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☆ Minimal Financial Model

Introduction

Welcome to the minimal financial model. This is an income statement projection for the upcoming 5 years. It answers the following questions:

What are the **costs** of creating and running your startup?

What are the **revenue streams** and how are they generating money?

How much **revenue** will be made each year?

What are the **basis/assumptions** of the market that we're using?

When will your startup be **profitable**?

What is your startup's **pre-money valuation**?

Important Notes

You might decide on doing some modifications in the future; for example, changing the annual salaries. In that case, you need to understand the legend of this sheet:

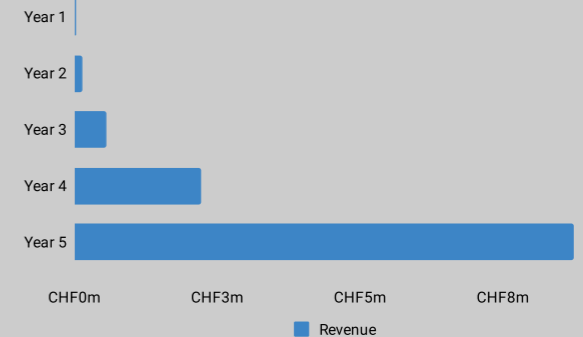
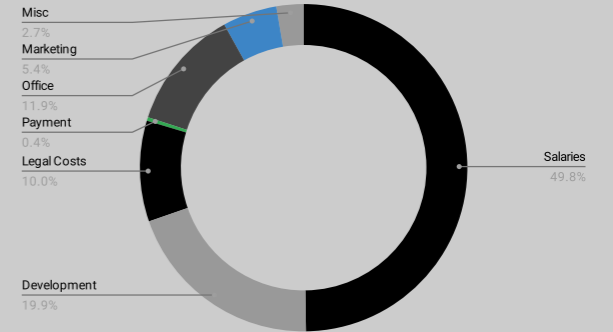
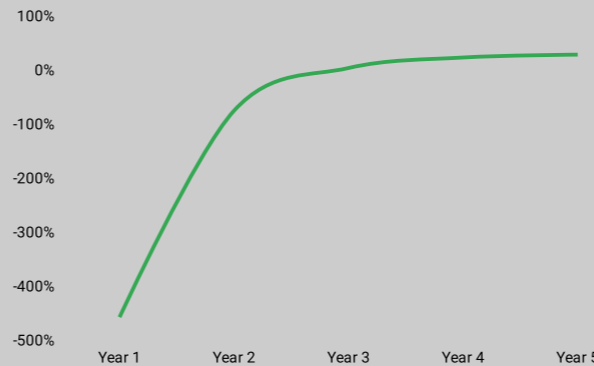
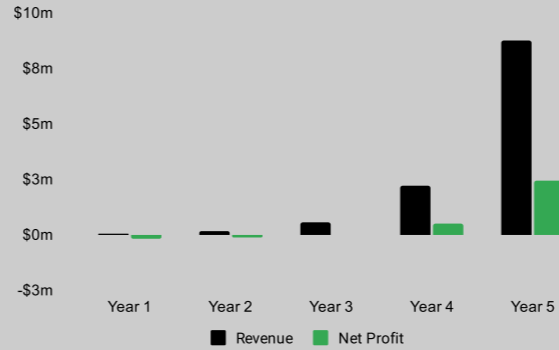
Input: If a number has this background color, then you can change this number, and the whole model will change accordingly.

Output: If a number has this background color, then **do not change it** as it is an output. It's a result of calculations.

Financial Highlights

\$40	\$360	\$4.8M
Customer Acquisition Cost	Customer Lifetime Value	Projected Pre-Money Valuation

Financial Highlights (Charts)



Assumptions & Research

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Guide

Legend

Changeable
Non-Changeable

This is the assumptions and research sheet. It's the first thing you should start with. You should simply research each number very well and input the ones in the green boxes. Do your research very well. This is what will determine accuracy. Once you are done modifying those numbers, the whole model will shift in terms of charts and numbers.

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DCF Valuation

Cost Figures in CHF		Reference	Explanation	Revenue Figures in CHF		Reference	Explanation
Tax Rate	10%		The tax rate you ought to pay in your city.	Free Users (Year 1)	5,000		This is the target we aim to achieve. This can't be studied because any app that we've heard of has millions of users. So the number will be quite large. Hence, this is the only variable in the model that is our target to be achieved for the first year.
Marketing Allocation From Revenue	30%		How much are you going to pay for marketing from your annual revenue?	Paid Users (Year 1) (% of Free Users)	4%		What percent will convert to paying users? Here's a good read about this: https://www.lennysnewsletter.com/p/what-is-a-good-free-to-paid-conversion
Manager Salaries Year 1	\$100,000		What are the total salaries of the founders or management team in the first year?	Corporate Users (Year 1) (% of Free Users)	0.2%		What percent will convert to corporate users?
Manager Salaries Annual Change	10%		By what rate are they going to increase by?	User Growth Rate (Monthly)	17%		By what rate should your users grow per month? Paul Graham: A good growth rate during YC is 5-7% a week. If you can hit 10% a week you're doing exceptionally well. If you can only manage 1%, it's a sign you haven't yet figured out what you're doing. We are assuming a growth rate of 7% per week.
Development of App (Beta Version)	\$40,000		What are the costs of developing your platform's beta version?				
Maintenance of App (% From Revenue)	20%		This is the cost of software development and any software costs as a percentage from your revenue				
Legal Costs (Per Year)	\$20,000						
Payment Processing	2%		From using Stripe, for example.				
Office Rent (Year 1)	\$24,000		How much will you pay for your office in Year 1?				
Office Rent (Annual Change)	3%		By what rate will the price increase by?				
Miscellaneous	15%		Buffer for additional costs	User Membership Price (Year 1)	\$120		How much will you charge users?
Churn Rate	40%		This is just the opposite of Customer Retention. PS If you want to change this, then just change the customer retention rate.	Corporate Membership Price (Year 1)	\$1,200		How much will you charge corporates?
Customer Retention Rate	60%		How many of your customers will keep using your platform?				

Further Research Reference Explanation Extra Fields Reference Explanation

Further Research	Reference	Explanation
<i>Average Valuation Of Similar Apps</i>		
Company 1	\$4B	
Company 2	\$5B	
Company 3	\$10B	
Average	\$ 3.56 B	
Average Profitability Duration Of Similar Apps	-	

Income Statement (5Y)

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Income Statement (Profit and Loss)

	Year 1	Year 2	Year 3	Year 4	Year 5	Comments
User Count						
Free	5,000	19,740	77,935	307,691	1,214,776	
Paid	200	790	3,117	12,308	48,591	
Corporate	10	39	156	615	2,430	
Revenue						
Paid Subscriptions	\$24,000	\$94,753	\$374,089	\$1,476,917	\$5,830,927	
Corporate Subscriptions	\$12,000	\$47,376	\$187,044	\$738,458	\$2,915,464	
Total Revenue	\$36,000	\$142,129	\$561,133	\$2,215,375	\$8,746,391	
Expenses						
Salaries (Management)	\$100,000	\$110,000	\$121,000	\$133,100	\$146,410	
Development	\$40,000	\$28,426	\$112,227	\$443,075	\$1,749,278	Year 1 is only for developing the beta version, so it's a direct researched number. The rest are going to be based on your performance as a percentage of the revenue.
Legal Costs	\$20,000	\$20,000	\$20,000	\$20,000	\$20,000	
Payment Processing	\$720	\$2,843	\$11,223	\$44,308	\$174,928	
Office	\$24,000	\$24,720	\$25,462	\$26,225	\$27,012	
Marketing	\$10,800	\$42,639	\$168,340	\$664,613	\$2,623,917	
Misc	\$5,400	\$21,319	\$84,170	\$332,306	\$1,311,959	
Total Expenses	\$200,920	\$249,947	\$542,421	\$1,663,627	\$6,053,504	
Earnings Before Taxes (EBITDA)	-\$164,920	-\$107,817	\$18,712	\$551,748	\$2,692,887	
Tax	0	0	\$1,871	\$55,175	\$269,289	
Net Profit After Taxes	-\$164,920	-\$107,817	\$16,841	\$496,574	\$2,423,598	
Profitability	-458.11%	-75.86%	3.00%	22.41%	27.71%	
Investments	\$400,000					
Comment						
Estimated Cashflow	\$235,080	\$127,263	\$144,104	\$640,677	\$3,064,275	
Valuation (Discounted Cashflow)	\$4,830,000					

Legend

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- Non-Changeable

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DISCOUNTED CASH FLOW MODEL

Year	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
Profit	-\$164,920	-\$107,817	\$16,841	\$496,574	\$2,423,598
Seller's Discretionary Earnings (SDE)	\$0	\$0	\$0	\$0	\$0
Depreciation	\$0	\$0	\$0	\$0	\$0
Working Capital	\$235,080	\$127,263	\$144,104	\$640,677	\$3,064,275
Change in Working Capital	\$0	\$0	\$0	\$0	\$0
Free Cash Flow to Equity (FCFE)	-\$164,920	-\$107,817	\$16,841	\$496,574	\$2,423,598
Present Value of FCFE	-\$143,409	-\$81,525	\$11,073	\$283,918	\$1,204,957
Total Present Value of FCFE	\$1,275,013				
Terminal Value					\$10,875,463
Present Value of Terminal Value	\$3,555,208				
Business Value	\$4,830,000	(circa)			
	1	2	3	4	5
Cost of Equity		15%			

NOTES:

It is assumed that there is no changes in the working capital

Pre-Money Valuation

\$4,830,000

Ask Investment

\$400,000

Equity Share

8.28%

OTHER FACTORS TO BE CONSIDERED

The stage of the business: Earlier stage startups with less revenue and profitability will typically give up more equity than later stage startups.

The value of your contribution: If you are bringing valuable skills or experience to the business, you may be able to negotiate for more equity.

The other investors involved: If there are other investors involved, you will need to come to an agreement on how much equity each person will receive.