

Steve Tennant: Welcome to today's call. I am delighted to have Anthony Nassar on the phone. Anthony is the head of Venture Momentum, a firm that specializes in the financial processes for start-ups, helping companies get the right financial models, get their financial operations set up, and we wanted to talk today about the process that entrepreneurs go through in setting up a new venture. So Anthony, welcome to the call.

Anthony Nassar: Thank you Steve, and thanks for having me.

Steve Tennant: You bet! So what's your number one piece of advice that you usually give entrepreneurs that are starting a new venture?

Anthony Nassar: I would say plan early on, and assess the feasibility of your business before launching it. When entrepreneurs come to me to ask for help building their financial model, it's often because they are preparing to raise capital, and they are just required to have financial projections in place to satisfy the requirements of the process.

Steve Tennant: You have to have it for VCs and to be able to complete their investor kit, if you will.

Anthony Nassar: That's correct. So they are waiting basically until the last minute to do this exercise, and I tell entrepreneurs who attend my financial modeling workshops that the most important reason for developing a financial model is to assess the feasibility of the business before launching it. I think it is very important, and also the responsible thing to do to assess the market opportunity, and identify the drivers, the milestones, and the resource requirements that will define the success or failure of the start-up. That's before one commits their career and financial resources, as well as that of others to a new business idea.

Steve Tennant: Yeah. I couldn't agree more. I think that makes a lot of sense. So you are saying don't do it for the investors, do it for yourself.

Anthony Nassar: That's right. You will need to do it for the investors, but it's much better to start early on, and do it before you launch your company. So you may want to think of this in the following terms. If you don't feel comfortable entering in the jungle without a competent guide or at least good map, then you shouldn't feel comfortable embarking on your start-up journey without a well thought out financial road map.

The other day an entrepreneur who had recently attended one of my financial modeling workshops, contacted me for help with the development of her financial model. She told me that she had just joined a young start-up, and they would not looking to raise any capital at that point, but she

really wanted to have financial road map, so she can better manage the business. This was such an unusual occurrence for me, but it was music to my ears, my message had resonated success.

Steve Tennant: That's great! I wish more entrepreneurs took that approach. I think you are right.

Anthony Nassar: When you think of the financial model, it is a process and a tool that helps you achieve, in my opinion, six objectives.

1) First is to assess the feasibility of a new business concept and the cash requirement, as I just mentioned.

2) Would be to formulate the team's vision in quantifiable manner. So you don't just look at the vision in a qualitative way, but you actually attach dollars and sense with that vision, and you establish to set up milestones and benchmarks to measure that performance.

3) You have out of the financial models, financial data for the business plan, and

4) You use it to raise capital.

5) You have a tool to tell your story to the outside world, investors, lenders, business partners and auditors, etcetera.

6) Finally, you have an adaptive tool to adjust your business model as you gain experience in the field.

Steve Tennant: What do you mean by that last one?

Anthony Nassar: When you start developing your model, you may not know everything you need to know about your business, so you use all the assumptions that you know at the time to build your model, and then later on you find out new things about your market, about your conversion rates, about maybe the features in your product that are missing that you need to add. So as you learn from the company evolving, then you can go back and adjust your model to better reflect reality.

Steve Tennant: Okay, good! That makes sense.

Anthony Nassar: About that last point, a number of clients who had already gone through the challenging exercise of building their financial model, and gaining all the valuable insights into their business through that process, they have told me, "I can run my business with this road map." There was this "Aha moment", when they realized that the financial plan was not just the short lived tool that was used for fund raising purposes only, in fact, there was a useful living document that serves them as a guide to help them effectively navigate their business as it evolved.

Steve Tennant: Uh-huh.

Anthony Nassar: The idea here is that, the plan is continuously updated after it is initially developed. So your assumptions and drivers are adjusted to reflect new information learned from the marketplace, and actuals are entered on a regular basis, so that you can keep the road map alive and current. Besides managing your business, this approach also allows you to be nimble, and improve your chances of picking advantage of unexpected opportunities.

For example, I have a client who met with a prospective investor, and that investor asked for – within two days the investor wanted a detailed budget and an explanation of how the company was going to use the funds.

We were able to satisfy the investor's request, because the model was already in place and had already been regularly updated; it just needed some fine-tuning, which we completed within the requested timeframe. The good thing is that the company was funded by this investor, and I am not going to claim that that was the only reason why the investment took place, but the preparedness certainly played a role in helping achieve this positive outcome.

Steve Tennant: Yeah. I couldn't agree more. I think that's been my experience certainly with a lot of companies that I have worked with, by the time you get asked for this information, you don't have time to prepare it. I am sure that created a positive impression for the investor to see this company already had the information and they were managing the business with it, and that's got to add a lot to the investor's confidence level in working with that company.

So why do you think entrepreneurs don't do this or what causes people to procrastinate in developing their financial model? Why this seems so obvious, why doesn't everybody do it?

Anthony Nassar: Well, you know it's such a challenging exercise for them. It's even challenging for the experts, because you need to be able to identify and model the various drivers of your business, and there is a multitude of them. You need to understand finance and accounting, because that's the information you need to use when you develop your model, and you need to be proficient with the modeling tool. So whether you use Excel or a planning software you need to know that pretty well.

And you need to manage the whole thing rigorously like a project manager would manage the software development project. So it is a tough project that to go through, but fortunately things get easier if you have the proper framework, and you rely on best practices and modeling.

Steve Tennant: Right, and I know you spend a lot of time in that area. Maybe you could say a little bit more about you know the best practices and framework that you are talking about. How do you see that working?

Anthony Nassar: Sure. So regardless of the modeling tool that you use, you want to, number one, develop a core set of assumption models. So you can drive your revenues, your staffing, your expenses and your capital requirements and capital expenditures, and you do that while you keep in mind the scalability of the model. So you want to make sure that as things move in one direction or the other that everything else follows, and you want to make sure also that the data integrity of the model is preserved.

The other thing -- the number two thing that is very important when you build your model is to, you have to decide on the granularity and the planning horizon. So the question is what do I do? Do I build a three year model or a four or a five year model? Do I do the reporting on a monthly basis or a quarterly basis or a yearly basis or a combination of? And when you ask investors, you typically get different answers.

Steve Tennant: I totally agree. There is no standard.

Anthony Nassar: No, unfortunately there isn't, and the sort of answers you get are something like -- okay, I want monthly for the first year, and then quarterly in the second and third year.

Steve Tennant: Right.

Anthony Nassar: And then yearly after that. Some will say -- well, I only want three years, or some will say I want monthly all the way to the break even point, and then after I want quarterly, then yearly. And the problem is that if you go with anyone of these preferences, then you might end up with a format that is not going to satisfy the next investor.

So the way I like to do it is, to take the most flexible approach and to build five year plans with a monthly granularity. And then use a technique in Excel where you can collapse and expand columns, where you can actually show more or less of the data depending on what people want to look at.

Steve Tennant: So kind of the lowest common denominator approach?

Anthony Nassar: Exactly, exactly.

Steve Tennant: Okay.

Anthony Nassar: So the third thing is that you really want to teach your model as a -- like a software development project. So you want to keep track of version control. You want track

changes, and you want to also know who you have given it to, how it's been distributed by version. And finally, you have to define your reporting formats, your analysis and dashboards very well, so you can run scenario analysis and get actionable data from your model, and not just a bunch of overwhelming set of numbers.

Steve Tennant: Yeah, I think entrepreneurs might underestimate if they haven't been through the fund raising process before. It sort of like, you are not just using this to plan your business, but you are using it also to answer questions. And I know for a lot of the companies that I have worked with, I haven't been intimately involved with the financial model, but the people in the company that would work with somebody like you to do that are heavily involved in running additional scenarios to answer additional questions. People say, "What if we invested more?", or "what if we pushed out the release of product number two?", or "what if we double the number of customers?", and you got to be able to answer those questions.

So I think that might be a misconception that people have, is they just need a good model to run the business, and they don't envision all these different versions and scenarios that they are going to need to generate in order to respond to investor questions. If it's just one investor, and they have got three questions, that's pretty easy, but when you are entertaining conversations with ten different investors at the same time, you can go crazy [without some kind of version control].

Anthony Nassar: Yeah.

Steve Tennant: If you are not doing what you are saying, keeping the version control, and figure out which versions you have given to whom, and all that kind of stuff, totally.

Anthony Nassar: That's very true, and actually if your model is very well thought through, you will be able to answer most of the questions that you will get from VCs or angels or whatever, because you have all these metrics in the model. So you will be able to answer questions about your conversion rates or how many visitors you have at your site, how many members or subscribers and all that, and define those milestones at different points in time without having to go back and do some extra analysis to get that data. That should have been already planned into your model.

Steve Tennant: Right, good. Anything else that you think of as a best practice?

Anthony Nassar: No, I think that's - -I mean there's a lot to it, and I usually you know go into these things in detail when I run my financial modeling workshops.

Steve Tennant: Right.

Anthony Nassar: But I think for now I think that's it.

Steve Tennant: Okay. So once people have their model done are they good to go anything else, after the -- what comes next after you have completed your model?

Anthony Nassar: So the model will obviously continue to evolve with the business, but with a first version of the model completed, the entrepreneur is hopefully able to determine whether or not he or she is going to move ahead with the business. So if the answer is yes, then the next step would be to start thinking about forming an entity with the -- a legal framework that's consistent with the long term objectives of the business. And it's really critical to engage the services of the seasoned corporate attorney who is specialized in start-ups. The reason is that the legal environment of start-ups is particular to them, and is reflected in the framework, and then the documents that are used to manage them.

So your attorney will provide guidance on entity formation, capitalization, founder, employee, and consultant agreements, stock options, financings, intellectual property and a whole range of issues. And they'll also make sure that they complete timely the statutory filings with various governmental entities. So your company can remain compliant with the whole myriad of regulations that govern your business.

Steve Tennant: So it's a lot to keep track of.

Anthony Nassar: It's a lot to keep track of, and that's very hard for someone who is not a corporate attorney for start ups to be able to do this right, and that's why I always recall the situation where an entrepreneur decided to take matters in his own hands, and he incorporated his company in Delaware by him, so rather than rely on the services of an attorney. And because he lacked the experience in this area, he did not assign a par value to his company's stock and he didn't sound like much back then, but when he received his Delaware franchise tax report, well, the bill was in the tens of thousands of dollars, and because of the lack of the par value, he was not allowed to use an alternate method of computation which could have resulted in tax amounting maybe to just a few hundreds dollar instead.

Steve Tennant: Wow!

Anthony Nassar: So that's the kind of the magnitude of the error.

Steve Tennant: Yeah.

- Steve Tennant: Okay, for somebody that's interested in selecting an attorney, what do you recommend people to look for?
- Anthony Nassar: Yeah, so people have a choice between different law firms and different attorneys, and I think it's very important to put experience first, because that's why you are hiring an attorney for obviously. But it's also equally important to give a great deal consideration to the attorney's accessibility, the responsiveness and positive working relationship.
- Steve Tennant: But how can you tell that before you have actually started working with them?
- Anthony Nassar: So either, you've worked with someone before, like you said, or you would ask friends of yours or other advisors that you are working with, if they could recommend someone.
- Steve Tennant: Okay.
- Anthony Nassar: And you would want to know from them why it is that they recommend that person.
- Steve Tennant: Good.
- Anthony Nassar: So I have seen entrepreneurs, actually I heard entrepreneurs tell me, well, you know, I used to work with this attorney when he was with that firm and now that he has moved to this other firm, I am moving with him. So what they were looking for was basically a good working relationship with an individual more so than the firm itself. So like any service provider, whether that's an accountant, a banker, a consultant, an insurance broker or a payroll service, what's good is the neutrality of the provider's firm if the quality or the access to the person who is providing the service is not satisfactory. So you definitely want to go with a great firm and all that, but you also want to make sure that the person you are working with is responsive and is doing a good job.
- Steve Tennant: Okay, so take me up the next steps on the financial road map. We've got our financial model, we've picked an attorney, we've wrestled with these different legal issues, what's next?
- Anthony Nassar: So the next step would be to set up the company's financial system as soon as the company is formed, and to keep the accounting records up-to-date. And that's very important, sometimes I work with entrepreneurs who haven't really tackled the financial system part, so we are building the model but I would really like to see what's going on with -- at least even if there aren't a lot of transactions going on, I would like to know that they are keeping their records up-to-date, and they are waiting again, this is another area,

where some of them might be waiting to do this a little bit later. But really to do this properly you will need to tackle this issue early on, and you need two types of people on your financial team from the beginning.

And the first person is a senior financial professional, like a CFO, who would help with the initial set up of your financial systems with the chart of accounts, the internal controls, on going management of operations, making sure that the financial statements are prepared properly, that you have reports for the management on the board, it will help with financial and strategic planning, as well as compliance and fund raising.

The CFO actually should be -- could either be a member of the founding team, and some teams have a CFO that's part of the founding team, and sometimes you just have to hire a consultant, and that person in any case should be someone with very solid experience and start-ups. Perhaps have a CPA or an MBA, but at least one of the two, have fund raising experience and contacts with the VC and Angel community.

Steve Tennant: Right, so you can get somebody to do this. I mean, for most start-ups this would be a part time kind of role, right?

Anthony Nassar: For an early stage company that will be a very part time role. It would be maybe ten hours or so a month or something like that. Many hours, depending on the activity, I can't really say how many hours, but it would be a small time commitment, of course, if you have fund raising going on, they will be spending more time, but at least initially to get the financial systems up and running, you would want somebody to help with that.

Steve Tennant: And is that a week-long process, a two-month process, how long does it typically take to get the systems up and running?

Anthony Nassar: No, it's not too long, it depends on how involved you want the controls to be and all that, but this can be done in a matter of a few days, or maybe couple of days or something like that, to set up the chart of accounts and discuss the controls and put things in place. Especially if it's someone who has done it a lot before, they would have a lot of the firms and the processes in place, and they will just be able to implement them with every company that they are working.

Steve Tennant: Right, okay.

Anthony Nassar: And obviously this time commitment would go up as sales activity goes up, as with fund raising, with VC Board reporting and audits, then you are talking about more hours and more time spent in this function.

Steve Tennant: Okay, and at what point do you usually see that you need a full-time maybe controller or CFO type person?

Anthony Nassar: Yeah, I would say that as you start having ramp in the revenues. And you have a lot more activities with employees and benefits and the number of transactions per week. Or per month increases dramatically. You will notice that the CFO along with the book-keeper are not enough to support the volume of transactions and all the activity in the organization. And that could happen at different levels of either revenues or number of employees depending on the activity. But I would say that from my experience, when a company reaches maybe between 20 and 50 employees, that's when I found that the consulting CFO role needs to be evolved into either a full-time position or bring in someone else as a full-time controller to take charge, so that they can deal with the day-to-day, on the regular basis.

Steve Tennant: And how about -- I think another area that comes up a lot is due diligence for the process that investors are going to go through, to look through the books and records of a company before making an investment. What do companies need to do to be ready for that?

Anthony Nassar: I wanted to say one more thing about the financial operations, if I may.

Steve Tennant: Oh, sure.

Anthony Nassar: Okay. I think the other person that you want to bring on board immediately after you form your company, is a book-keeper. And to me the book-keeper is equally as important as a CFO in ensuring a smooth financial operation, because that person will make sure that the daily activities are handled on a timely basis, like accounts payable, and expense reports, and accounts receivable, payroll, benefits, and all that. And you want someone with experience with start-ups, and that someone who is also comfortable with Accrual Accounting.

So if the company has limited resources and can only afford just one person on the financial team initially, I would opt for the book-keeper rather than the CFO, because the book-keeper can keep records current and the CFO would be way too expensive to handle daily tasks. But in that case you want to make sure that your bookkeeper is extremely competent, because you will not have the luxury of oversight, and the supervision by the CFO.

Steve Tennant: So you really make sure they get things set up well, but if you are an engineer starting up the company, you may not have that kind of experience. Is that something that you help companies with?

Anthony Nassar: Yes, that's correct. So you want to have the initial set up down and if they don't have it in-house, then you will need a senior person to do it. But then you can only have one person, because that you have limited financial resources, then hopefully you will have someone on the book-keeping side who is doing a good enough job to keep things going until you can afford to have the oversight of a CFO.

Steve Tennant: Okay. Well, that makes sense. Anything else on that before we jump into the due diligence?

Anthony Nassar: No, I think it's good.

Steve Tennant: Okay. So tell us about due diligence.

Anthony Nassar: And I am really glad you brought the due diligence up, because really institutional financing events and exists are unavoidably preceded by a very rigorous due diligence process. So if you are fortunate enough to be in due diligence, you would normally want it to culminate into a successful transaction.

Steve Tennant: Sure.

Anthony Nassar: And it's best to maintain records that are complete and up-to-date. So the company is ready for due diligence on short notice. This practice is easier and safer, than trying to bring to the records current as due diligence is about to start, when you think of all those documents that the process entails.

Steve Tennant: Right.

Anthony Nassar: So the due diligence records include corporate records as these are the minutes and articles of the corporation. You have financial records like financial statements, and business international plans. You have agreements related to securities and options investing, and you have a whole range of agreements other than securities, which are the employment, the consulting, the NDAs, the leases, the loans, and finally you also have -- if applicable, disputes and litigation that you need to provide as part of the due diligence.

So aside from the fact that some of the documents, they must be executed on timely basis for compliance reasons, you will encounter situations where it may become much harder to obtain and execute a document from the other party after the business relationship has been terminated, and there is really incentive for those people to cooperate and execute the documents.

Which is why you really want to get those documents done as things are happening, and not after the fact.

- Steve Tennant: Right, and you've got to stay well-informed to run the business effectively.
- Anthony Nassar: Absolutely. You would rely on members of your team, your board, your advisors who have a domain expertise in various areas that affect the business, but I think it's essential for entrepreneurs to nurture their knowledge and skills insatiably, and compliment the in-house pool of expertise by one attending quality educational conferences, and to regularly reaching out to their network for fresh business perspectives and insights.
- Steve Tennant: Excellent. Well, anything else Anthony that we haven't talked about? I think this has been a good overview of how to -- what we have talked about is the financial model, putting the systems in place, getting your attorney, some of the best practices. Anything else that comes to mind that we haven't talked about?
- Anthony Nassar: Not really. I just wanted to wish your readers good luck with their ventures, and I wanted to thank you also for the opportunity to share my thoughts with you.
- Steve Tennant: Well, it's been a pleasure. And if somebody wants to get a hold of you at Venture Momentum, what's the best way to do that?
- Anthony Nassar: The best way is to contact me at info@venturemomentum.com.
- Steve Tennant: www.venturemomentum.com. Thanks so much Anthony for joining today, and to our audience, I hope you have a great day.
- Anthony Nassar: Thank you Steve.
- Steve Tennant: Thanks. Okay, take care. Bye!