



TETUAN VALLEY

STARTUP SCHOOL SPRING 2012

Week4
#StartSpain

IN THE END, A SPARTAN'S TRUE
STRENGTH IS THE WARRIOR NEXT TO
HIM. SO GIVE RESPECT AND HONOR TO
HIM, AND IT WILL BE RETURNED

TETUAN VALLEY, MARCH 2012

TETUAN VALLEY

STARTUP SCHOOL

#startspain

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STARTUP FINANCE 101 – Session 3

Objective

Introduce students with technological backgrounds to key financial concepts that are essential at the hour of starting a business

Result

- Comprehension of key financial indicators
- Ability to parameterize the models given the face value of a startup and to make financial projections to investors

Duration

2 sessions, 4hr

Session 1

- Concepts
- Principals
- Equations
- Investors; Objectives and restrictions, stages, “Venture Capital” and Value Levers
- Conclusions for the entrepreneur

Session 2

- Business Plan
- Price
- Business Model
- Other tools



TIME VALUE OF MONEY

Effect of compound interest

“A bird in the hand is worth two in the bush”



DIVERSIFICATION

Market vs. Company Risk

“Don't put all your eggs in one basket”



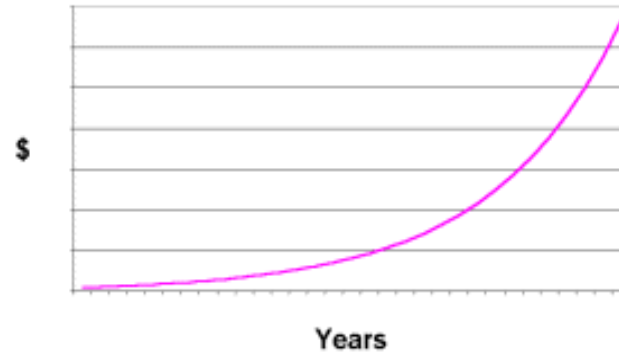
PRICE OF RISK

Correlation of Risk & Return

“There’s no such thing as a free lunch”

IN GRAPHS

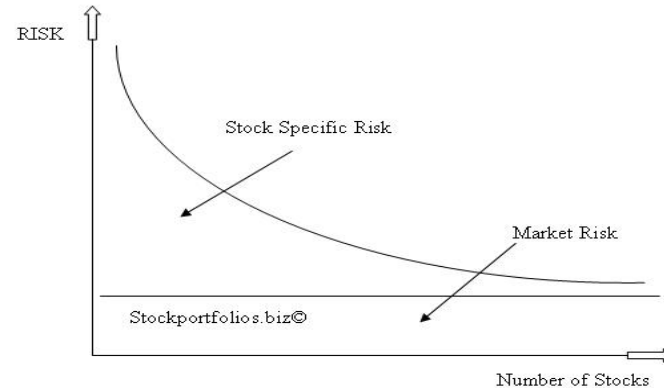
Time value of money



Effect of compound interest

"A bird in the hand is worth two in the bush"

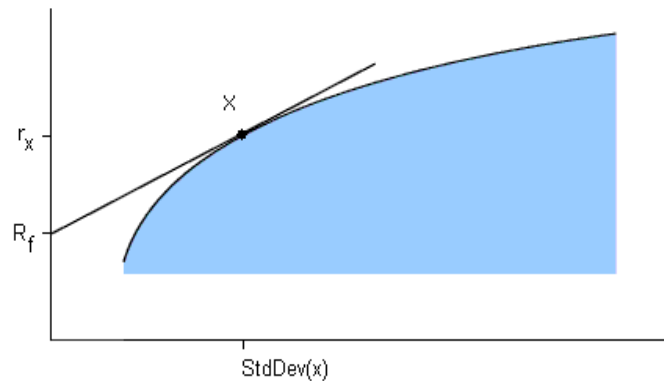
Diversification



Market vs. Company Risk

"Don't put all your eggs in one basket"

Price of risk
(Sharpe ratio)



Correlation of risk & return

"There's no such thing as a free lunch"



STATEMENTS OF ANY COMPANY

Cash flow.



BALANCE SHEET



EARNINGS

EXPENSES

**RELATIONSHIP BETWEEN
ACCOUNTS**

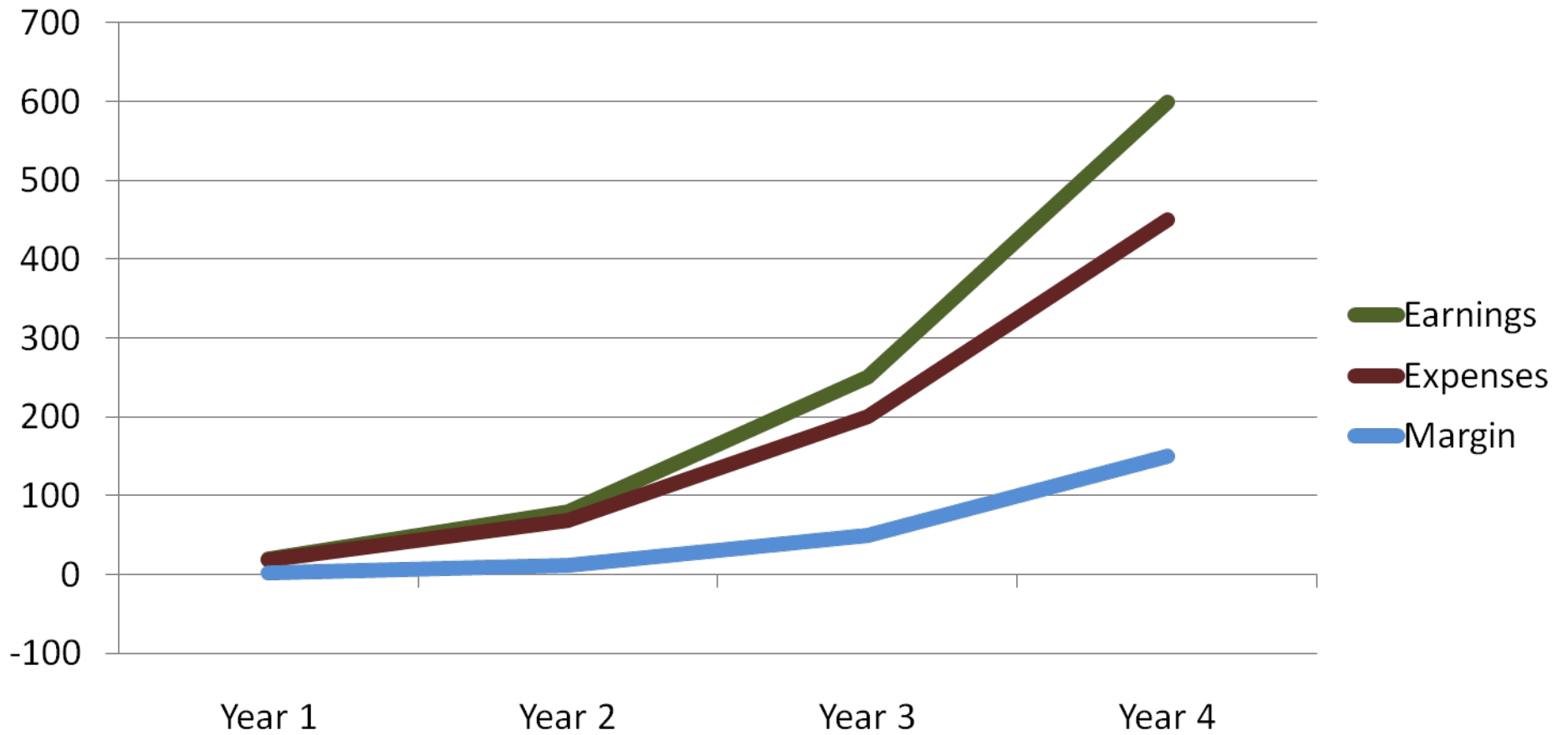
COLLECTIONS

PAYMENTS

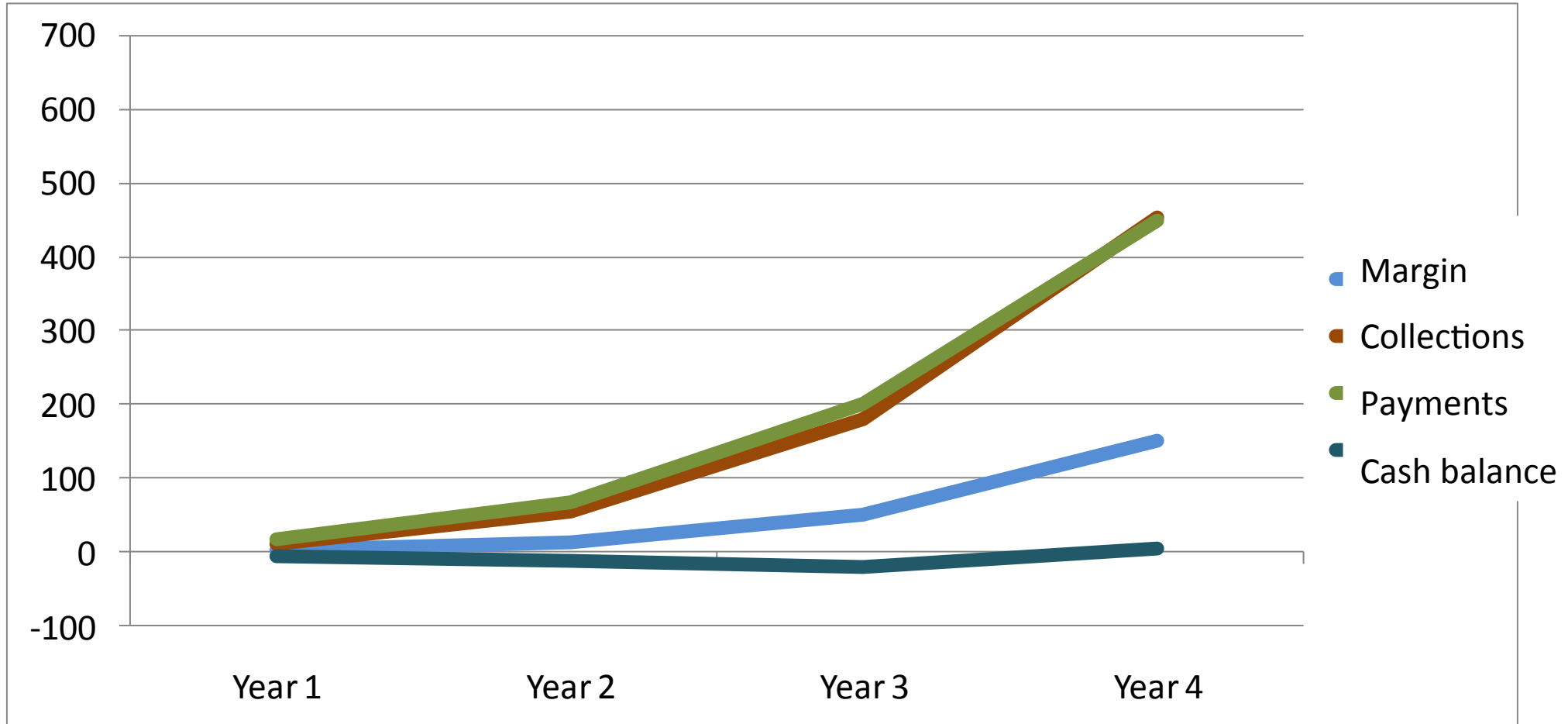
RECEIVABLE

PAYABLE

Company with increasing profits



But if the same company sells with a difference of payments above 5 months the company can go bankrupt



PROFIT AND LOSS

Earnings

- COGS

Contribution Margin

- Overhead Expenses

EBITDA

- Depreciations and amortizations

EBIT

+ Financial result

EBT

- Taxes

Net Result

CASH FLOW STATEMENT

Collectibles

- Payments (Direct / Overhead)
-

Operating Cash

Capital Subscriptions

- + New Debt
 - Principal of debt
 - Dividends
-

Financial Cash

- Investments
 - + Temporary financial earnings
-

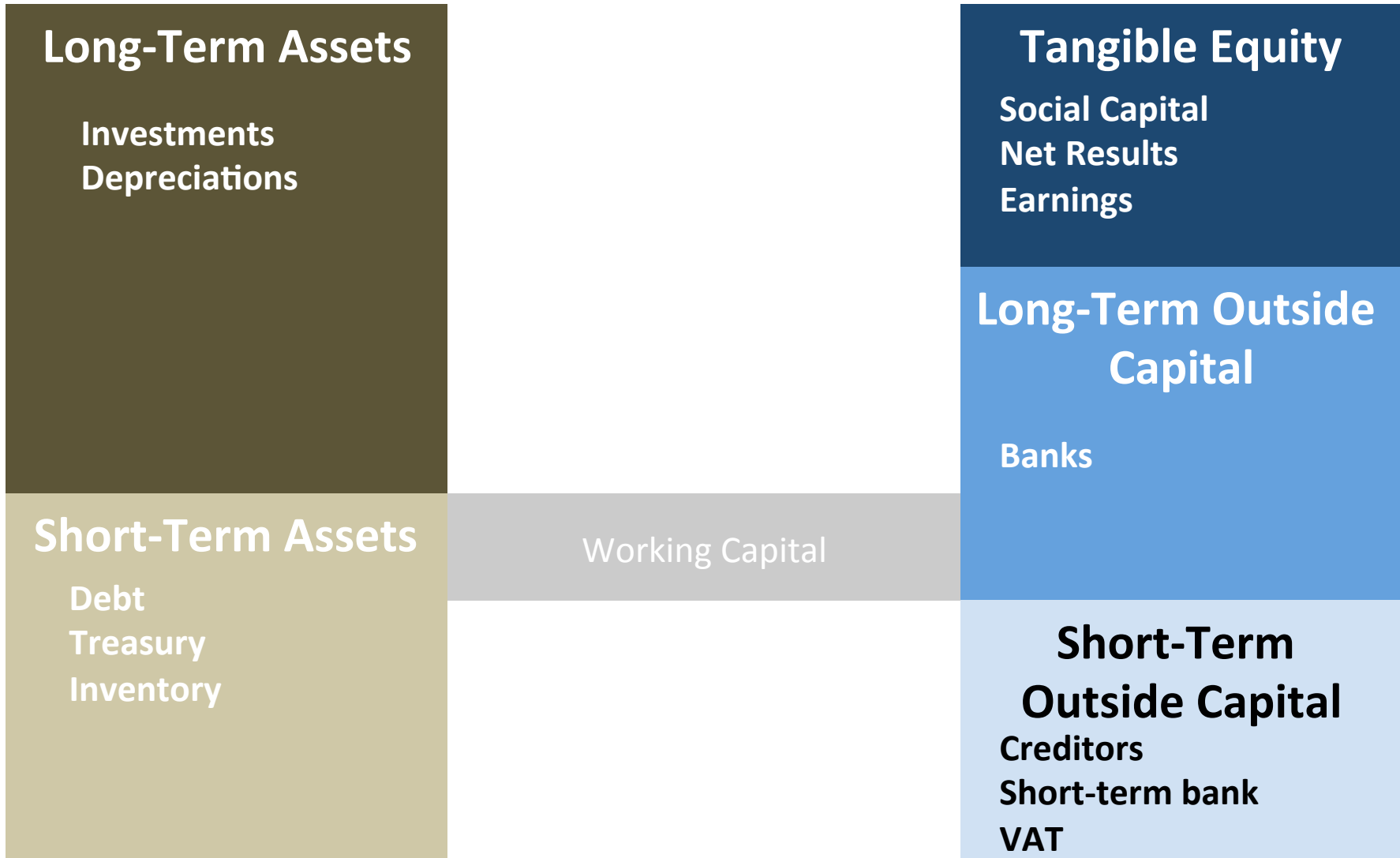
Investment Cash

Annual Cash Balance

BALANCE SHEET

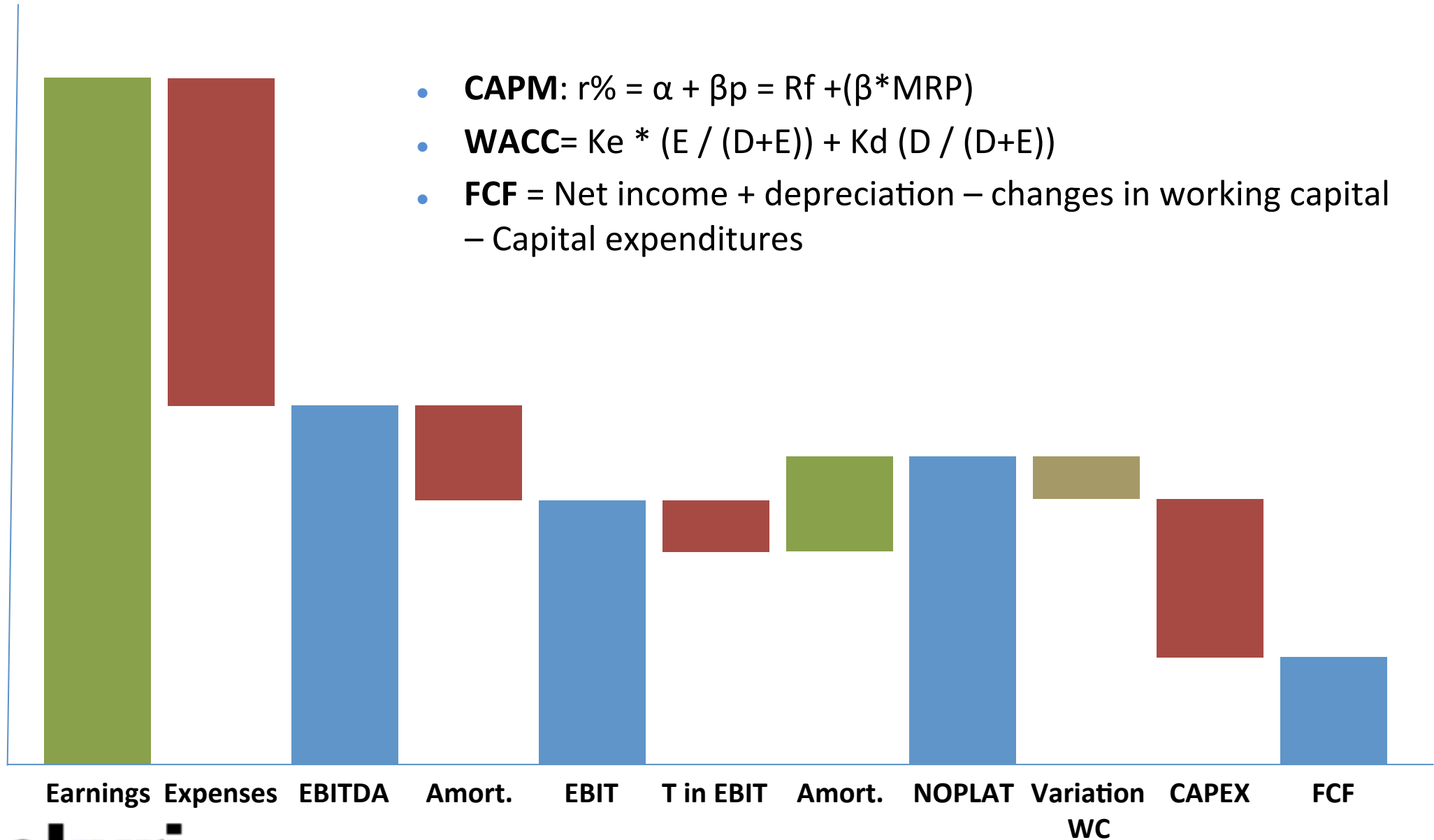
Active → where is my money

Passive → where does it come from

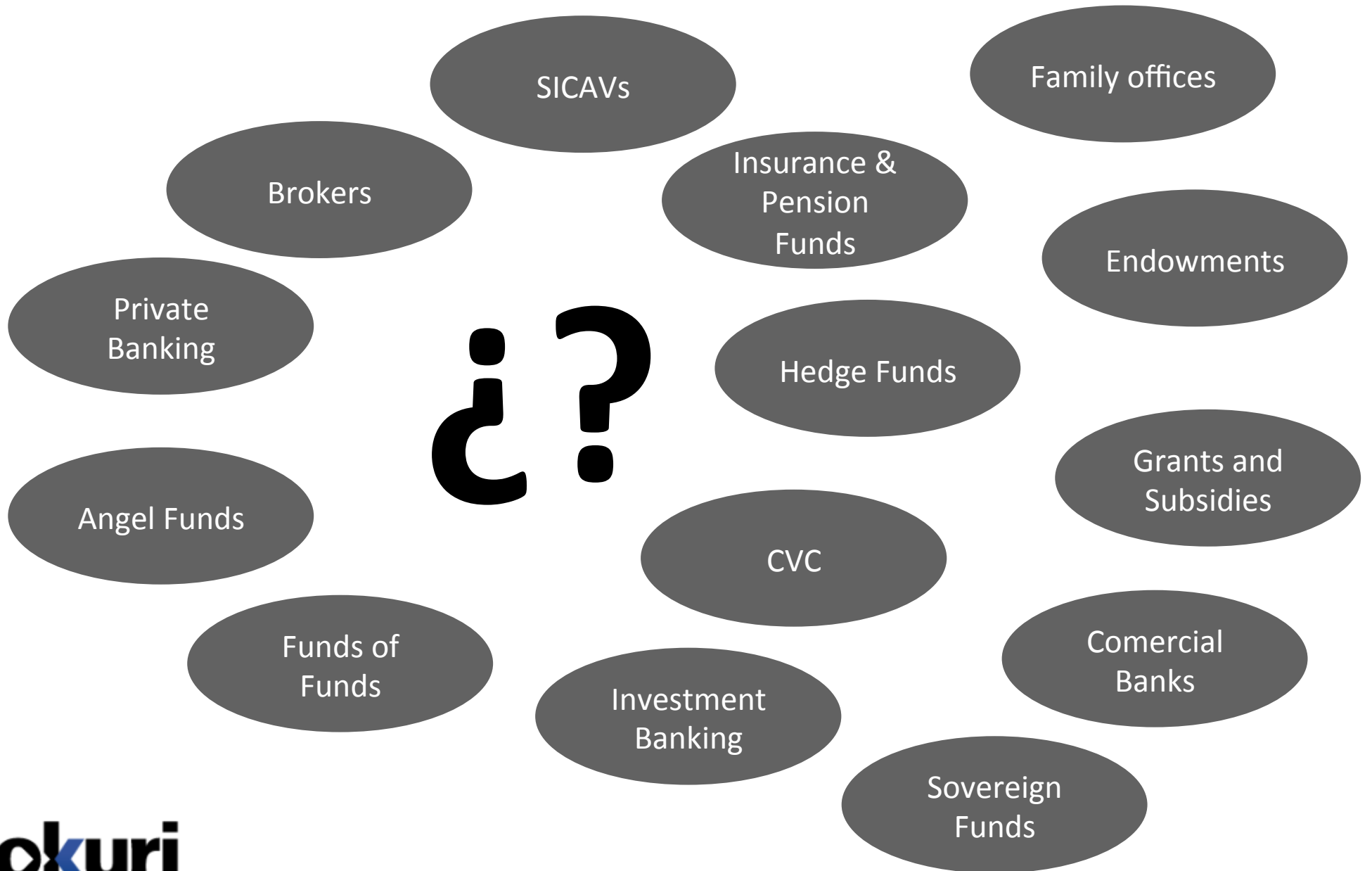


FCF: what is it?

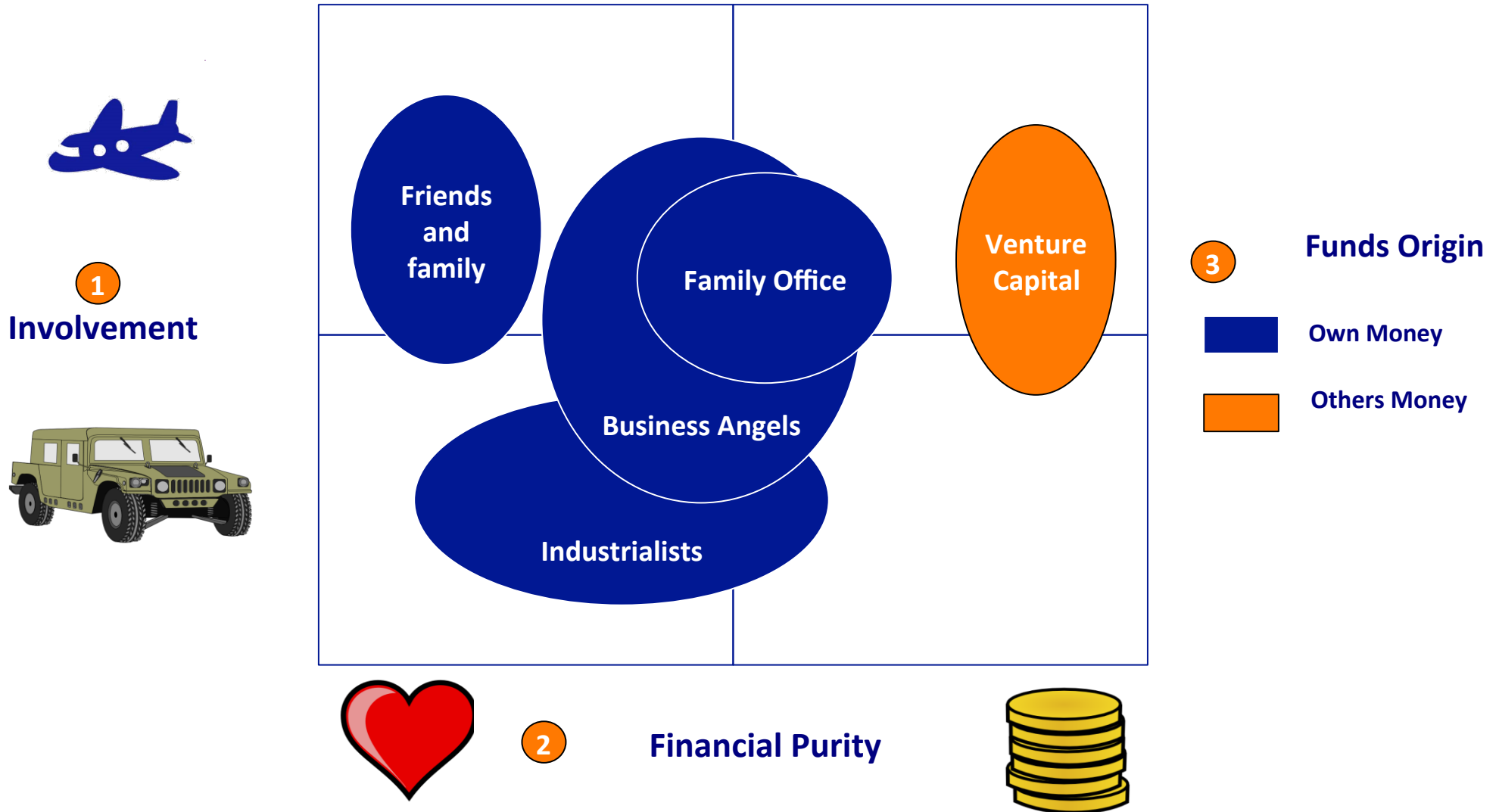
- **CAPM:** $r\% = \alpha + \beta p = R_f + (\beta * MRP)$
- **WACC=** $K_e * (E / (D+E)) + K_d (D / (D+E))$
- **FCF =** Net income + depreciation – changes in working capital – Capital expenditures



WHO IS WHO

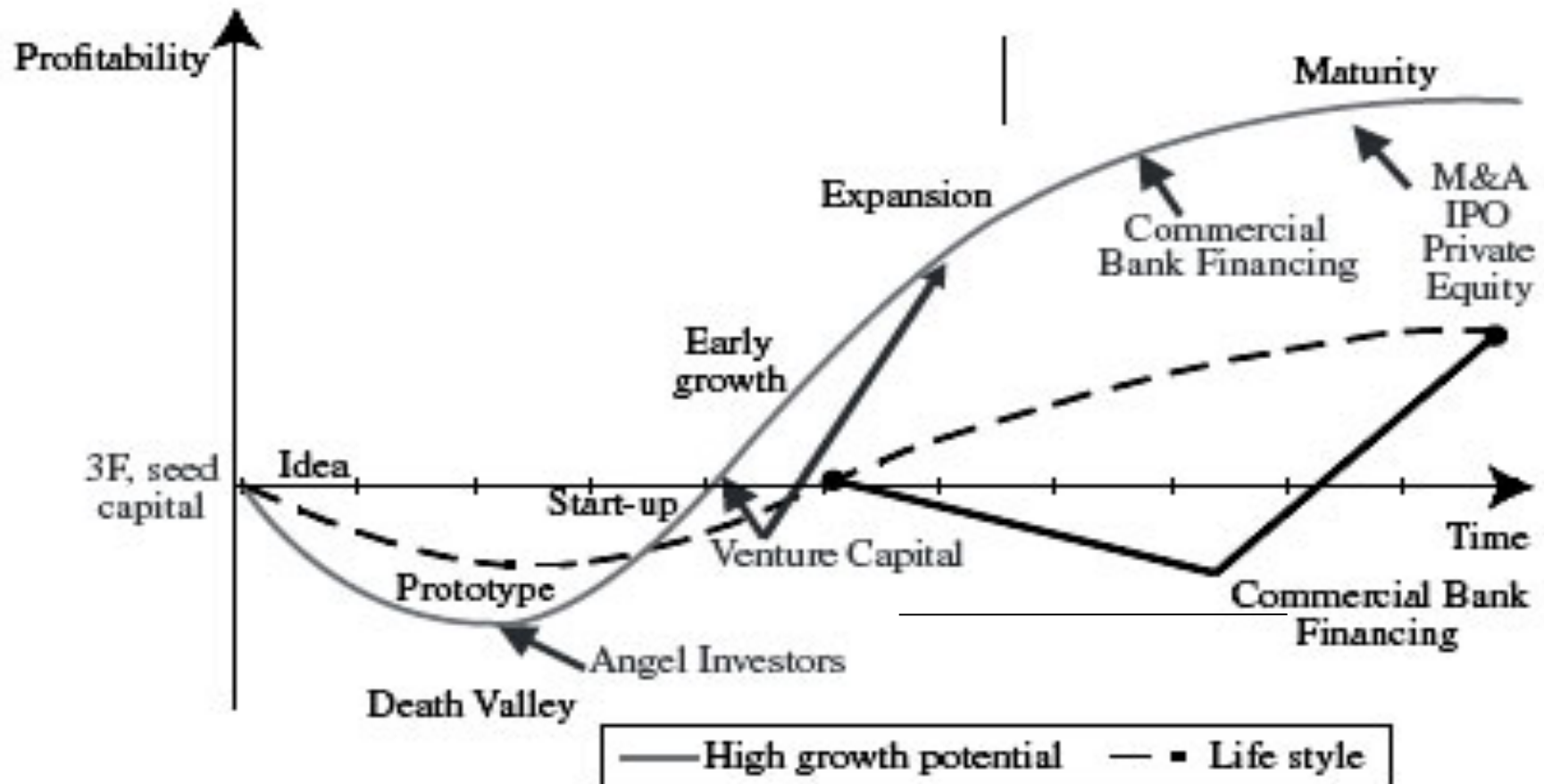


HOW PLAYERS INVEST



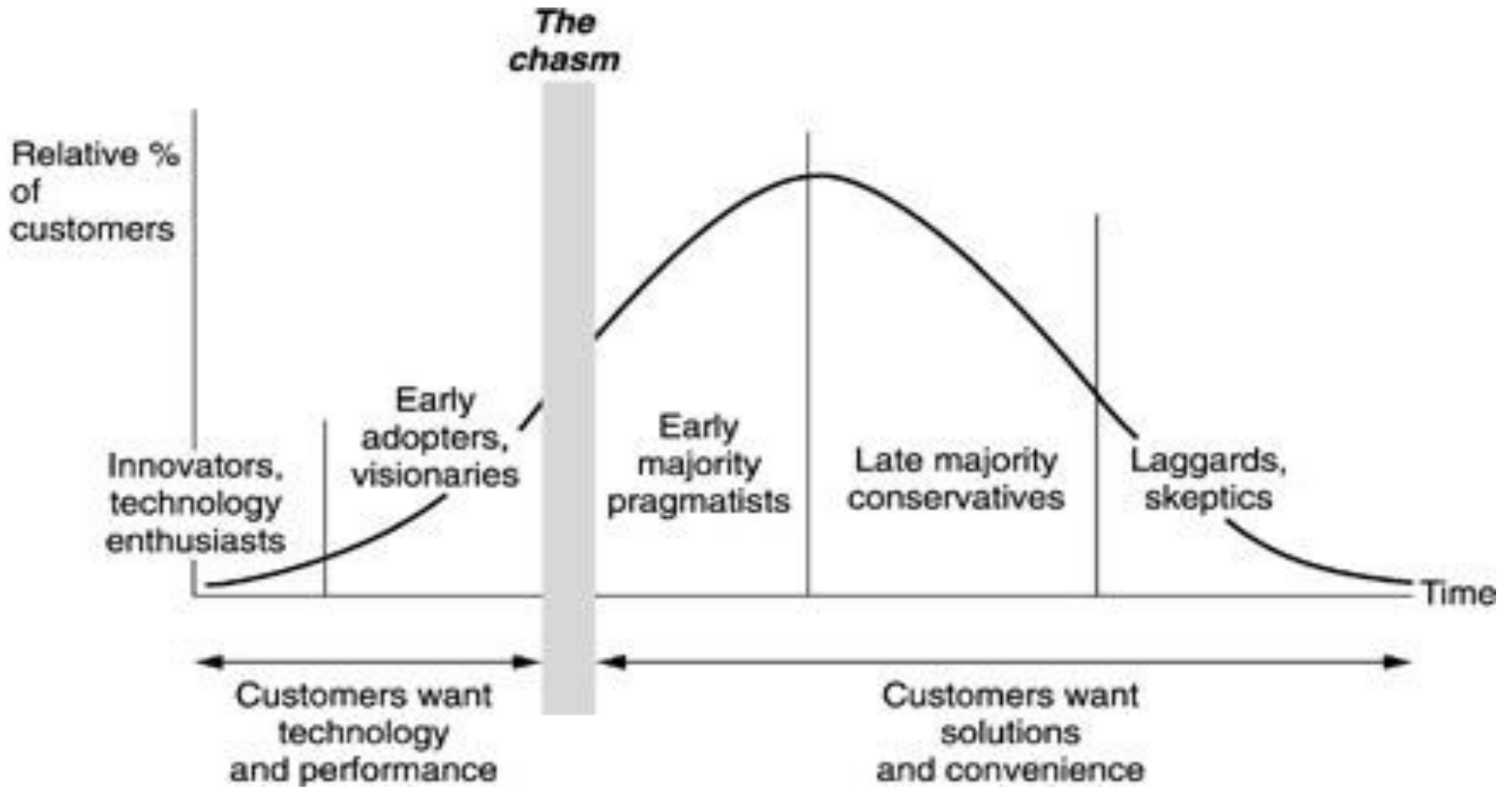
INVESTMENT STAGES

FIGURE 2
FINANCIAL ALTERNATIVES VERSUS ENTREPRENEURIAL LIFE CYCLE



Source: Adapted from Venture-Financing, 2005.

THE CHASM



INVESTMENT CRITERIA

	Why they Invest	What they Measure	Decision Time
Family, Friends and Fools	Confidence	Personal Commitment	Fast
Subsidies and Public Assistance	Policy alignments	Compliance merits	Slow
Business Angels	Personal affinity	Profitability	Fast
Venture Capitalists	Investment criteria	Profitability	Slow
Industrial Partners	Strategic criteria	Contribution to business	Slow

DESIRED RETURN

	<u>Target yearly return</u>	<u>Holding period (years)</u>	<u>Investment death rate</u>	<u>Entry/exit multiplier</u>
<u>PE</u>	25%+	3-5	<20%	x3,5
<u>VC</u>	25%+	3-5	>60%	x10+
<u>BA</u>	15%+	4-7	>80%	x20+

ORIGIN OF MULTIPLIERS-LEVERS

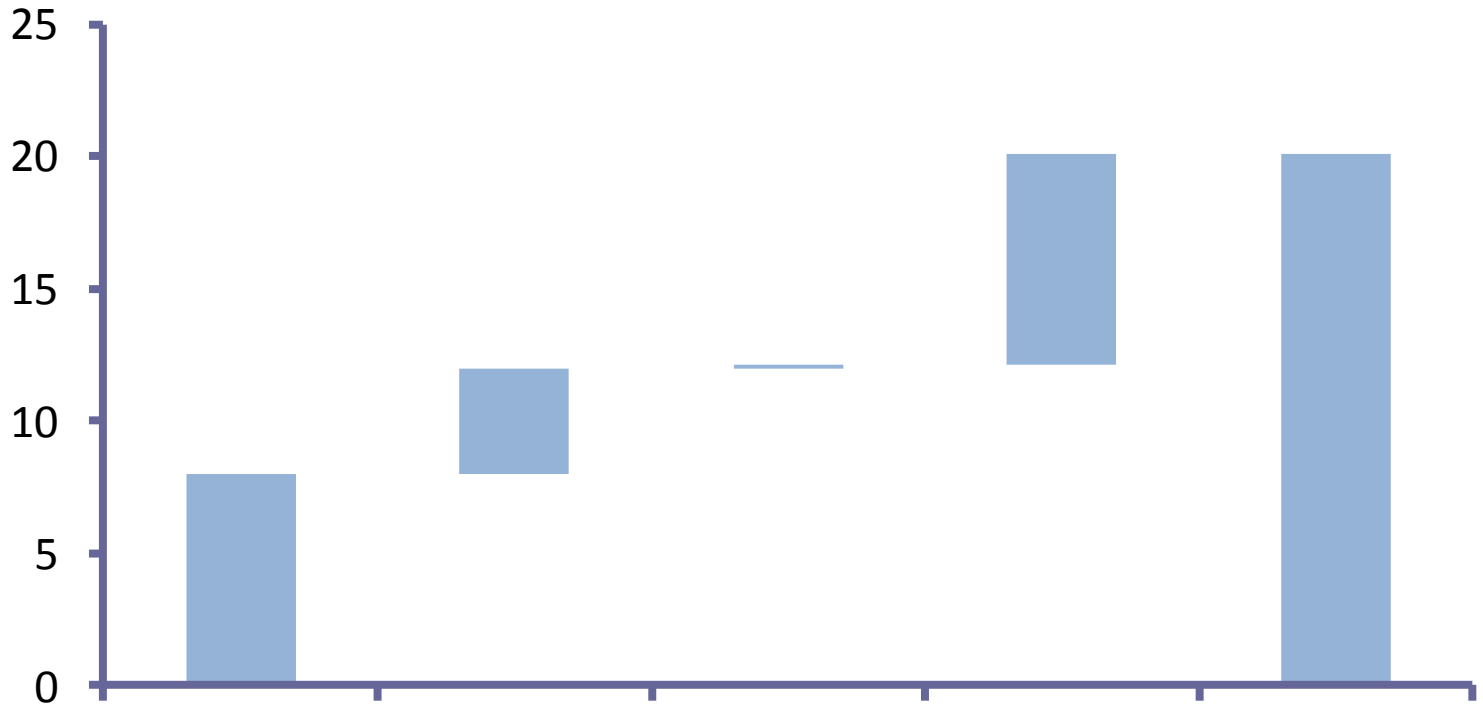
PE

Shareholder Return



Investment
Multiplier

VC



Source: Cifras orientativas

CONCLUSION

$$1 / (1-n)$$

Source: <http://www.paulgraham.com/equity.html>