

# Alaska Angel Conference 2020

- ▶ November 13, 2019  
Startup Financials–Kevin Croy,  
9Mile Labs



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# How does AAC work?

- Alaska Crowdfunding Act makes equity investing accessible to Alaskans
  - Investors commit \$5,500 to an LLC.
- Entrepreneurs apply to be a part of a 12-week conference.
- Investors learn how to conduct due diligence on applicants.
- LLC makes an equity investment in one startup.



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# AAC 2020 Schedule

WORKSHOPS	SELECTION	FINAL EVENT
Oct 9 <sup>th</sup> – Feb 4 <sup>th</sup> Wed 5:30-7:00pm  In Person & Online	Feb 5 <sup>th</sup> – Apr 22 <sup>nd</sup> Wed 5:30-7:00pm  In Person & Online	April 23 <sup>rd</sup>  Invest \$100K+



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# Tonight's Talk

- How Silicon Valley thinks about "Startup Financials"
- How Founders think about "Startup Financials"
- How Investors think about "Startup Financials"
- How they SHOULD think about them
- Time permitting we will work through some examples
- Ask questions as we go



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# Silicon Valley

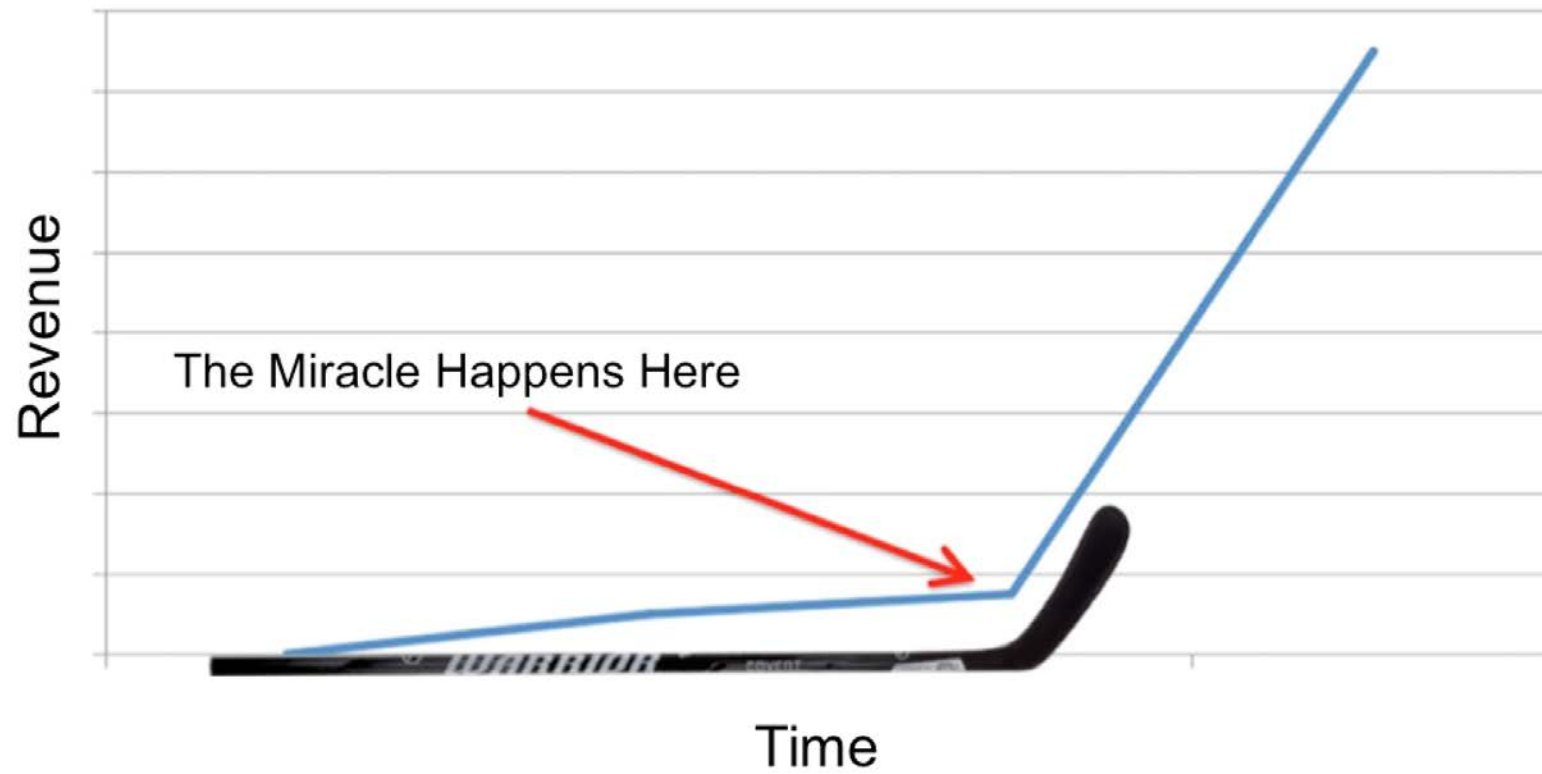


Source: South Park



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# Founder Hockey Stick



Source: QuestFusion LLC



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# GAAP Audited Financials

**MICROSOFT CORPORATION**

SEGMENT REVENUE AND OPERATING INCOME (LOSS)  
(In millions)(Unaudited)

	Three Months Ended		
	2013	June 30, 2012	
<b>Revenue</b>			
Windows Division	\$ 4,411	\$ 4,152	
Server and Tools	5,502	5,050	
Online Services Division	804	735	
Microsoft Business Division	7,213	6,324	
Entertainment and Devices Division	1,915	1,781	
Unallocated and other	51	17	
Consolidated	<u>\$ 19,896</u>	<u>\$18,059</u>	\$
<b>Operating income (loss)</b>			
Windows Division	\$ 1,099	\$ 2,422	\$
Server and Tools	2,325	2,040	
Online Services Division	(372)	(6,672)	(
Microsoft Business Division	4,873	4,128	1
Entertainment and Devices Division	(110)	(252)	
Corporate-level activity	(1,742)	(1,474)	(6,
Consolidated	<u>\$ 6,073</u>	<u>\$ 192</u>	<u>\$ 26</u>

**AMAZON.COM, INC.**

CONSOLIDATED STATEMENTS OF OPERATIONS  
(in millions, except per share data)

	Year Ended December 31,		
	2015	2016	2017
Net product sales	\$ 79,268	\$ 94,665	\$ 118,573
Net service sales	25,530	41,322	59,293
Total net sales			
Operating expenses:			
Cost of sales			
Fulfillment			
Marketing			
Technology and content			
General and administrative			
Other operating expense, net			
Total operating expenses			
Operating income			
Interest income			
Interest expense			
Other income (expense), net			
Total non-operating income (expense)			
Income before income taxes			
Provision for income taxes			
Equity-method investment activity, net of			
Net income			
Basic earnings per share			
Diluted earnings per share			
Weighted-average shares used in computation			
Basic			
Diluted			

**Apple Inc.**

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(In millions)

	Years ended		
	September 30, 2017	September 24, 2016	September 26, 2015
Cash and cash equivalents, beginning of the year	\$ 20,484	\$ 21,120	\$ 13,84
Operating activities:			
Net income	48,351	45,687	53,39
Adjustments to reconcile net income to cash generated by operating activities:			
Depreciation and amortization	10,157	10,505	11,25
Share-based compensation expense	4,840	4,210	3,58
Deferred income tax expense	5,966	4,938	1,38
Other	(166)	486	38
Changes in operating assets and liabilities:			
Accounts receivable, net	(2,093)	527	41
Inventories	(2,723)	217	(23
Vendor non-trade receivables	(4,254)	(51)	(3,73
Other current and non-current assets	(5,318)	1,055	(28
Accounts payable	9,618	1,837	5,00
Deferred revenue	(626)	(1,554)	1,04
Other current and non-current liabilities	(154)	(2,033)	9,05
Cash generated by operating activities	<u>63,598</u>	<u>65,824</u>	<u>81,26</u>
Investing activities:			
Purchases of marketable securities	(159,486)	(142,428)	(166,40
Proceeds from maturities of marketable securities	31,775	21,258	14,53

# Early stage startups are different

- Startups not small versions of big companies
- Traditional Discounted Cashflow (DCF) Analysis doesn't work on startups
- Too many unknown variables
- If investors wait they may miss the boar
- Early stage investors and founders should be focused on....



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# Unit Economics

Direct revenues and costs associated with a particular business model, and are specifically expressed on a per unit basis

source: <https://www.cleverism.com/ultimate-guide-unit-economics/>



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# Example 1 – Personal Robot, Inc

- MSRP:
  - \$10,000
- Production Costs:
  - Parts: \$1,000
  - Labor: \$5,000
- Sales Costs:
  - Processing Fees: \$350
  - Commission: \$2,000
- Gross Margin:
  - $\$10,000 - \$8,350 = \$1650$
- Lifetime Value (LTV):
  - \$1,650 x Average # of units a customer buys
  - $\$1,650 \times 1.5 = \$2,475$



# Example 1 - Continued

- Advertising
  - Google Ads: \$20/click
  - Average Conversion Rate: 100 : 1
- Customer Acquisition Cost (CAC)
  - $\$20 \times 100 \text{ clicks} = \$2,000$



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# Example 1 - Continued

- LTV : CAC Ratio
  - $\$2,450 : \$2,000 = 1.225 : 1$
- Keep in mind, there are still some hidden costs:
  - Return costs (RMA's)
  - Shipping replacement parts
  - Discounts for productions delays
  - etc



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# Example 2 - Web Project, Inc

- Price:
  - \$100/month/user
- Averages
  - # of months retained: 36
- Sales Costs:
  - Processing Fees: \$100
- Gross Margin:
  - $\$100 \times 36 \text{ months} - \$100 = \$3,500$
- Lifetime Value (LTV):
  - **\$3,500**



# Example 2 - Continued

- Advertising
  - Google Ads: \$10/click
  - Average Conversion Rate: 100 : 1
- Customer Acquisition Cost (CAC)
  - $\$10 \times 100 \text{ clicks} = \$1,000$



# Example 2 - Continued

- LTV : CAC Ratio
  - $\$3,500 : \$1,000 = 3.5 : 1$
- Fixed Costs like Web Hosting, and User support are excluded because the marginal cost per user is minimal
- Referrals reduce CAC
- Lower Churn increases LTV



# Compare These Companies

Company	LTV	CAC	Ratio
Personal Robot, Inc	\$2,450	\$2,000	1.2 : 1
Web Project, Inc	\$3,500	\$1,000	3.5 : 1

- Other Considerations
  - Scalability
    - How many robots can you produce before you need a new factory?
    - How fast can you turn on new factories
  - Churn Rate
    - What happens if users don't stay members for 36 months?





# Recap

- CAC - Customer Acquisition Cost
- LTV - Lifetime Value
- Churn Rate - Applies to monthly recurring business models



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# Helpful Links

- Dave McClure's Startup Metrics for Pirates (AARRR!!)
  - <https://www.slideshare.net/dmc500hats/startup-metrics-for-pirates-long-version>
- Ultimate Guide to Unit Economics
  - <https://www.cleverism.com/ultimate-guide-unit-economics/>



# Thank you for joining us!

Join us November 20 at 5:30 PM for “Go To Market Strategy”

Thank you,  
Kevin Croy, 9Mile Labs



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