

Silicon Valley
◀ Young Coder's Club ▶



Session 5

Financials of the Business Opportunity

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Master Agenda

Session 1	April 23 rd	What is creativity? What is my passion?
Session 2	April 30 th	Behavior traits for a successful entrepreneur.
Session 3	May 7 th	Turning your passion into a business opportunity.
Session 4	May 14 th	Steps needed for your startup ... 1, 2, 3 GO.
Session 5	May 21st	Financials of the business opportunity.
Session 6	May 28 th	Presentation skills, successful pitches, what ideas got funded.
Session 7	June 4 th	Filing your patent, patent gotchas, successes and failures.
Session 8	June 11 th	Creating a business plan to pitch to VCs.
Pitch Fest	June 20 th	Annual Tech Day (Business Plan to VCs, Successful Entrepreneurs).

Weeks 1-4 recap

Week 1

Passion

Creativity

Problem

Week 2

Leadership

Hardwork

Integrity

Social Good

Week 3

The Hacker Way

The VC

Business Plan

Week 4

Incorporation

Paper Money

Pivot

Exit

Business Plan

Problem Statement

Business Model

Competition

The Team

Solution to Problem

Product and Technology

Marketing and Sales

Financial Model

What Happens to Successful Startups?

An Exit Event

- IPO
- Acquisition

Today's session is about how to measure success ...

--- Financials ---

Basics of Financials

Profit = Revenue –
Costs (Direct + Indirect)

Valuation = Number of Shares X
Value of Each Share



Financial Statements

Profit & Loss Statement

Revenue and Costs for a specific period of time.

Balance Sheet

Assets and Liabilities

What the business owns and owes, and its Valuation.

How to think Financials?

You have an idea of App ...

- What problem is your app trying to solve and how?
- What is unique about your app and would people pay for it?
- What else do you think your app users would be willing to pay for?
- What business models do competing apps use and how well have they worked?

Sizing the market opportunity ...

- How and when you will generate revenues, and how much?
- What are your costs associated with running to achieve revenue?

Revenue Model Options

Some Example Models that Help Mobile Apps Make Money ...

1. Free, But With Ads (In-App Advertising)
2. Freemium (Gated Features)
3. Paid Apps (Purchase to Download)
4. In-App Purchases (Selling Physical/Virtual Goods)
5. Paywalls (Subscriptions)
6. Sponsorship (Incentivized Advertising)

Profit & Loss Statement



Funding



Valuation

- Pre-money
- Post-money
- Allocation of shares at Incorporation – founders, option pool
- On financing – allocate additional shares

Balance Sheet



Financial Terms

Burn

Runway

Crowdfunding

Bootstrapping

Smart Money

Paper Money

Dumb Money

Pre-money

Post-money

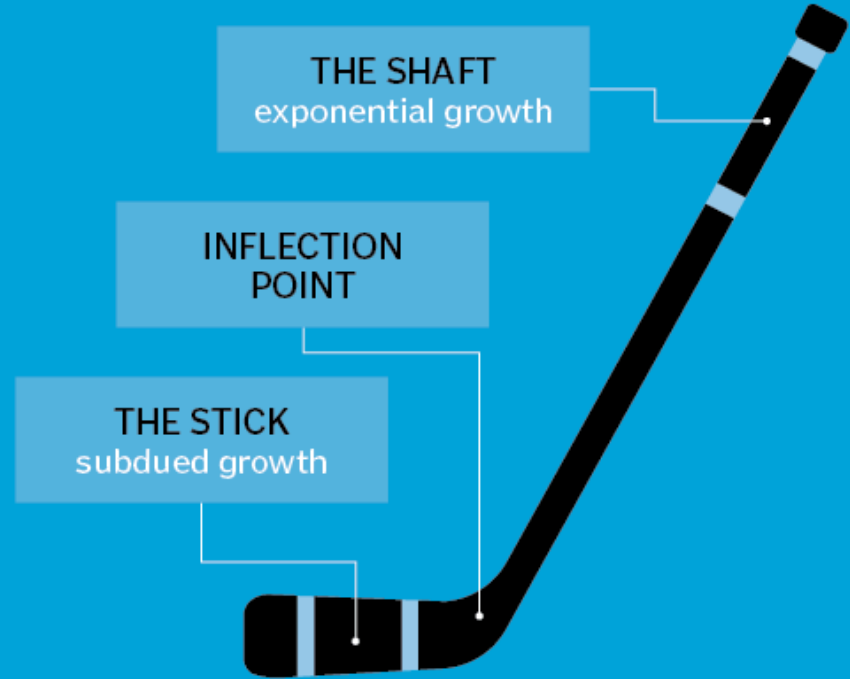
Hockey Stick Curve

noun

A chart with a slow initial growth rate that suddenly increases to a much faster growth rate that continues indefinitely. The resulting chart takes the shape of a hockey stick.

“Our growth doesn’t look great right now, but once we release our new version it’s going to be a hockey stick curve”

Stages of hockey stick growth



Unicorns

A **unicorn** is a privately held startup company valued at over \$1 billion. The term was coined in 2013 by venture capitalist Aileen Lee, choosing the mythical animal to represent the statistical rarity of such successful ventures.

It is estimated that there were 465 unicorns as of April 2020.


UNICORN STARTUPS VALUED AT \$1B+ (AS OF 8/27/19)

Company	Valuation (\$B)	Category
Bytedance	\$75	Artificial intelligence
Didi Chuxing	\$56	Auto & transportation
JUUL Labs	\$50	Consumer & retail
WeWork	\$47	Other
Airbnb	\$29.30	Travel
Stripe	\$22.50	Fintech
SpaceX	\$18.50	Other
Epic Games	\$15	Other
Grab	\$14.30	Auto & transportation
DoorDash	\$12.60	Supply chain, logistics, & delivery
Bitmain Technologies	\$12	Hardware
Samumed	\$12	Health
Wish	\$11.20	E-commerce & direct-to-consumer
Global Switch	\$11.08	Hardware
Palantir Technologies	\$11	Data management & analytics


Source: <https://www.cbinsights.com/research/unicorn-startup-market-map/>

Approaches to Financial Projections

Top-Down Approach

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1. Estimate Market Size
 2. Estimate number of Competitors
 3. Analyze your strengths for the long term
 4. Estimate your Market Share for 5 years
 5. Establish a Revenue Growth Path

Bottom-Up Approach

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1. Project Customer Growth
 2. Determine Budget
 3. Estimate Conversion Rates
 4. Estimate Customer Acquisition Costs
 5. Start from the First Year working Forward

Homework

Homework

- Introduce your Founding Team (with Titles) and Startup Name
- What does the Startup do (your “idea”) in 2 to 3 bullet points?
- Describe in 2 to 3 bullet points your financial plan – source of revenue, high-order costs, and margin outlook.