

Nuts
And
Bolts
2025

Building Financial Projections

January 29, 2025

Steve Derezinski

Substituting for
Charlie Tillett
SM '91



MITSloan
MANAGEMENT

About Steve Derezinski

- S.B. Mechanical Engineering; MBA, Sloan Fellow, all MIT
- Founded and ran GT VentureLab – spun out 8 companies and raised \$43M in capital
- Today: Kendall Square Cofoundry – forming multiple companies from early technology



Agenda

Business Plan Financials

- What VCs (and \$100K Judges) Want
- What is a Business Model
- Building YOUR Financial Projections
- Sharing the Pie

I'm too busy to do Financials!

- It is going to be wrong
- VC's don't believe them anyway
- I have **IMPORTANT** things to do
 - Product
 - Technology
 - Customers
 - Team
 - etc.

Here's Why!

- Cash is the Oxygen for your Venture
- Financials are the Scoreboard
 - The ROADMAP to determine cash needs
 - AND the VEHICLE to obtain that cash
- Understand Your Business
 - Assumptions
 - Drivers
 - Milestones
 - Exposures/Risks

Failure to plan is planning to fail



The Startup CEO Role

- Job #1
 - Maintain oxygen supply!
- You're not an accountant but need to understand
 - Average Selling Price (ASP)
 - Gross margins
 - Cost of R&D
 - Sales & Marketing strategy & expense
 - Start-up and/or Capital Expenses



What VCs Want

- VC Investment goals:
 - 3x to 5x absolute returns
 - 5 to 7 year investment horizon
 - 4x in 5 years = IRR of 32%
- VC Requirements
 - Get a “significant” amount of \$ invested (at least \$5M - \$10M)
 - Own a “significant” ownership % (50% +/-)
- The “Formula”
 - $VC \% = \text{\$invested} / (\text{pre-money valuation} + \text{\$invested})$
 - Pre-money valuation is company’s value prior to investment
 - $\text{Post-money valuation} = \text{pre-money} + \text{\$invested}$



What VCs Want - EXAMPLE

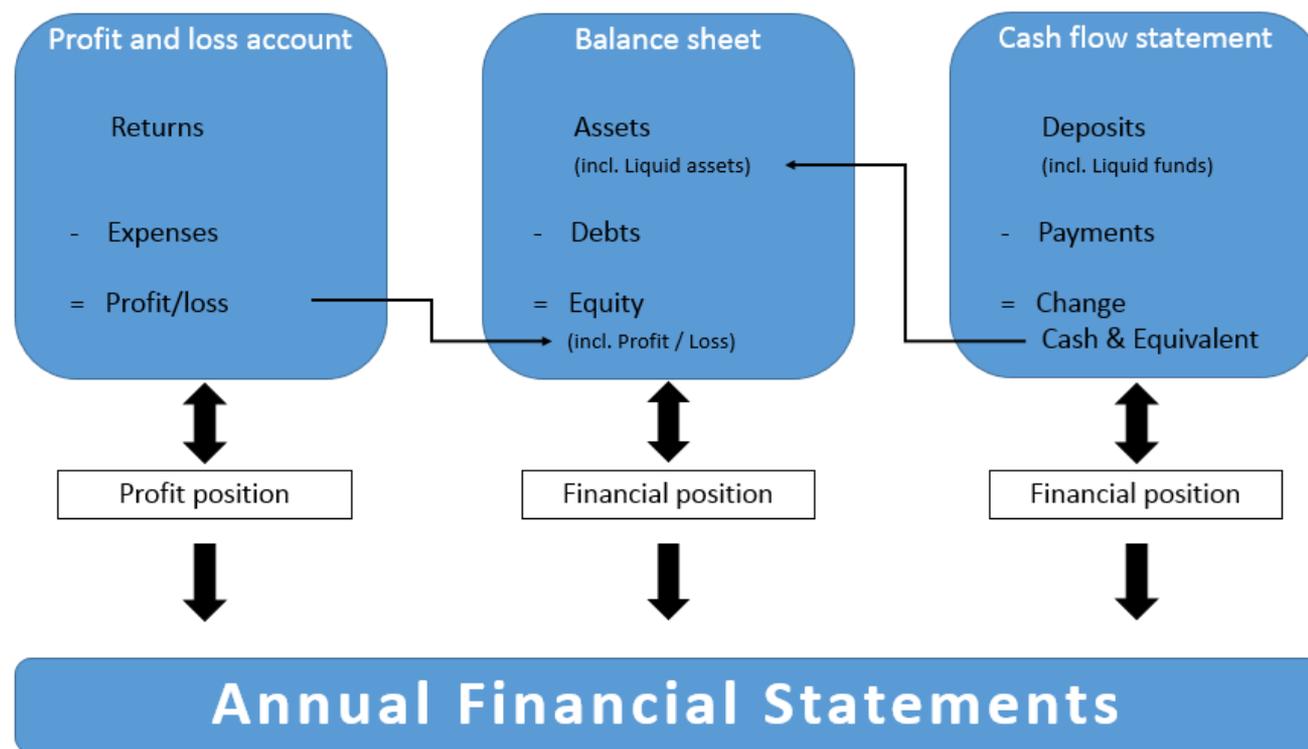
- Investment Rounds
 - Series A - \$5M invested on \$5M pre-money (50%)
 - Series B - \$10M invested on \$15M pre-money (40%)
 - Note – Series A 50% ownership is diluted by 40% to 30%
- \$ Invested and Ownership %
 - VC has \$15M invested
 - VC owns 70% (30% + 40%)
- Result – Investors target 3x to 5x return
 - $3 * \$15M = \$45M + \$15M \text{ invested} = \$60M$
 - $5 * \$15M = \$75M + \$15M \text{ invested} = \$90M$
 - Investors own 70% so Company valuation needs to be \$85M and \$130M
 - Your revenues need to be \$40M to \$60M

Basics of Financial Statements

- “Prepare a standard set of financials”
 - Balance Sheet, Income Statement and Statement of Cashflows
 - BS / IS / CF
 - Income statement, a.k.a. Profit & Loss
 - Balance Sheet: assets and liabilities
 - Cashflows: Income from ops, investing financing



Visual Flow of Financial Statements



Income Statement Example

For a generic technology company

Sales (Revenue)	\$ 50.0	100%	After discounts
Cost of Goods Sold (COGS)	<u>\$ 20.0</u>	<u>40%</u>	Direct & indirect costs but NOT R&D
Gross Profit (Gross Margin)	\$ 30.0	60%	Sales minus COGS
Sales & Marketing (S&M)	\$ 15.0	30%	
Research & Development (R&D)	\$ 5.0	10%	
General & Admin (G&A)	<u>\$ 2.5</u>	<u>5%</u>	Rent, Accounting, HR, IT
Total Expenses	\$ 22.5	45%	
Operating Profit (EBITDA)	\$ 7.5	15%	Gross Profit minus Total Expenses

Example - 4 year Income Statement What Investors Look At

P & L by Year		Source	Year 1		Year 2		Year 3		Year 4					
Revenue														
Model 1	P&L By Qtr	\$	1,275,000	100%	\$	10,500,000	88%	\$	33,750,000	82%	\$	37,500,000	50%	
Model 2	P&L By Qtr	\$	-	0%	\$	1,400,000	12%	\$	5,250,000	13%	\$	27,500,000	36%	
Model 3	P&L By Qtr	\$	-	0%	\$	-	0%	\$	2,400,000	6%	\$	10,500,000	14%	
Total Revenue			\$ 1,275,000	100%	\$ 11,900,000	100%	\$ 41,400,000	100%	\$ 75,500,000	100%				
COGS		P&L By Qtr	\$	425,000	33%	\$	3,920,000	33%	\$	13,385,000	32%	\$	23,200,000	31%
Gross Margin			\$	850,000	67%	\$	7,980,000	67%	\$	28,015,000	68%	\$	52,300,000	69%
Expenses														
Engineering	P&L By Qtr	\$	1,326,625	104%	\$	3,475,275	29%	\$	7,212,188	17%	\$	12,205,975	16%	
Marketing	P&L By Qtr	\$	710,750	56%	\$	1,810,750	15%	\$	3,239,350	8%	\$	5,300,000	7%	
Sales	P&L By Qtr	\$	1,214,250	95%	\$	3,466,500	29%	\$	7,171,500	17%	\$	12,393,500	16%	
G&A	P&L By Qtr	\$	964,575	76%	\$	1,817,750	15%	\$	3,117,000	8%	\$	5,308,500	7%	
Operating Exp.			\$ 4,216,200	331%	\$ 10,570,275	89%	\$ 20,740,038	50%	\$ 35,207,975	47%				
Operating Profit			\$ (3,366,200)	-264%	\$ (2,590,275)	-22%	\$ 7,274,963	18%	\$ 17,092,025	23%				



Example - 4 year Income Statement

What YOU should look at

P & L by Year		Source	Year 1		Year 2		Year 3		Year 4	
Revenue										
Model 1	P&L By Qtr		\$ 1,275,000	100%	\$ 10,500,000	88%	\$ 33,750,000	82%	\$ 37,500,000	50%
Model 2	P&L By Qtr		\$ -	0%	\$ 1,400,000	12%	\$ 5,250,000	13%	\$ 27,500,000	36%
Model 3	P&L By Qtr		\$ -	0%	\$ -	0%	\$ 2,400,000	6%	\$ 10,500,000	14%
Total Revenue			\$ 1,275,000	100%	\$ 11,900,000	100%	\$ 41,400,000	100%	\$ 75,500,000	100%
COGS		P&L By Qtr	\$ 425,000	33%	\$ 3,920,000	33%	\$ 13,385,000	32%	\$ 23,200,000	31%
Gross Margin			\$ 850,000	67%	\$ 7,980,000	67%	\$ 28,015,000	68%	\$ 52,300,000	69%
Expenses										
Engineering	P&L By Qtr		\$ 1,326,625	104%	\$ 3,475,275	29%	\$ 7,212,188	17%	\$ 12,205,975	16%
Marketing	P&L By Qtr		\$ 710,750	56%	\$ 1,810,750	15%	\$ 3,239,350	8%	\$ 5,300,000	7%
Sales	P&L By Qtr		\$ 1,214,250	95%	\$ 3,466,500	29%	\$ 7,171,500	17%	\$ 12,393,500	16%
G&A	P&L By Qtr		\$ 964,575	76%	\$ 1,817,750	15%	\$ 3,117,000	8%	\$ 5,308,500	7%
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Key Performance Indicators

- Financial Projections show expected Results of Activities
- But don't confuse Activity with Progress
- You need to consider "Non-Financial" Metrics or Key Performance Indicators (KPI) as part of your Planning and Execution

KPI Examples

Software As a Service (SAS)
Churn Rate
Monthly Recurring Revenue (MMR)
Committed MRR
Customer Acquisition Cost (CAC)
Customer Lifetime Value (CLV)
CLV to CAC Ratio

Nonprofit Organizations
Donor Retention Rate
Average Contribution per Donor
Number of Donors by Donor Type
Average Pledge Collection Time
Funding Proposal Status
Diversity of Funding Sources

The Business Model

- Provides the super-structure for the Financial Plan
- Blueprint of how your business will MAKE MONEY
- Documented by an Income Statement

Business Models - Tech H/W



Revenue	100%	100%	100%	100%
COGS	36%	47%	83%	26%
Gross Margin	64%	53%	17%	74%
R&D	13%	11%	1%	10%
SGA	26%	29%	10%	34%
Expenses	39%	40%	11%	44%
Op Profit	25%	13%	6%	30%
Annual Revenue	\$35B	\$11B	\$57B	\$12B
Employees	61k	31k	90k	38k
Rev per Emp perYr	\$573k	\$358k	\$633k	\$323k

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Business Models – Tech S/W

			
Revenue	100%	100%	100%
COGS	19%	23%	34%
Gross Margin	81%	77%	66%
R&D	13%	12%	14%
SGA	24%	30%	25%
Expenses	37%	42%	39%
Op Profit	44%	35%	27%
Annual Revenue	\$51B	\$18B	\$12B
Employees	79k	75k	43k
Rev per Emp per Yr	\$645k	\$240k	\$288k

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Building a Tech Model

- What is your product
 - Price that customer will pay
 - COGS - Unit costs & mfg O/H & support
- Distribution Strategy
 - May impact your sales price
 - May impact S & M and support expenses
- R&D should end up at 10% to 20
- G&A should end up at 5% to 15%
- Target an operating profit of 15% to 20%

First Major Decision: How will you sell your product?

	Direct Sales Force	
Revenue	\$100	100%
Cost of Goods Sold	\$40	40%
Gross Margin	\$60	60%
Sales & Marketing	\$23	23%
R&D	\$12	12%
G&A	\$5	5%
Total Expenses	\$40	40%
Operating Profit	\$20	20%



First Major Decision: How will you sell your product?

	Direct Sales Force	
Revenue	\$100	100%
Cost of Goods Sold	\$40	40%
Gross Margin	\$60	60%
Sales & Marketing	\$23	23%
R&D	\$12	12%
G&A	\$5	5%
Total Expenses	\$40	40%
Operating Profit	\$20	20%

	Distributor	
Revenue	\$80	100%
Cost of Goods Sold	\$40	50%
Gross Margin	\$40	50%
Sales & Marketing	\$8	10%
R&D	\$12	15%
G&A	\$4	5%
Total Expenses	\$24	30%
Operating Profit	\$16	20%

Example - Distributor receives a 20% discount in return for Sales & Marketing efforts

Building YOUR Model

- Do NOT use Business Planning Software
 - You need to think DEEPLY about your business
- Build Sales Projections from the bottom up
 - NOT Top Down - 350M people in U.S. we get 5% ...
 - What is the Plan?
 - How will you sell? How many salespeople?
 - How long is the sales cycle?
 - How much can they sell per month?
- Do NOT project best-case/worst-case in Pitch



Charlie's Rules-of-Thumb:

Disclaimer

- This exercise is focused on making attractive to investors
- Most relevant for technology companies
- May not apply to your industry
- Most common Business Plan errors:
 - Revenue too high in year 4
 - Profit margin too high in year 4



Building Financial Projections Technology Company Rules-of-Thumb

Staffing DRIVES departmental expenses

- Average employee salary will be \$90K + -
- Employee benefits will add just 15%
- Salaries will be 60% to 70% of total expenses (non-COGS)
 - Remainder will be rent, utilities, travel, etc.
 - UNLESS you have extraordinary marketing!!!
 - Will reduce to 50% to 55% over time
- Sales staff will cost \$175 to \$250k per person per year
 - ~\$200k compensation (50% base, 50% commission)
 - \$50k in annual travel costs

Disclaimer - May not apply to your company

Building Financial Projections

Technology Company Rules-of-Thumb

- Sales Projections
 - \$50MM to \$100MM in year 5
- Revenue per Employee
 - Between \$150K and \$350K
- Revenue per Salesperson
 - Between \$1MM and \$3MM



Cash Flow Projections

Happiness is a positive cash flow
Or at least knowing when you need to raise more

- **Burn Rate**
 - Monthly operating loss plus capital expenditures
- **Cash Flow Projection**
 - Cumulative operating losses excluding depreciation
 - Plus cumulative capital expenses
- **To determine the total cash required**
 - Cumulative operating losses PLUS
 - Cumulative capital expenses
 - On the month that you turn cash positive



How Much to Pay Yourself

- VCs don't want their entrepreneurs to starve
BUT
They want them to be hungry
- "Minimum Viable Salary" – enough so you are not distracted by bills, but the equity is where the big payoff is.

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QUESTIONS?



End Result

4 year Profit and Loss Statement

P & L by Year

		Source	Year 1		Year 2		Year 3		Year 4	
Revenue										
Product Revenue	P&L By Qtr		\$1,700,000	95%	\$12,180,000	93%	\$34,810,000	92%	\$60,200,000	90%
Support Revenue	P&L By Qtr		\$87,656	5%	\$910,649	7%	\$3,037,887	8%	\$6,431,460	10%
Total Revenue			\$1,787,656	100%	\$13,090,649	100%	\$37,847,887	100%	\$66,631,460	100%
COGS										
Product COGS	P&L By Qtr		\$598,063	33%	\$3,009,288	23%	\$9,366,100	25%	\$16,216,400	24%
Support COGS	P&L By Qtr		\$326,975	18%	\$754,040	6%	\$1,355,383	4%	\$2,294,416	3%
Total COGS			\$925,038	52%	\$3,763,327	29%	\$10,721,483	28%	\$18,510,816	28%
Gross Margin			\$862,619	48%	\$9,327,322	71%	\$27,126,404	72%	\$48,120,644	72%
Expenses										
Engineering	P&L By Qtr		\$1,746,688	98%	\$3,824,863	29%	\$6,685,350	18%	\$11,415,663	17%
Marketing	P&L By Qtr		\$811,375	45%	\$2,076,000	16%	\$3,448,350	9%	\$5,268,750	8%
Sales	P&L By Qtr		\$1,316,500	74%	\$3,370,650	26%	\$6,016,050	16%	\$10,001,750	15%
G&A	P&L By Qtr		\$1,091,625	61%	\$2,161,100	17%	\$3,593,250	9%	\$5,138,250	8%
Operating Exp.			\$4,966,188	278%	\$11,432,613	87%	\$19,743,000	52%	\$31,824,413	48%
Operating Profit			\$(4,103,569)	-230%	\$(2,105,291)	-16%	\$7,383,404	20%	\$16,296,232	24%

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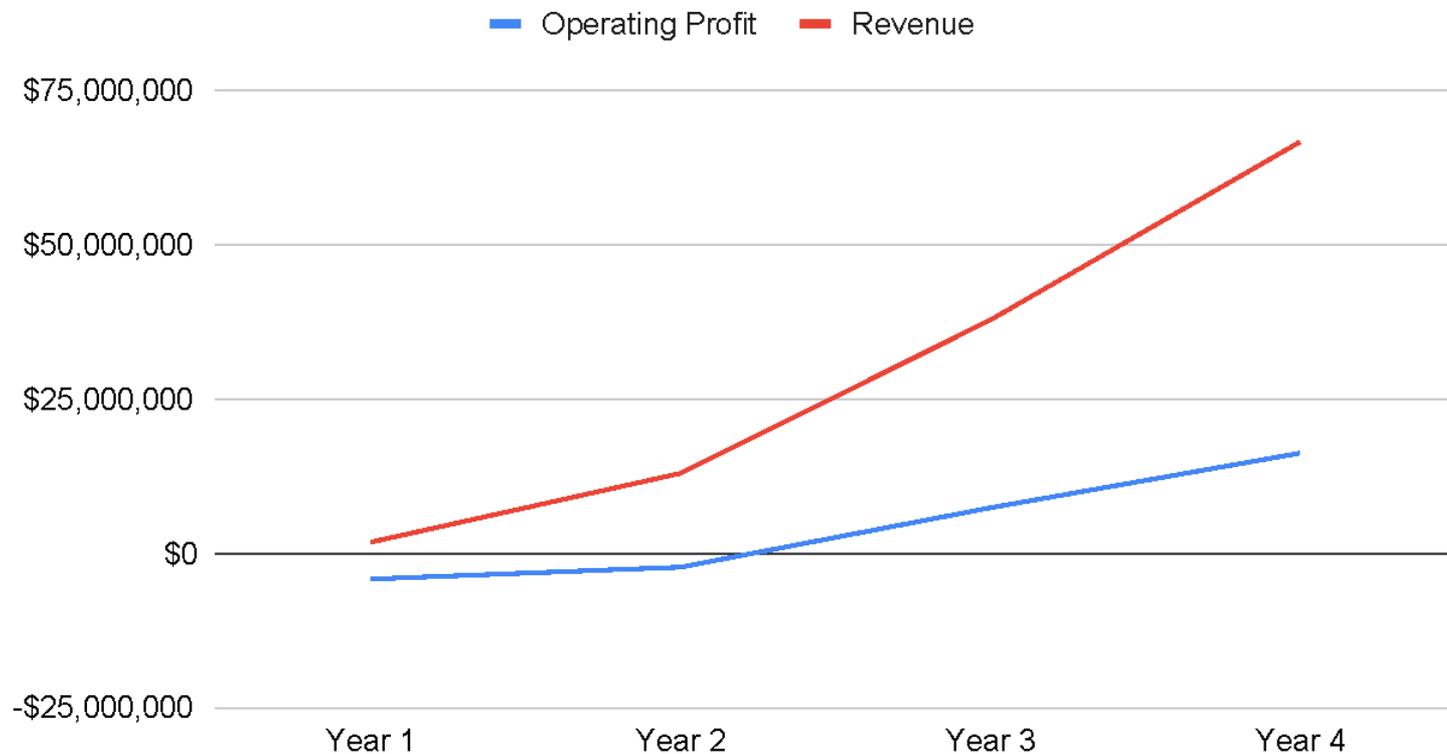
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End Result

4 year Profit and Loss Statement

P&L Forecast Years 1-4



Profit and Loss Statement Quarterly

P & L by Quarter	Source	Q1 Year 1	Q2 Year 1	Q3 Year 1	Q4 Year 1	Q1 Year 2	Q2 Year 2
Revenue							
Product Revenue	Sales Plan	\$-	\$200,000	\$500,000	\$1,000,000	\$1,740,000	\$2,610,000
Support Revenue	Sales Plan	\$-	\$7,500	\$24,375	\$55,781	\$107,086	\$178,189
Total Revenue		\$-	\$207,500	\$524,375	\$1,055,781	\$1,847,086	\$2,788,189
COGS							
Product COGS	COGS	\$84,000	\$114,000	\$146,500	\$253,563	\$492,575	\$698,538
Support COGS	COGS	\$75,900	\$77,900	\$82,400	\$90,775	\$153,161	\$174,252
Total COGS		\$159,900	\$191,900	\$228,900	\$344,338	\$645,736	\$872,790
Gross Margin		\$(84,000)	\$93,500	\$377,875	\$802,219	\$1,354,511	\$2,089,652
Expenses							
Engineering	Expenses	\$230,000	\$426,938	\$497,813	\$591,938	\$731,363	\$914,250
Marketing	Expenses	\$132,813	\$157,813	\$213,875	\$306,875	\$367,163	\$496,388
Sales	Expenses	\$160,563	\$240,250	\$411,000	\$504,688	\$623,450	\$809,925
G&A	Expenses	\$213,013	\$243,538	\$313,238	\$321,838	\$505,863	\$516,088
Operating Exp.		\$736,388	\$1,068,538	\$1,435,925	\$1,725,338	\$2,227,838	\$2,736,650
Operating Profit		\$(820,388)	\$(975,038)	\$(1,058,050)	\$(923,119)	\$(873,327)	\$(646,998)

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Sales

Sales Plan		Source	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
			Year 1	Year 1	Year 1	Year 1	Year 2	Year 2	Year 2	Year 2
Unit Sales										
	Model 1	Input	-	20	50	100	200	300	400	500
	Model 2	Input	-	-	-	-	20	30	40	50
	Model 3	Input	-	-	-	-	-	-	-	-
	Total Units		-	20	50	100	220	330	440	550
Sales Price										
	Model 1	Input	\$10,000	\$10,000	\$10,000	\$7,500	\$7,500	\$7,500	\$7,500	\$7,500
	Model 2	Input				\$12,000	\$12,000	\$12,000	\$12,000	\$12,000
	Model 3	Input								
Product Revenue										
	Model 1		\$-	\$200,000	\$500,000	\$1,000,000	\$1,500,000	\$2,250,000	\$3,000,000	\$3,750,000
	Model 2		\$-	\$-	\$-	\$-	\$240,000	\$360,000	\$480,000	\$600,000
	Model 3		\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-
	Total Product Revenue		\$-	\$200,000	\$500,000	\$1,000,000	\$1,740,000	\$2,610,000	\$3,480,000	\$4,350,000
Support Revenue										
	Installed Base		\$-	\$200,000	\$700,000	\$1,700,000	\$3,440,000	\$6,050,000	\$9,530,000	\$13,880,000
	Supported Base (retention)	75%	\$-	\$200,000	\$650,000	\$1,487,500	\$2,855,625	\$4,751,719	\$7,043,789	\$9,632,842
	Support Revenue	15%	\$-	\$7,500	\$24,375	\$55,781	\$107,086	\$178,189	\$264,142	\$361,232
Revenue										
	Sales Revenue		\$-	\$200,000	\$500,000	\$1,000,000	\$1,740,000	\$2,610,000	\$3,480,000	\$4,350,000
	Support Revenue		\$-	\$7,500	\$24,375	\$55,781	\$107,086	\$178,189	\$264,142	\$361,232
	Total Revenue		\$-	\$207,500	\$524,375	\$1,055,781	\$1,847,086	\$2,788,189	\$3,744,142	\$4,711,232

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COGS

Cost of Goods Sold		Source	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
			Year 1	Year 1	Year 1	Year 1	Year 2	Year 2	Year 2	Year 2
Unit Sales										
	Model 1	Sales Plan		20	50	100	200	300	400	500
	Model 2	Sales Plan					20	30	40	50
	Model 3	Sales Plan								
	Total Units		-	20	50	100	220	330	440	550
	Total Installed Units		-	20	70	170	390	720	1,160	1,710
	Total Supported Base	Sales Plan	\$0	\$200,000	\$650,000	\$1,487,500	\$2,855,625	\$4,751,719	\$7,043,789	\$9,632,842
Product COGS										
Mfg Staffing Plan										
	VP Mfg		1	1	1	1	1	1	1	1
	Supervisor	1 per 10				1	1	1	2	2
	Technician	1 unit/day	1	1	1	2	5	8	11	13
	Other/Admin		1	1	1	1	1	1	2	2
	Total MFG Staff		3	3	3	5	8	11	16	18
Variable COGS per Unit										
	Model 1		\$1,500	\$1,500	\$1,250	\$1,250	\$1,250	\$1,250	\$1,000	\$1,000
	Model 2						\$2,000	\$2,000	\$1,500	\$1,500
	Model 3									
	Model 1		\$-	\$30,000	\$62,500	\$125,000	\$250,000	\$375,000	\$400,000	\$500,000
	Model 2		\$-	\$-	\$-	\$-	\$40,000	\$60,000	\$60,000	\$75,000
	Model 3		\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-
	Total Variable Costs		\$-	\$30,000	\$62,500	\$125,000	\$290,000	\$435,000	\$460,000	\$575,000
Product COGS										
	Salaries & Benefits		\$69,000	\$69,000	\$69,000	\$113,563	\$172,575	\$233,538	\$338,800	\$384,375
	Variable Costs	from above	\$-	\$30,000	\$62,500	\$125,000	\$290,000	\$435,000	\$460,000	\$575,000
	Facilities		\$15,000	\$15,000	\$15,000	\$15,000	\$30,000	\$30,000	\$30,000	\$30,000
	Total Product COGS		\$84,000	\$114,000	\$146,500	\$253,563	\$492,575	\$698,538	\$828,800	\$989,375

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Staffing Plan

Staffing Plan			Staff	Staff	Staff	Staff	Staff	Staff	Staff	Staff
			Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
			Year 1	Year 1	Year 1	Year 1	Year 2	Year 2	Year 2	Year 2
Engineering										
CTO	Input		1	1	1	1	1	1	1	1
VP Engineering	Input						1	1	1	1
Project Manager	Input		1	2	2	2	2	3	3	3
Programmer	Input		4	8	10	12	14	16	18	22
Tech Writer	Input		-	1	1	2	2	4	4	4
Other	Input		-	-	-	-	-	-	-	-
Total Eng			6	12	14	17	20	25	27	31
Marketing										
VP Marketing	Input		1	1	1	1	1	1	1	1
Product Manager	Input		1	1	2	2	3	3	4	4
Mar-Com	Input		-	-	1	1	2	2	2	2
Other	Input		1	1	1	2	2	2	3	3
Total Mktg			3	3	5	6	8	8	10	10

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Salary Expenses

Staffing Plan0	Annual Salary	Expense Q1 Year 1	Expense Q2 Year 1	Expense Q3 Year 1	Expense Q4 Year 1	Expense Q1 Year 2	Expense Q2 Year 2	Expense Q3 Year 2	Expense Q4 Year 2
	Benefits/COLA ->	115%	115%	115%	115%	117%	119%	121%	123%
Engineering									
CTO	\$175,000	\$50,313	\$50,313	\$50,313	\$50,313	\$51,188	\$52,063	\$52,938	\$53,813
VP Engineering	\$150,000	\$-	\$-	\$-	\$-	\$43,875	\$44,625	\$45,375	\$46,125
Project Manager	\$125,000	\$35,938	\$71,875	\$71,875	\$71,875	\$73,125	\$111,563	\$113,438	\$115,313
Programmer	\$85,000	\$97,750	\$195,500	\$244,375	\$293,250	\$348,075	\$404,600	\$462,825	\$575,025
Tech Writer	\$60,000	\$-	\$17,250	\$17,250	\$34,500	\$35,100	\$71,400	\$72,600	\$73,800
Other	\$80,000	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-
Total Eng		\$184,000	\$334,938	\$383,813	\$449,938	\$551,363	\$684,250	\$747,175	\$864,075
Marketing									
VP Marketing	\$175,000	\$50,313	\$50,313	\$50,313	\$50,313	\$51,188	\$52,063	\$52,938	\$53,813
Product Manager	\$120,000	\$34,500	\$34,500	\$69,000	\$69,000	\$105,300	\$107,100	\$145,200	\$147,600
Mar-Com	\$75,000	\$-	\$-	\$21,563	\$21,563	\$43,875	\$44,625	\$45,375	\$46,125
Other	\$80,000	\$23,000	\$23,000	\$23,000	\$46,000	\$46,800	\$47,600	\$72,600	\$73,800
Total Mktg		\$107,813	\$107,813	\$163,875	\$186,875	\$247,163	\$251,388	\$316,113	\$321,338

Red – Input
Black – Calculated

Magenta – TO another spreadsheet
Blue – FROM another spreadsheet



Non-Salary Expenses

Departmental Expenses	Source	Q1 Year 1	Q2 Year 1	Q3 Year 1	Q4 Year 1
Engineering					
Salaries & Benefits	Staffing Plan	\$184,000	\$334,938	\$383,813	\$449,938
Tech Supplies (PP/PM)	\$2,000 input/formula	\$36,000	\$72,000	\$84,000	\$102,000
Misc / Other	input	\$10,000	\$20,000	\$30,000	\$40,000
Total Engineering	To P&L	\$230,000	\$426,938	\$497,813	\$591,938
Marketing					
Salaries & Benefits	Staffing Plan	\$107,813	\$107,813	\$163,875	\$186,875
Literature / PR	input	\$5,000	\$5,000	\$10,000	\$10,000
Trade Shows	input	\$-	\$25,000	\$-	\$50,000
Misc / Other	input	\$20,000	\$20,000	\$40,000	\$60,000
Total Marketing	To P&L	\$132,813	\$157,813	\$213,875	\$306,875

Red – Input
Black – Calculated

Magenta – TO another spreadsheet
Blue – FROM another spreadsheet

Non-Salary Expenses

Sales

Salaries & Benefits		Staffing Plan	\$136,563	\$201,250	\$345,000	\$409,688
Travel (PP/PM)	\$3,000	input/formula	\$9,000	\$18,000	\$36,000	\$45,000
Commission (% Rev)	3.00%	input/formula	\$-	\$6,000	\$15,000	\$30,000
Misc / Other		input	\$15,000	\$15,000	\$15,000	\$20,000
Total Sales		To P&L	\$160,563	\$240,250	\$411,000	\$504,688

General & Admin

Salaries & Benefits		Staffing Plan	\$107,813	\$127,938	\$185,438	\$185,438
Legal / Audit			\$30,000	\$30,000	\$30,000	\$30,000
Rent		See Below	\$50,000	\$50,000	\$50,000	\$50,000
Tel & Internet (PP/PM)	\$200	input/formula	\$10,200	\$15,600	\$22,800	\$26,400
Misc / Other		input	\$15,000	\$20,000	\$25,000	\$30,000
Total G&A		To P&L	\$213,013	\$243,538	\$313,238	\$321,838

Red – Input
Black – Calculated

Magenta – TO another spreadsheet
Blue – FROM another spreadsheet

Profit and Loss Statement Quarterly

P & L by Quarter	Source	Q1 Year 1	Q2 Year 1	Q3 Year 1	Q4 Year 1	Q1 Year 2	Q2 Year 2
Revenue							
Product Revenue	Sales Plan	\$-	\$200,000	\$500,000	\$1,000,000	\$1,740,000	\$2,610,000
Support Revenue	Sales Plan	\$-	\$7,500	\$24,375	\$55,781	\$107,086	\$178,189
Total Revenue		\$-	\$207,500	\$524,375	\$1,055,781	\$1,847,086	\$2,788,189
COGS							
Product COGS	COGS	\$84,000	\$114,000	\$146,500	\$253,563	\$492,575	\$698,538
Support COGS	COGS	\$75,900	\$77,900	\$82,400	\$90,775	\$153,161	\$174,252
Total COGS		\$159,900	\$191,900	\$228,900	\$344,338	\$645,736	\$872,790
Gross Margin		\$(84,000)	\$93,500	\$377,875	\$802,219	\$1,354,511	\$2,089,652
Expenses							
Engineering	Expenses	\$230,000	\$426,938	\$497,813	\$591,938	\$731,363	\$914,250
Marketing	Expenses	\$132,813	\$157,813	\$213,875	\$306,875	\$367,163	\$496,388
Sales	Expenses	\$160,563	\$240,250	\$411,000	\$504,688	\$623,450	\$809,925
G&A	Expenses	\$213,013	\$243,538	\$313,238	\$321,838	\$505,863	\$516,088
Operating Exp.		\$736,388	\$1,068,538	\$1,435,925	\$1,725,338	\$2,227,838	\$2,736,650
Operating Profit		\$(820,388)	\$(975,038)	\$(1,058,050)	\$(923,119)	\$(873,327)	\$(646,998)

Red – Input

Black – Calculated

Magenta – TO another spreadsheet

Blue – FROM another spreadsheet

CAPEX & Cash Flow

Cash Flow	Source	Q1 Year 1	Q2 Year 1	Q3 Year 1	Q4 Year 1	Q1 Year 2
Beginning Cash		\$-	\$4,019,713	\$2,607,275	\$923,950	\$11,090,650
Investment	Input	\$5,000,000	\$-	\$-	\$12,000,000	
Total Revenue	From P&L Quarterly * * delay 1 quarter	\$-	\$-	\$207,500	\$524,375	\$1,055,781
COGS Expenses	From P&L Quarterly	\$(159,900)	\$(191,900)	\$(228,900)	\$(344,338)	\$(645,736)
Departmental Expenses	From P&L Quarterly	\$(736,388)	\$(1,068,538)	\$(1,435,925)	\$(1,725,338)	\$(2,227,838)
Capital Expense	From P&L CAPEX	\$(84,000)	\$(152,000)	\$(226,000)	\$(288,000)	\$(312,000)
Change in Cash		\$4,019,713	\$(1,412,438)	\$1,683,325	\$10,166,700	\$(2,129,793)
Ending Balance		\$4,019,713	\$2,607,275	\$923,950	\$11,090,650	\$8,960,858
Capital Expenses		Q1 Year 1	Q2 Year 1	Q3 Year 1	Q4 Year 1	Q1 Year 1
Employee Workstations (PP)	Input	\$34,000	\$52,000	\$76,000	\$88,000	\$112,000
Prototype Expenses	Input	\$50,000	\$100,000	\$150,000	\$200,000	\$200,000
		\$84,000	\$152,000	\$226,000	\$288,000	\$312,000
Cumulative CAPEX		\$84,000	\$236,000	\$462,000	\$750,000	\$1,062,000

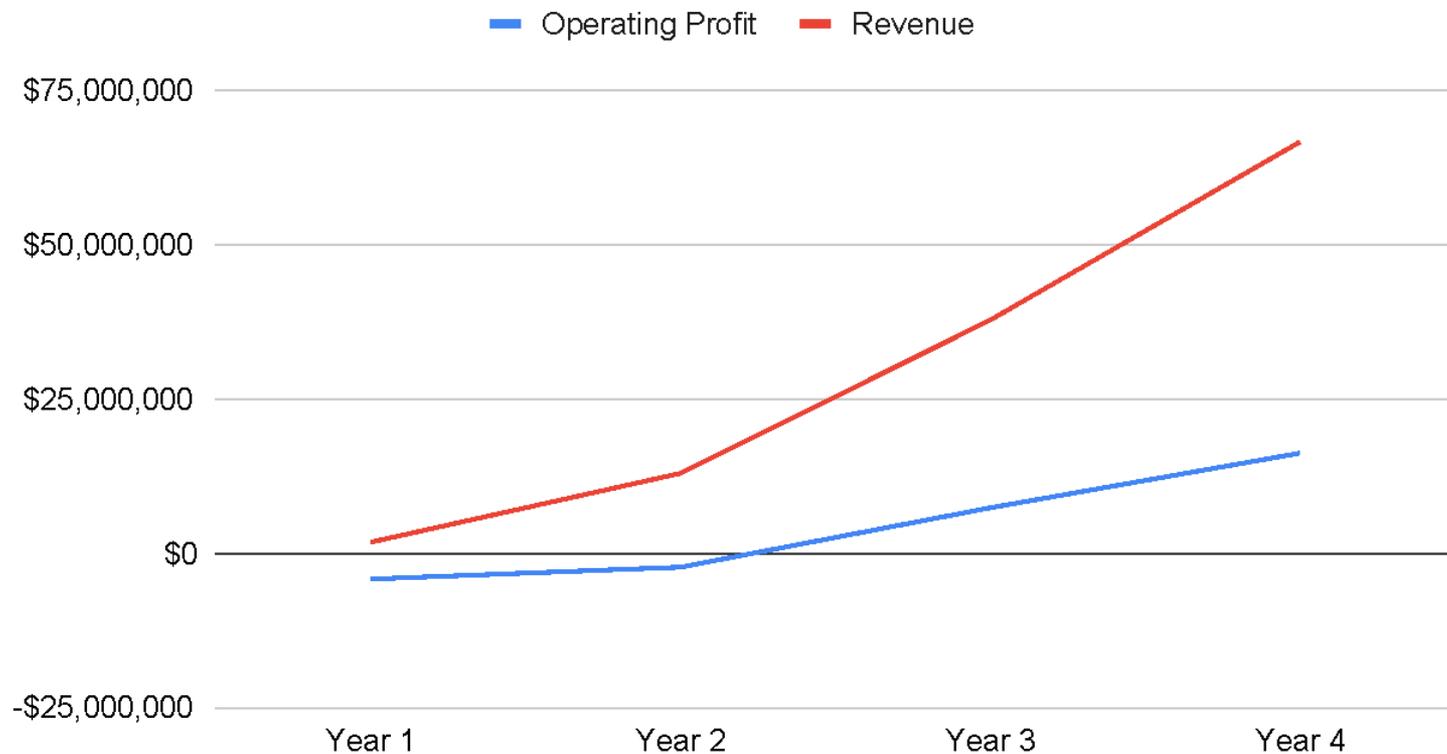
Red – Input
Black – Calculated

Magenta – TO another spreadsheet
Blue – FROM another spreadsheet

End Result

4 year Profit and Loss Statement

P&L Forecast Years 1-4



Financial Data Presentation Suggestions

- Steady, consistent evolution of your model
 - Revenue growth in \$
 - Expenses over time in %
- Show % next to quarterly & yearly columns
- Show pre-tax only
- Don't allocate G&A expenses

Executive Summary Presentation Suggestions

- Annual P&L for 4 or 5 years (with %)
- Data to justify revenue projections
 - Unit sales
 - Average selling price (ASP)
- What quarter you will be profitable
- Your total cash requirement



Full Business Plan Presentation Suggestions

- Page 1: Annual P&L for 4 years
- Page 2 & 3: Quarterly P&L for all 4 years
- Page 4: Quarterly Staffing plan for 4 years
- Page 5: Quarterly cash flow for 4 years



Nuts

And

Bolts

2025

Questions?

- ? For Financial Plan
- Next up: Equity



MITSloan
MANAGEMENT

Sharing the Pie

Thoughts on Equity Distribution



[Evan-Amos](#), CC BY-SA 3.0 via Wikimedia Commons

Equity Distribution Philosophy

- Compensate for:
 - Ownership of IP
 - COMMITMENT
 - Risk (stage of company, e.g. pre-funding)
 - Sacrifice (e.g. external compensation)
 - Past & future contribution
- Work to be Completed > Work Completed
- Maintain internal equity
- EVERYONE should vest – 4 years
 - Because not everyone will stay

Employee Specifics

Ownership % after 2 rounds of financing

CEO	5%
VP	1% to 2 ½ %
Sr Manager	.25% (1/4 of 1%)
Sr Ind Contributor	.1% (1/10 of 1%)

- Founding management might get 2x to 3x
- Founding employees might get 5x to 10x

YOU CAN ALWAYS GRANT MORE LATER

Equity Distribution Example

Name	Title	#	At Founding		After Early Employees		Post Angel		Post VC1		Post VC2		
			Shares	%	Shares	%	Shares	%	Shares	%	Shares	%	
Founders													
Jack	CEO		2,000,000	50%	2,000,000	44.4%	2,000,000	40.0%	2,000,000	15.1%	2,000,000	9.1%	
Susan	CTO		1,000,000	25%	1,000,000	22.2%	1,000,000	20.0%	1,000,000	7.6%	1,000,000	4.5%	
Anil	VP Sales		1,000,000	25%	1,000,000	22.2%	1,000,000	20.0%	1,000,000	7.6%	1,000,000	4.5%	
			<u>4,000,000</u>	<u>100%</u>	<u>4,000,000</u>	<u>88.9%</u>	<u>4,000,000</u>	<u>80.0%</u>	<u>4,000,000</u>	<u>30.3%</u>	<u>4,000,000</u>	<u>18.2%</u>	
Key Early Employees													
Jack	VP R&D				250,000	5.6%	250,000	5.0%	250,000	1.9%	250,000	1.1%	
Julie	Mnager1				100,000	2.2%	100,000	2.0%	100,000	0.8%	100,000	0.5%	
Sam	Mnager2				75,000	1.7%	75,000	1.5%	75,000	0.6%	75,000	0.3%	
				0%	<u>425,000</u>	<u>9.4%</u>	<u>425,000</u>	<u>8.5%</u>	<u>425,000</u>	<u>3.2%</u>	<u>425,000</u>	<u>1.9%</u>	
Advisors													
		Per Person#											
Board Members		25,000 3			75,000	1.7%	75,000	1.5%	75,000	0.6%	75,000	0.3%	
				0%	<u>75,000</u>	<u>1.7%</u>	<u>75,000</u>	<u>1.5%</u>	<u>75,000</u>	<u>0.6%</u>	<u>75,000</u>	<u>0.3%</u>	
Option Plan													
		Per Person	#										
Manager		50,000	10						500,000	3.8%	500,000	2.3%	
Sr. Eng		25,000	20						500,000	3.8%	500,000	2.3%	
Jr. Eng		15,000	40						600,000	4.5%	600,000	2.7%	
Admin		1,000	10						10,000	0.1%	10,000	0.0%	
				0%	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>1,610,000</u>	<u>12.2%</u>	<u>1,610,000</u>	<u>7.3%</u>	
Investors													
	Amount Invested	Pre-Money Valuation											
Angels	\$ 500,000	\$ 4,500,000	10%				500,000	10.0%	500,000	3.8%	500,000	2.3%	
VC Round	\$ 5,000,000	\$ 5,000,000	50%						6,610,000	50.0%	6,610,000	30.0%	
VC Round	\$ 10,000,000	\$ 15,000,000	40%						8,813,333	40.0%	8,813,333	40.0%	
				0%	<u>0%</u>	<u>0%</u>	<u>500,000</u>	<u>10.0%</u>	<u>7,110,000</u>	<u>53.8%</u>	<u>15,923,333</u>	<u>72.3%</u>	
Grand Total				4,000,000	100%	4,500,000	100%	5,000,000	100%	13,220,000	100%	22,033,333	100%



At Company Founding

Name	Title	#	At Founding		After Early Employees		Post Angel		Post VC1		Post VC2		
			Shares	%	Shares	%	Shares	%	Shares	%	Shares	%	
Founders													
Jack	CEO		2,000,000	50%	2,000,000	44.4%	2,000,000	40.0%	2,000,000	15.1%	2,000,000	9.1%	
Susan	CTO		1,000,000	25%	1,000,000	22.2%	1,000,000	20.0%	1,000,000	7.6%	1,000,000	4.5%	
Anil	VP Sales		1,000,000	25%	1,000,000	22.2%	1,000,000	20.0%	1,000,000	7.6%	1,000,000	4.5%	
			4,000,000	100%	4,000,000	88.9%	4,000,000	80.0%	4,000,000	30.3%	4,000,000	18.2%	
Key Early Employees													
Jack	VP R&D				250,000	5.6%	250,000	5.0%	250,000	1.9%	250,000	1.1%	
Julie	Mnager1				100,000	2.2%	100,000	2.0%	100,000	0.8%	100,000	0.5%	
Sam	Mnager2				75,000	1.7%	75,000	1.5%	75,000	0.6%	75,000	0.3%	
				0%	425,000	9.4%	425,000	8.5%	425,000	3.2%	425,000	1.9%	
Advisors													
		Per Person#											
Board Members		25,000 3			75,000	1.7%	75,000	1.5%	75,000	0.6%	75,000	0.3%	
				0%	75,000	1.7%	75,000	1.5%	75,000	0.6%	75,000	0.3%	
Option Plan													
		Per Person	#										
Manager		50,000	10						500,000	3.8%	500,000	2.3%	
Sr. Eng		25,000	20						500,000	3.8%	500,000	2.3%	
Jr. Eng		15,000	40						600,000	4.5%	600,000	2.7%	
Admin		1,000	10						10,000	0.1%	10,000	0.0%	
				0%		0%		0%	1,610,000	12.2%	1,610,000	7.3%	
Investors													
	Amount Invested	Pre-Money Valuation											
Angels	\$ 500,000	\$ 4,500,000	10%										
VC Round	\$ 5,000,000	\$ 5,000,000	50%										
VC Round	\$ 10,000,000	\$ 15,000,000	40%										
				0%		0%		0%	500,000	10.0%	7,110,000	53.8%	
				0%		0%		500,000	10.0%	7,110,000	53.8%	15,923,333	72.3%
Grand Total				4,000,000	100%	4,500,000	100%	5,000,000	100%	13,220,000	100%	22,033,333	100%



After Early Employees

Name	Title	#	At Founding		After Early Employees		Post Angel		Post VC1		Post VC2		
			Shares	%	Shares	%	Shares	%	Shares	%	Shares	%	
Founders													
Jack	CEO		2,000,000	50%	2,000,000	44.4%	2,000,000	40.0%	2,000,000	15.1%	2,000,000	9.1%	
Susan	CTO		1,000,000	25%	1,000,000	22.2%	1,000,000	20.0%	1,000,000	7.6%	1,000,000	4.5%	
Anil	VP Sales		1,000,000	25%	1,000,000	22.2%	1,000,000	20.0%	1,000,000	7.6%	1,000,000	4.5%	
			<u>4,000,000</u>	<u>100%</u>	<u>4,000,000</u>	<u>88.9%</u>	<u>4,000,000</u>	<u>80.0%</u>	<u>4,000,000</u>	<u>30.3%</u>	<u>4,000,000</u>	<u>18.2%</u>	
Key Early Employees													
Jack	VP R&D				250,000	5.6%	250,000	5.0%	250,000	1.9%	250,000	1.1%	
Julie	Mnager1				100,000	2.2%	100,000	2.0%	100,000	0.8%	100,000	0.5%	
Sam	Mnager2				75,000	1.7%	75,000	1.5%	75,000	0.6%	75,000	0.3%	
				0%	<u>425,000</u>	<u>9.4%</u>	<u>425,000</u>	<u>8.5%</u>	<u>425,000</u>	<u>3.2%</u>	<u>425,000</u>	<u>1.9%</u>	
Advisors													
		Per Person#											
Board Members		25,000 3			75,000	1.7%	75,000	1.5%	75,000	0.6%	75,000	0.3%	
				0%	<u>75,000</u>	<u>1.7%</u>	<u>75,000</u>	<u>1.5%</u>	<u>75,000</u>	<u>0.6%</u>	<u>75,000</u>	<u>0.3%</u>	
Option Plan													
		Per Person	#										
Manager		50,000	10						500,000	3.8%	500,000	2.3%	
Sr. Eng		25,000	20						500,000	3.8%	500,000	2.3%	
Jr. Eng		15,000	40						600,000	4.5%	600,000	2.7%	
Admin		1,000	10						10,000	0.1%	10,000	0.0%	
				0%		0%		0%	<u>1,610,000</u>	<u>12.2%</u>	<u>1,610,000</u>	<u>7.3%</u>	
Investors													
	Amount Invested	Pre-Money Valuation											
Angels	\$ 500,000	\$ 4,500,000	10%					500,000	10.0%	500,000	3.8%	500,000	2.3%
VC Round	\$ 5,000,000	\$ 5,000,000	50%						6,610,000	50.0%	6,610,000	30.0%	
VC Round	\$ 10,000,000	\$ 15,000,000	40%						8,813,333	40.0%	8,813,333	40.0%	
				0%		0%		500,000	10.0%	<u>7,110,000</u>	<u>53.8%</u>	<u>15,923,333</u>	<u>72.3%</u>
Grand Total				4,000,000	100%	4,500,000	100%	5,000,000	100%	13,220,000	100%	22,033,333	100%



After Angel Round

Name	Title	#	At Founding		After Early Employees		Post Angel		Post VC1		Post VC2		
			Shares	%	Shares	%	Shares	%	Shares	%	Shares	%	
Founders													
Jack	CEO		2,000,000	50%	2,000,000	44.4%	2,000,000	40.0%	2,000,000	15.1%	2,000,000	9.1%	
Susan	CTO		1,000,000	25%	1,000,000	22.2%	1,000,000	20.0%	1,000,000	7.6%	1,000,000	4.5%	
Anil	VP Sales		1,000,000	25%	1,000,000	22.2%	1,000,000	20.0%	1,000,000	7.6%	1,000,000	4.5%	
			<u>4,000,000</u>	<u>100%</u>	<u>4,000,000</u>	<u>88.9%</u>	<u>4,000,000</u>	<u>80.0%</u>	<u>4,000,000</u>	<u>30.3%</u>	<u>4,000,000</u>	<u>18.2%</u>	
Key Early Employees													
Jack	VP R&D				250,000	5.6%	250,000	5.0%	250,000	1.9%	250,000	1.1%	
Julie	Mnager1				100,000	2.2%	100,000	2.0%	100,000	0.8%	100,000	0.5%	
Sam	Mnager2				75,000	1.7%	75,000	1.5%	75,000	0.6%	75,000	0.3%	
				0%	<u>425,000</u>	<u>9.4%</u>	<u>425,000</u>	<u>8.5%</u>	<u>425,000</u>	<u>3.2%</u>	<u>425,000</u>	<u>1.9%</u>	
Advisors													
		Per Person#											
Board Members		25,000 3			75,000	1.7%	75,000	1.5%	75,000	0.6%	75,000	0.3%	
				0%	<u>75,000</u>	<u>1.7%</u>	<u>75,000</u>	<u>1.5%</u>	<u>75,000</u>	<u>0.6%</u>	<u>75,000</u>	<u>0.3%</u>	
Option Plan													
		Per Person	#										
Manager		50,000	10						500,000	3.8%	500,000	2.3%	
Sr. Eng		25,000	20						500,000	3.8%	500,000	2.3%	
Jr. Eng		15,000	40						600,000	4.5%	600,000	2.7%	
Admin		1,000	10						10,000	0.1%	10,000	0.0%	
				0%		0%		0%	<u>1,610,000</u>	<u>12.2%</u>	<u>1,610,000</u>	<u>7.3%</u>	
Investors													
	Amount Invested	Pre-Money Valuation											
Angels	\$ 500,000	\$ 4,500,000	10%					500,000	10.0%	500,000	3.8%	500,000	2.3%
VC Round	\$ 5,000,000	\$ 5,000,000	50%						6,610,000	50.0%	6,610,000	30.0%	
VC Round	\$ 10,000,000	\$ 15,000,000	40%						8,813,333	40.0%	8,813,333	40.0%	
				0%		0%		500,000	10.0%	<u>7,110,000</u>	<u>53.8%</u>	<u>15,923,333</u>	<u>72.3%</u>
Grand Total				4,000,000	100%	4,500,000	100%	5,000,000	100%	13,220,000	100%	22,033,333	100%

After VC Round 1

Name	Title	#	At Founding		After Early Employees		Post Angel		Post VC1		Post VC2		
			Shares	%	Shares	%	Shares	%	Shares	%	Shares	%	
Founders													
Jack	CEO		2,000,000	50%	2,000,000	44.4%	2,000,000	40.0%	2,000,000	15.1%	2,000,000	9.1%	
Susan	CTO		1,000,000	25%	1,000,000	22.2%	1,000,000	20.0%	1,000,000	7.6%	1,000,000	4.5%	
Anil	VP Sales		1,000,000	25%	1,000,000	22.2%	1,000,000	20.0%	1,000,000	7.6%	1,000,000	4.5%	
			<u>4,000,000</u>	<u>100%</u>	<u>4,000,000</u>	<u>88.9%</u>	<u>4,000,000</u>	<u>80.0%</u>	<u>4,000,000</u>	<u>30.3%</u>	<u>4,000,000</u>	<u>18.2%</u>	
Key Early Employees													
Jack	VP R&D				250,000	5.6%	250,000	5.0%	250,000	1.9%	250,000	1.1%	
Julie	Mnager1				100,000	2.2%	100,000	2.0%	100,000	0.8%	100,000	0.5%	
Sam	Mnager2				75,000	1.7%	75,000	1.5%	75,000	0.6%	75,000	0.3%	
				<u>0%</u>	<u>425,000</u>	<u>9.4%</u>	<u>425,000</u>	<u>8.5%</u>	<u>425,000</u>	<u>3.2%</u>	<u>425,000</u>	<u>1.9%</u>	
Advisors													
		Per Person#											
Board Members		25,000 3			75,000 1.7%		75,000 1.5%		75,000 0.6%		75,000 0.3%		
				<u>0%</u>	<u>75,000 1.7%</u>		<u>75,000 1.5%</u>		<u>75,000 0.6%</u>		<u>75,000 0.3%</u>		
Option Plan													
		Per Person	#										
Manager		50,000	10						500,000 3.8%		500,000 2.3%		
Sr. Eng		25,000	20						500,000 3.8%		500,000 2.3%		
Jr. Eng		15,000	40						600,000 4.5%		600,000 2.7%		
Admin		1,000	10						10,000 0.1%		10,000 0.0%		
				<u>0%</u>		<u>0%</u>		<u>0%</u>	<u>1,610,000 12.2%</u>		<u>1,610,000 7.3%</u>		
Investors													
	Amount Invested	Pre-Money Valuation											
Angels	\$ 500,000	\$ 4,500,000	10%				500,000 10.0%		500,000 3.8%		500,000 2.3%		
VC Round	\$ 5,000,000	\$ 5,000,000	50%						6,610,000 50.0%		6,610,000 30.0%		
VC Round	\$ 10,000,000	\$ 15,000,000	40%						8,813,333 40.0%		8,813,333 40.0%		
				<u>0%</u>		<u>0%</u>	<u>500,000 10.0%</u>		<u>7,110,000 53.8%</u>		<u>15,923,333 72.3%</u>		
Grand Total				4,000,000 100%		4,500,000 100%		5,000,000 100%		13,220,000 100%		22,033,333 100%	



After VC Round 2

Name	Title	#	At Founding		After Early Employees		Post Angel		Post VC1		Post VC2		
			Shares	%	Shares	%	Shares	%	Shares	%	Shares	%	
Founders													
Jack	CEO		2,000,000	50%	2,000,000	44.4%	2,000,000	40.0%	2,000,000	15.1%	2,000,000	9.1%	
Susan	CTO		1,000,000	25%	1,000,000	22.2%	1,000,000	20.0%	1,000,000	7.6%	1,000,000	4.5%	
Anil	VP Sales		1,000,000	25%	1,000,000	22.2%	1,000,000	20.0%	1,000,000	7.6%	1,000,000	4.5%	
			<u>4,000,000</u>	<u>100%</u>	<u>4,000,000</u>	<u>88.9%</u>	<u>4,000,000</u>	<u>80.0%</u>	<u>4,000,000</u>	<u>30.3%</u>	<u>4,000,000</u>	<u>18.2%</u>	
Key Early Employees													
Jack	VP R&D				250,000	5.6%	250,000	5.0%	250,000	1.9%	250,000	1.1%	
Julie	Mnager1				100,000	2.2%	100,000	2.0%	100,000	0.8%	100,000	0.5%	
Sam	Mnager2				75,000	1.7%	75,000	1.5%	75,000	0.6%	75,000	0.3%	
				0%	<u>425,000</u>	<u>9.4%</u>	<u>425,000</u>	<u>8.5%</u>	<u>425,000</u>	<u>3.2%</u>	<u>425,000</u>	<u>1.9%</u>	
Advisors													
		Per Person#											
Board Members		25,000 3			75,000 1.7%		75,000 1.5%		75,000 0.6%		75,000 0.3%		
				0%	<u>75,000 1.7%</u>		<u>75,000 1.5%</u>		<u>75,000 0.6%</u>		<u>75,000 0.3%</u>		
Option Plan													
		Per Person	#										
Manager		50,000	10						500,000 3.8%		500,000 2.3%		
Sr. Eng		25,000	20						500,000 3.8%		500,000 2.3%		
Jr. Eng		15,000	40						600,000 4.5%		600,000 2.7%		
Admin		1,000	10						10,000 0.1%		10,000 0.0%		
				0%	<u>0%</u>		<u>0%</u>		<u>1,610,000 12.2%</u>		<u>1,610,000 7.3%</u>		
Investors													
	Amount Invested	Pre-Money Valuation											
Angels	\$ 500,000	\$ 4,500,000	10%				500,000 10.0%		500,000 3.8%		500,000 2.3%		
VC Round	\$ 5,000,000	\$ 5,000,000	50%						6,610,000 50.0%		6,610,000 30.0%		
VC Round	\$ 10,000,000	\$ 15,000,000	40%						8,813,333 40.0%		8,813,333 40.0%		
				0%	<u>0%</u>		<u>500,000 10.0%</u>		<u>7,110,000 53.8%</u>		<u>15,923,333 72.3%</u>		
Grand Total				4,000,000 100%	4,500,000 100%		5,000,000 100%		13,220,000 100%		22,033,333 100%		



Summary

Business Plan Financials

- What VCs (and \$100K Judges) Want
- What is a Business Model
- Building YOUR Financial Projections
- Sharing the Pie

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