Study Guide

HOW TO BUILD A VENTURE CAPITAL PITCH DECK

Lesson 12: Financial Projections

WHY IS THIS SLIDE IMPORTANT?

- Your operations plan is short-term (see our lesson on the operating plan), but your financial plan shows the bigger picture.
- You need to show that your business will grow enough to interest VCs.
- Prove that you have a plan!
- Opens the door for a full financial diligence discussion.
- Investors will want to see that the strategy you pitch matches the headcount, expenses, sales model, etc. that you show in the model.

WHAT STAGE COMPANIES HAVE FINANCIAL MODELS?

- Models are less important for seed-stage companies.
- Series A and beyond need financial models.

BUILDING THE MODEL

- Walk through the spreadsheet.
- Startups, particularly technology and biotech, have extreme financial projections, so it's normal for expenses to be high or revenue to grow aggressively in the out years.
- Make sure you capture the full size of the market potential - don't be so conservative with your growth that investors think the opportunity is too small.
- Work backward from your next fundraise – what do you need to raise money at the next round (usually a revenue number)..
- Find out information on similar companies at similar stages by looking at public companies – a financial advisor like Kruze Consulting can help.
- Different industries have different models.

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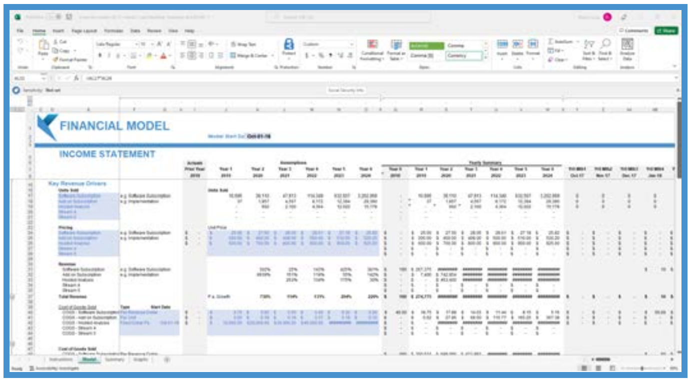

AVOID THESE PITFALLS

- Make sure your expenses match your revenue projections – your expenses increase as you grow.
- Don’t ignore direct costs, like cost of goods sold, server costs, platform subscriptions, employee benefits, payroll taxes, etc.
- Don’t be too conservative in your projections.
- On the other hand, don’t go wild with totally unrealistic revenue projections.
- Watch your working capital – there’s often a lag between recognizing revenue and collecting money.
- Be careful about including too much detail.

SUMMARY

- Later stage companies need financial projections, as this will be an important part of due diligence.
- You’re proving to the VC that your company will be big enough for their investment.
- You’re showing your understanding of how your company scales and that your strategy makes sense using numbers.

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