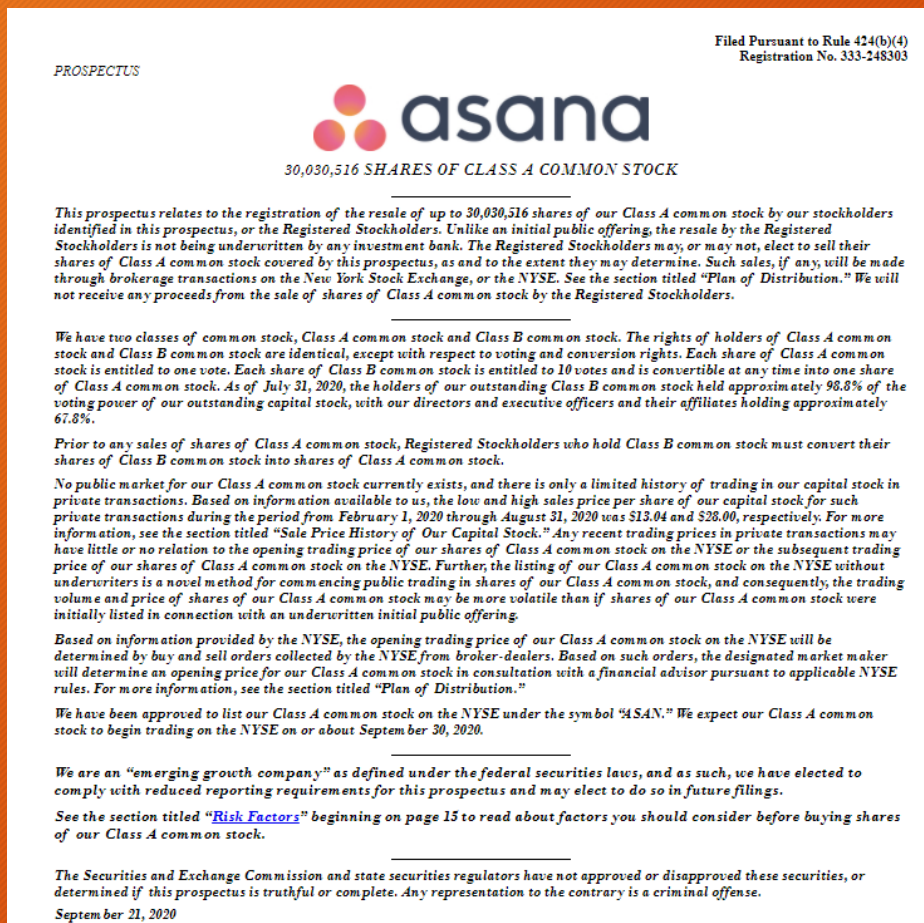
Historical financial statements if available
Financial projections showing revenues, costs and margins
First 12 months projections in detail and years 2-5 summarized
Use of funds statement

Cap table
Loan agreements
Existing equity agreements
Compensation arrangements for founders and key executives

Investors will do their own due diligence on the numbers “QOE review”. VC’s and CVC’s will generally require this information when reviewing the business plan.

If the first date goes well then be prepared to share this information on the second date!
If financing by debt the same information will be needed.

IPO - importance of financial statements



Audited financial statements for at least the last two years

Latest quarterly interim financial statements

Typically last 8 quarters of results

Selected financial information for up to five years

Managements' Discussion and Analysis of Results

Business Section

Risk Factors Section

Executive Compensation

The IPO

Ring the virtual bell and...



...enjoy the ride



IPO checklist – The Infrastructure

Corporate Governance

- Independent Board
- Compensation and Audit Committees
- Board and Committee Charters/ Code of Conduct/ Whistleblower programs

Review of the management team

- Review key executive and management functions
- Not unusual to see “upgrades” to VP Sales, CFO and General Counsel
- Start acting like a public company 12 months out

Systems, Processes and Controls

- Upgrade all financial systems
- Hard close cycle for financial reporting
- Hire for required positions as a public company
- Design and implement internal controls

Costs of an IPO for IPO with Gross Proceeds \$201m-\$300m

- Accounting costs \$1.6m,
- Legal costs \$2.1m,
- Printing and other regulatory costs \$1.1m
- Underwriters commission 6.3% (\$15.3m)
- Total costs \$20.1m

Business Fundamentals for an IPO - quantitative and qualitative

Revenues of
\$100m+

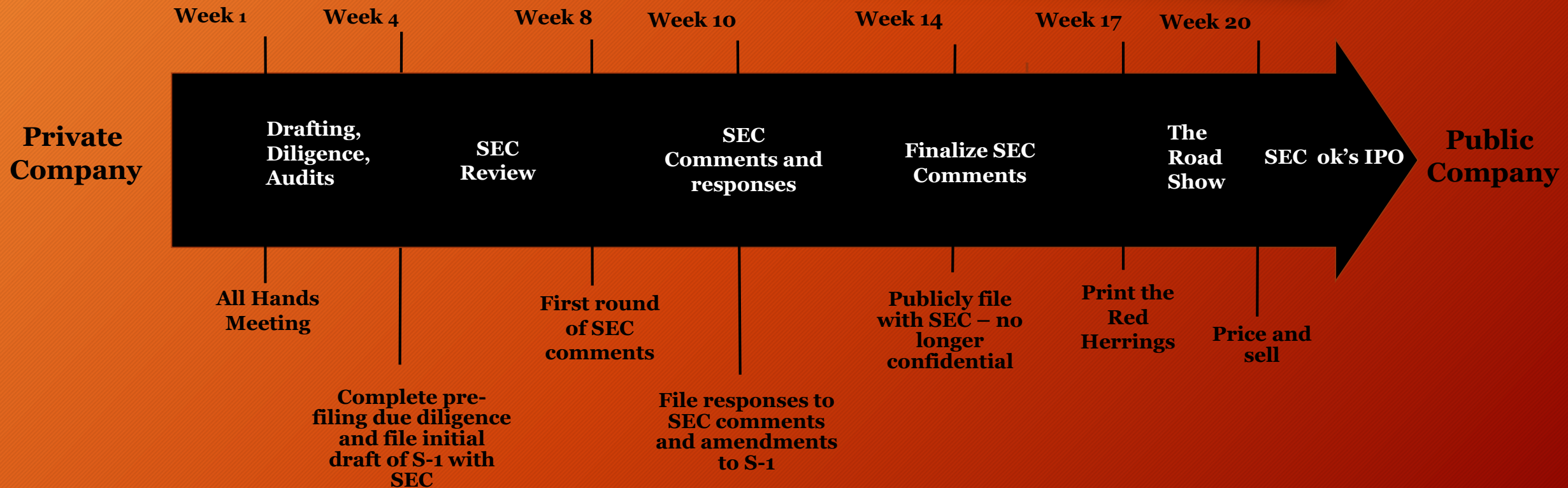
Predictability and
visibility into
results

Unique value
proposition

Revenue growth 40%+
and strong margins

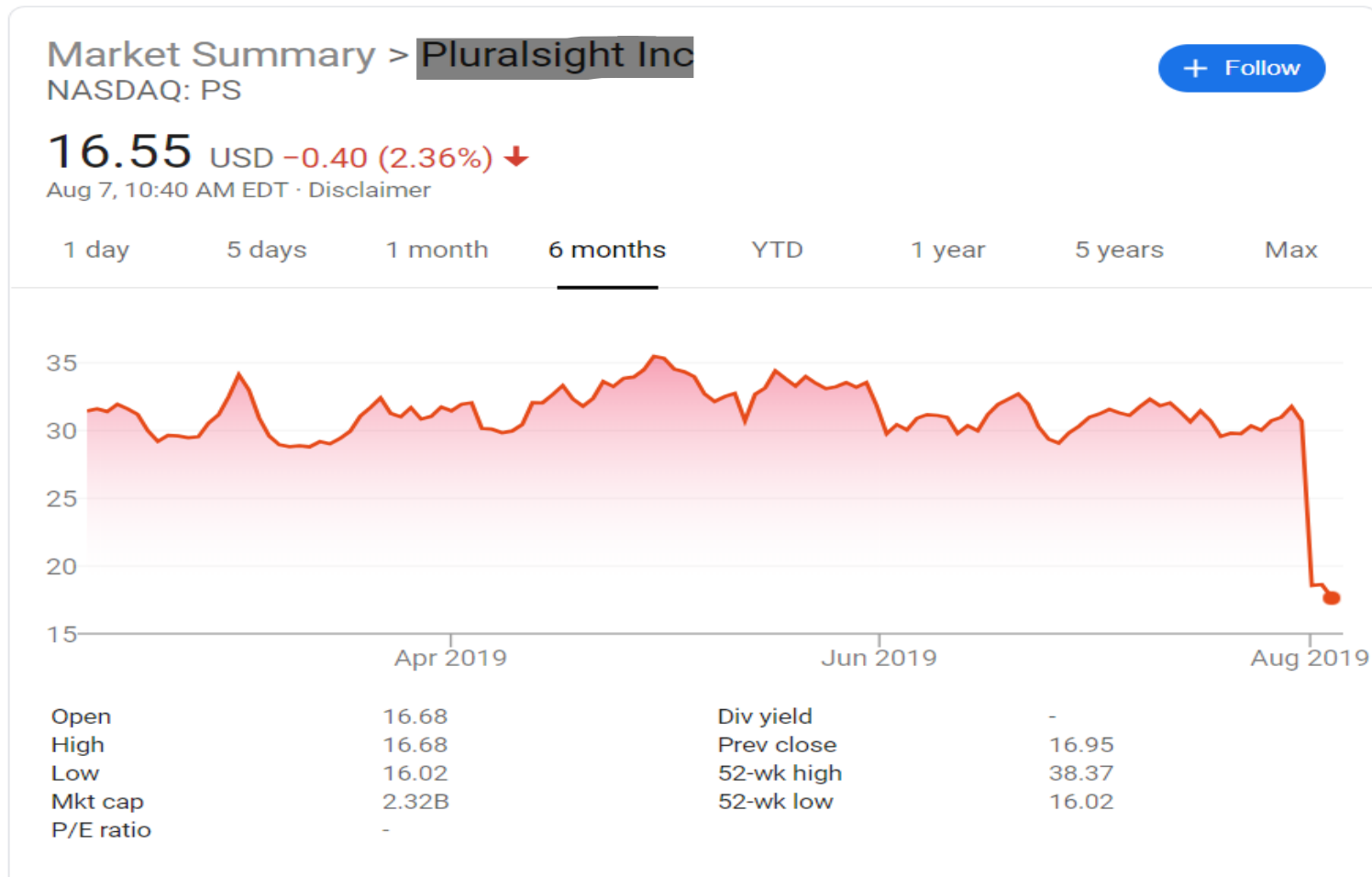
Cash flow/ EBITDA +

Example filing timeline for an IPO



It is not unusual for companies to “dual track” during this process and to be in “sale” mode too. Some companies are acquired before the IPO is completed. “Plan for the IPO but be prepared for the sale”

Importance of forecasting - no mercy !



Confessions of an auditor -mistakes first time CEO's often make

Underinvesting in the Accounting organization



Becomes the long pole in the tent and could delay an IPO or an M&A event

Not dealing timely with a tax issue



Becomes more expensive with time

Waiting too long to have the audits done



Can result in errors going undetected and potentially lead to Material Weaknesses as a result of fixing them

Not upgrading systems and people



Weaknesses become apparent at inopportune times

Not building a relationship with your audit firm and your audit committee



There will be times that support will be critical

Danny Wallace

**Partner - Co-Leader of PwC's US Emerging
Company Services group**



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Danny has over 37 years of experience with PwC and has been the engagement leader on over 100 emerging, venture-backed private companies, 23 of which he has helped through their IPO process.