Name(s): Period: Date:

Investment Profile & Profit Prediction

Putting Spreadsheets to Work

An SB1070 Project

Preparing for the Pitch – Financials & Predicting Profits

Profit Analysis

Although the pitch is a key portion of the investor meeting, the real question is in the money. Before anyone will finance the growth of your business, you need to show your proven sales in the past. Calculating net profit must take into account a number of things:

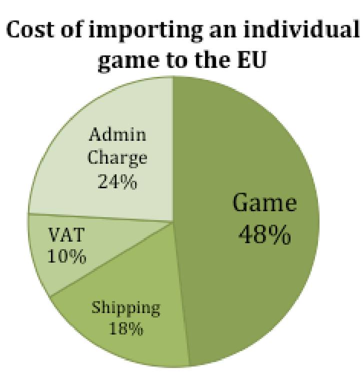
The money that is collected for your sales is called the ***gross income***, and it does not take into account the cost of the goods, so you can't call this your profit. The ***gross profit*** is the amount of money you make by subtracting the *Cost of Goods Sold (COGS)* and the cost incurred by selling the goods from your ***gross income***. This tells you what kind of margins you are making on each product, but your company also needs to take into account the overhead costs.

Overhead costs are a non-variable cost that any company must pay weather or not they sell anything. These include payroll, the rent and utilities of the building that is used, insurance and benefits costs. These can also include the costs of the website, promotions and advertisements.

Ultimately, the *bottom line* of a business, taking into account all revenues minus all costs, is known as the ***net profit***. This is the most important part of your financials and shows exactly how much money might be shared with investors if the deal goes through. An investor does not want to put money in without any *return on investment (ROI)*, so they will want to invest in a company who has a growing net profit from year to year so they can be guaranteed to have a share.

Ella's Concept going forward

Now investors will want to know is what is next. Ella has established a strong business sin the US, and now she plans to partner with a known business in the EU. If she acquires games made by US companies at a wholesale price, she can have them shipped by the pallet to her partner in the EU and Ella will cut costs to consumers significantly.



Ella has seen her European buyers pay a lot of money to buy a game from her store in the US. Each item that goes to the EU has a fixed administrative charge of $20 to $30 in addition to shipping and any tariffs or taxes. The VAT or Value Added Tax in European countries is an additional 20% and sometimes additional import duties are levied on top of these fees. This means that when a customer buys a $40 product from her, and pays $15 in shipping to get it all the way to Europe, the delivery company will also charge around $30 in fees upon delivery to cover the VAT and administrative charge of importing goods.

Ultimately an individual who buys a board game from the states will pay around double the actual cost of the game to get it home.

By partnering with a company in the EU, the initial sale can include any VAT (this is like the sales tax we pay in the US). The fixed administration charge of $30 will apply to an entire shipment, rather than to a single game. This means that the consumer isn't stuck with a huge bill for importing the game themselves, and it reduces the overall cost of the game.

The partner in the EU has agreed to split the net profits from these sales. Ella will do all of the wholesale purchasing and arrange for the shipment, and her partner in the EU will deal with customs and use their online sales system to calculate the VAT and the reduced shipping within the EU.

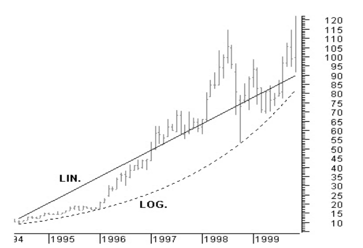
The investment Ella is asking for would be for $100,000 to make the initial wholesale purchases and arrange the shipments to begin the new partnership. In exchange, she would offer 20% of her company.

Trajectory – Predicting Profitability

Although an investor can be won over by a company they believe in, they are in the investment business to make money. This means that the only way that they will invest is if they can make more than they put into the company.

Although there are many in depth ways to predict the future profits of a company, in this case you will graph the profits over the 5 year lifetime of the company, and then look at a trend line to predict a modest growth.

A linear trend line takes into account the *slope* of all of the points, and you can then extend your data table into future years to see the trajectory of your profits if they followed the same slope. A logarithmic trend line works well when data changes quickly, then levels out, so this is not a good choice of trend line for Ella's data.



http://stocata.org/ta en/basic2.ht

By looking at the calculated profits and creating a trend line, Ella hopes to convince the investors that her company is the right fit for their money.

Questions & Analysis

1. Create a diagram to show the relationship between bold terms defined in this reading. Use arrows to show which terms are used to create the next term.
2. When the game in the example is imported to Europe by one individual, what percent of the fees comes from taxes and administrative charges?
3. Take a look at the deal Ella is asking for. If she says that 20% of her business is worth $100,000.00, what is the valuation she has set on the whole business?
4. What mathematical term is used to help create a trend line as it is associated with the graphed points?