FINANCE FOR FOUNDERS: PART 1

Andy Levinson
Agenda

• Introduction
• Context: Financial Statements
• Topics for These Sessions
  • Pricing and Revenue
  • Unit Economics
  • Contribution Margin & Presentation
• Session 1: Pricing and Revenue
  • What is the business?
  • What are the sources of income?
  • How to price them?
  • What is the math?
  • What is the timing?
Who am I, and why should you listen to me?

Andy Levinson
20 years of finance and accounting experience in the DC VC/PE community
FOCUS HERE: THE INCOME STATEMENT (P&L)

### Income Statement (P&L)
- Revenue
- Cost of Goods Sold
- Gross Profit
- Operating Expenses
  - Sales & Marketing
  - Research & Development
  - General & Administrative
- Total Operating Expenses
- Operating Income
- Interest Expense
- Taxes
- Net Income
  - + Interest Expense
  - + Depreciation & Amortization
  - + Stock Compensation
- EBITDA

### SESSION 1 (TODAY):
- Pricing and Revenue
- Breakdown Sources of Revenue
- Determine Methods of Pricing
- Apply Pricing to Units
- Determine When to Recognize ARR, MRR, and Other Fun Acronyms
FOCUS HERE: THE INCOME STATEMENT (P&L)

**Income Statement (P&L)**
- Revenue
- Cost of Goods Sold
- Gross Profit

**Operating Expenses**
- Sales & Marketing
- Research & Development
- General & Administrative

**Total Operating Expenses**

**Operating Income**

**Interest Expense**

**Taxes**

**Net Income**

+ **Interest Expense**
+ **Depreciation & Amortization**
+ **Stock Compensation**

**EBITDA**

**SESSION 2 (2/7):**

- Unit Economics
- Gross Profit
- Contribution Margin
- Allocations
FOCUS HERE: THE INCOME STATEMENT (P&L)

Income Statement (P&L)
- Revenue
- Cost of Goods Sold
- Gross Profit
- Operating Expenses
  - Sales & Marketing
  - Research & Development
  - General & Administrative
- Total Operating Expenses
- Operating Income
- Interest Expense
- Taxes
- Net Income
+ Interest Expense
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+ Stock Compensation
- EBITDA

SESSION 3
(2/15):

Numbers for VCs:
- Contribution Margin
- Customer Acquisition Cost
- "The Magic Number"
- The Rule of 40
Pricing and Revenue

• What is Our Example?
• Revenue: What Are Our Sources of Income?
• Pricing: What’s the Right Amount to Charge?
• Application of Pricing to Revenue
• What is Revenue?
• What Is the Math?
• What Is the Timing?
Example: A Youth Soccer Team

- 20 Players
- 10 Month “Season”
- 2 Seasonal “Leagues,” 2 Seasonal Tournaments
- 1 Field
- Owner + 1 PT Coach + 1 PT Staff
Revenue: Sources of Income

- Team Dues
- Uniforms
- Logo Gear (SWAG)
- Lessons
Revenue: Pricing

Economics: The Market Determines the Price

What are our Methods
- Comparable
- Cost-Plus (a Retail Model)
- Value Creation (an ROI Model)
# Revenue: Pricing

<table>
<thead>
<tr>
<th>Source of Income</th>
<th>Pricing Method</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Team Dues</td>
<td>Comparable</td>
<td>$1,500</td>
</tr>
<tr>
<td>Uniforms</td>
<td>Cost-Plus</td>
<td>$50</td>
</tr>
<tr>
<td>Logo Gear</td>
<td>Cost-Plus</td>
<td>$75</td>
</tr>
<tr>
<td>Lessons</td>
<td>Comparable? ROI?</td>
<td>$50/hour</td>
</tr>
</tbody>
</table>
# Revenue: Algebra

**Revenue Elements Attributed To All “Customers”**

<table>
<thead>
<tr>
<th>Team Dues</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Players</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>Dues Per Team</td>
<td>30,000</td>
<td></td>
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<tr>
<td>Teams</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td><strong>Annual Total Team Dues</strong></td>
<td><strong>30,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Uniforms</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Players</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>Price per Uniform</td>
<td>$ 50</td>
<td></td>
</tr>
<tr>
<td>Uniforms per Team</td>
<td>$ 1,000</td>
<td></td>
</tr>
<tr>
<td>Teams</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td><strong>Total Uniforms</strong></td>
<td><strong>$ 1,000</strong></td>
<td></td>
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</tbody>
</table>

**Logo Gear**

| Players               | 20             |
| Take Rate             | 40%            |
| Price per Logo Gear   | $ 75           |
| **Total Logo Gear**   | **$ 600**      |

**Lessons**

| Players               | 20             |
| Take Rate             | 15%            |
| Players Taking Lessons| 3              |
| Lessons/Player/Month | 4              |
| Lessons Per Month     | 12             |
| Hourly Rate           | $ 50           |
| **Monthly Total for Lessons** | **$ 600**  |
Revenue: What is Revenue

Revenue is what you earn when you deliver something to a customer for which you expect to get paid.

- If you sell something, it occurs when they get the thing.
- If you provide a service, it occurs throughout the service.

Revenue ≠ Invoicing
Revenue ≠ Cash Receipt
Revenue ≠ Contract Signing (Bookings)
# Revenue: When to Recognize Revenue

<table>
<thead>
<tr>
<th>Item Sold</th>
<th>Type of Item</th>
<th>Nature of Revenue</th>
<th>Timing</th>
<th>Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Club Membership</td>
<td>Service</td>
<td>Over-time</td>
<td>Ratably, Sep-June</td>
<td>$30,000</td>
</tr>
<tr>
<td>Uniform</td>
<td>Apparel Item</td>
<td>Point-in-Time</td>
<td>Time of Delivery (Sep)</td>
<td>$1,000</td>
</tr>
<tr>
<td>Logo Gear</td>
<td>Apparel Item</td>
<td>Point-in-Time</td>
<td>Time of Delivery (Oct)</td>
<td>$600</td>
</tr>
<tr>
<td>Lessons</td>
<td>Service</td>
<td>Point-in-Time</td>
<td>As Delivered</td>
<td>$600/mo</td>
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</table>
# Revenue Math (Part 2): When to Recognize

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<td></td>
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<td>SEP</td>
<td>OCT</td>
<td>NOV</td>
<td>DEC</td>
<td>JAN</td>
<td>FEB</td>
<td>MAR</td>
<td>APR</td>
<td>MAY</td>
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<td>JUL</td>
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<tr>
<td>Team Dues</td>
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<tr>
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<td>Total Revenue</td>
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<td>3,600</td>
<td>3,600</td>
<td>3,600</td>
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<td>16,000</td>
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</tbody>
</table>
Summary:

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