

FOUNDERS TALK 11

BEING FINANCIALLY-SAVVY IS THE KEY TO YOUR START-UP SUCCESS

Wednesday, August 12, 2020 | 5pm to 6pm IST

SPEAKER



Sujata Bogawat

Chartered Accountant; Startup Advisor; Virtual CFO

Mind your business!

Startup Finance Pitfalls & How To Avoid Them

CA Sujata Bogawat

FLAME Founders Talk

Aug 12, 2020

By others'
faults the
wise correct
their own.

- QUIZ: <https://quizizz.com>

You do not realise how important decisions are until you make the wrong ones.



Choosing the appropriate entity & ownership structure

Parent / Subsidiary / Spin-offs



Where to register the company?

Where's the market?
Where's the IP?
Where are the investors?



Pitfalls

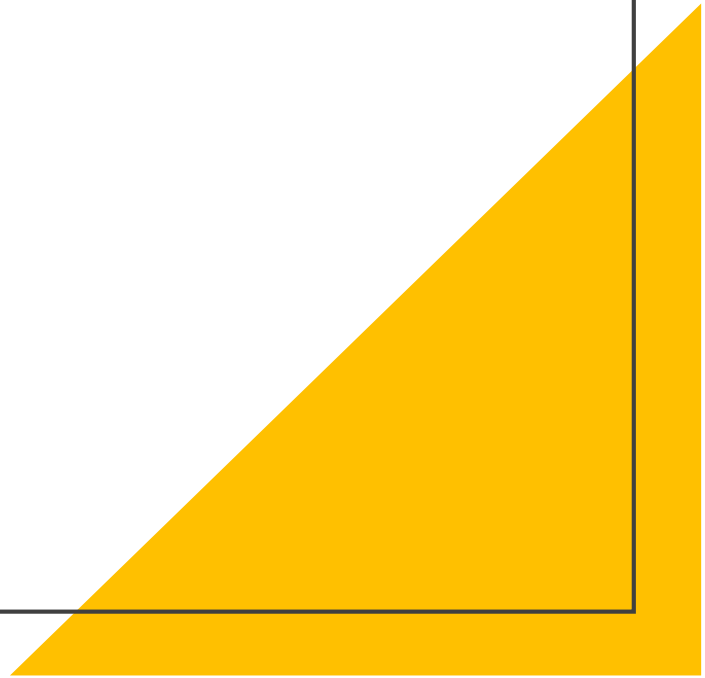
Tax cost – TP, POEM
RBI Regulations – FDI, ODI, LRS, etc



Keep it simple

Your startup is today because of the choices you made yesterday.

- Lifestyle or Unfettered growth?
 - Nature of business – opportunity, fundability, timelines
 - Personal motivation
- Treat fundraising as more than a plan A, have a plan B
 - Raising money isn't the in-thing; making money is
 - Plan for monetisation is as important as product development
- “Path to profitability”
 - Build a financial model to showcase that path
 - Unit economics





Unit Economics – the only choice for a sustainable future



Different metrics for different businesses:

- Manufacturing / trading: Gross margin
- Services: Break-even
- SaaS – LTV: CAC or CAC payback

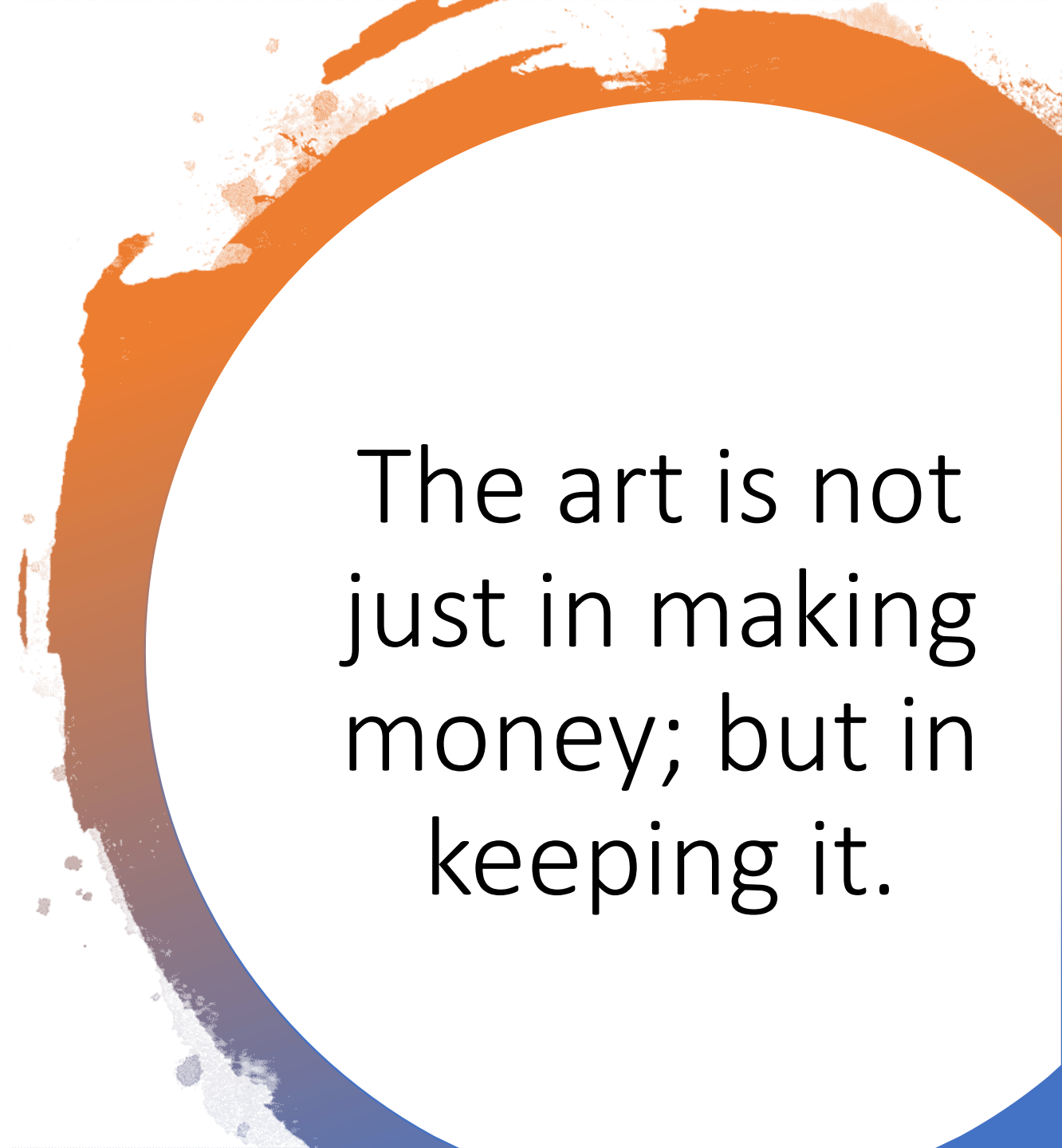


Pitfalls:

- Funded companies
- Cost of bulk ordering
- Back-to-back arrangements

We lose a little money on every customer, but we make it up on volume.

- Keep a hawk eye on:
 - Inflows & Outflows
 - Cash balance
- Which will in turn tell you about:
 - Burn
 - Runway
- Spend like you are never going to raise money
 - Low runway = desperation |
High runway = leverage
- Pitfalls:
 - VCs pushing to burn quicker
 - Discipline



The art is not
just in making
money; but in
keeping it.

I run on the road long before I dance under the lights.

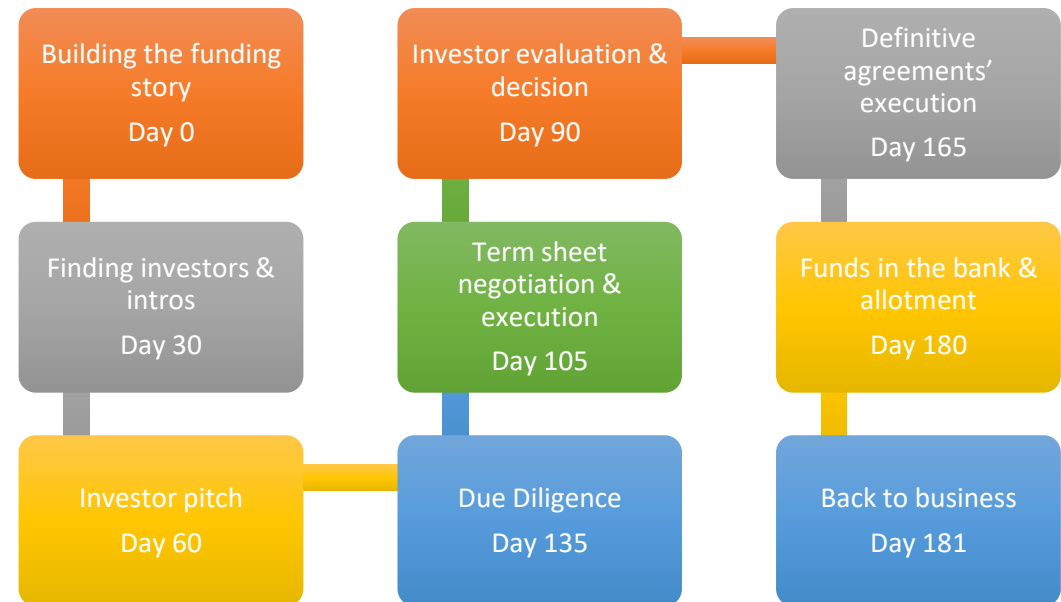
Pitfalls:

- Distraction from core business
- Uncertain timelines

Deals fall through:

- Syndicated deals
- Due diligence

Best Case Scenario




Clutter is
nothing more
than postponed
decisions.

- Cap table simulation – understanding shareholding progression is a MUST
- De-cluttering before onboarding investors:
 - Co-founders' shareholding – avoid lopsided shareholding
 - Promoter transfers – tax cost
 - ESOP
 - Advisors compensation
- Pitfalls:
 - # of shareholders – angels, ex-employees
 - Convertibles missing from the Cap Table
 - Equity for one-time contributions

Who owns what and when.

SQUARE - ROUGHLY RECONSTRUCTED CAP TABLE - SEPT 2012*								
	Common	Series A Preferred	Series B-1 Preferred	Series B-2 Preferred	Series C Preferred	Series D Preferred	Common Equivalents	%
Common Stock & Series FF	16,872,000						16,872,000	57.18%
Series A Preferred Stock		4,678,740					4,678,740	15.86%
Series B-1 Preferred Stock			1,389,333				1,389,333	4.71%
Series B-2 Preferred Stock				2,703,004			2,703,004	9.16%
Series C Preferred Stock					1,776,423		1,776,423	6.02%
Series D Preferred Stock						2,088,251	2,088,251	7.08%
Fully diluted, as converted*							29,507,751	100.00%
Financing Assumptions								
Price per share		\$2.1627	\$7.1977	\$9.5369	\$57.9817	\$110.1400		
New Money Raised		\$10,118,711	\$10,000,002	\$25,778,279	\$103,000,025	\$229,999,965	\$378,896,983	
Fully diluted pre-\$ val.*		\$36,489,074	\$155,115,761	\$218,777,182	\$1,486,829,198	\$3,019,983,730		
Fully diluted post-\$ val.*		\$46,607,785	\$165,115,763	\$244,555,461	\$1,589,829,223	\$3,249,983,695		
*based on a review of Square's publicly available DE charter, but making tons of assumptions, any number of which could be wrong								



I fought the
law and the
law won.

- Sweat Equity
 - Expensive
 - Tax cost
- ESOP:
 - I promised to issue my employees stock options last year
 - Cost of implementation & annual maintenance
- Labour Law Regulations
 - Payment of Bonus Act
 - ESIC Act – applicable to s/w development companies
 - PF & PT – applicable to interns

If you think compliance is expensive, try non-compliance.

- Using investment funds before allotting shares
- Delaying FDI reporting
- Minimal compliances under Companies Act
- Delay in payment of statutory dues – expensive & non-deductible (PF)

- Compliance calendar – a must
- Advisors who understand your business are priceless

YOU REALIZE THAT NOTHING IS AS CLEAR AND SIMPLE AS IT FIRST APPEARS. ULTIMATELY, KNOWLEDGE IS PARALYZING.



Thank you!



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Tune in for our next talk

FOUNDERS TALK 12



THE STARTUP ACQUISITION CHECK LIST - THINGS TO DO TO PREPARE AND BECOME READY FOR AN ACQUISITION

Wednesday, August 19, 2020 | 5pm to 6pm IST

SPEAKER



Mr. Sagar Apte
Founder and CEO, CarlQ