BUDGETTING

- Methodology
- Case

Why bother

- Quantify scenaria — *Get an overview of economics*
- Quantify perspectives — *Get people involved*
- Determine cash requirements — *Get your venture funded -*
- Cashflow management by budget supervision — *- and managed*

BUDGETTING PROCEDURE

Precondition for budgetting:

Market analysis and business model finalized

1. Market penetration scenario estimated -> sample
2. Estimate company operations as a function of sales
3. Establish budgets on transactions[1] in sales and company operations

Budget on transactions in sales and company operations

=>

Your CASHFLOW BUDGET excl. investments

1) Transaction = money being moved in or out of the company's bank account

CASHFLOW BUDGET

CFIMITYM

Cash Flow Is More Important Than Your Mother (Ken Morse, MIT)

- **Input:**
  ALL estimated in- and outgoing payments in a time domain
- **Output:**
  The total amount of cash flowing in and out in the time domain =>The net amount of cash flowing in/out
  => *Accumulated cash flow =* ***Cash in Hand*** *as a function of time*

  Cash ind hand ***NEVER*** *negative:*
  that defines your capital reguirements!
  Inject capital until this precondition is met at any given time

Cash Flow Budgetting -> Capital Requirements

SALES and PRODUCTION

Outgoing payments to cover production and incoming payments from sales are derived from:

- **Unit costs**
- **Market potentials**
- **Market penetration in the time domain**

MARKETING and OPERATIONS

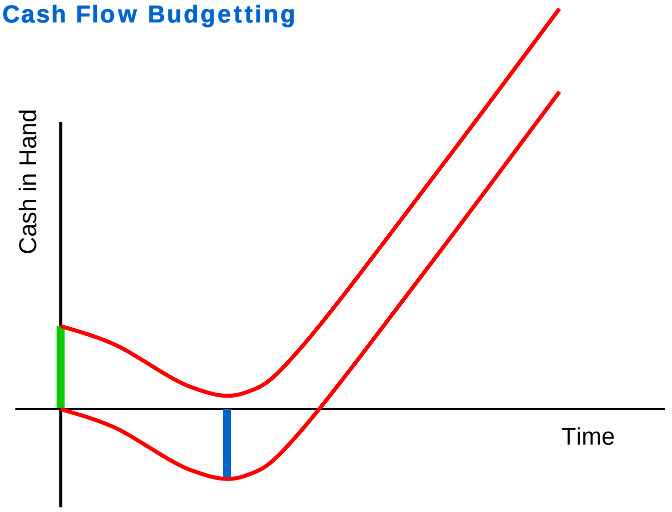
Outgoing payments to run the company are derived from

- **Sales & Marketing expenditures**
- **Rent, running costs, salaries**
- **IPR , R&D expenditures**
- **Capital expenditures**

Add all outgoing (+) and incoming (-) payments determine cashflow (Q [DKK/month]**) and cash-in-hand (∑Q** [DKK]**).**

Adjust with appropriate cash injections *(loan, equity capital)* to create a positive cash-in-hand throughout the project

Cash Flow Budgetting



Budget on Profit & Loss

Precondition: the cashflow budget

- **Covers an extended period eg.: 1 year = Annual results**
- **Objectives: analysis, perspectives, key figures, profitability**
- **Consequences:**
  - Trim your business
  - Benchmarking against your competitors' performance
  - Benchmarking against your own previous performance
  - Sanity check – with key-figures and common sense
  - Quantify returns on investments => VC case? Y/N.

Budget on Assets & Liabilities - 1

- **Assets = Values owned by the company**
- **Liabilities = How are said values financed**

- **Assets** = outstanding amounts owed to the company, cash, IPR, goodwill , buildings, cars, production facilities - - - depreciated to value as per to day.
- **Liabilities** = invested capital, accumulated profit/loss, outstanding amounts owed by the company
- **Invested equity capital + cumulated profit/loss = equity capital**

Budget on Assets & Liabilities is the last to complete

Budget on Assets and Liabilities - 2

Objectives:

- Determine value creation
- Present financing
- Keep track of development in debtors and creditors
- Check minimum legal equity

Consequence:

- **Solvency = capacity to withstand losses is determined**
- **The development of values over time is quantified**
- **The proficiency in running a tight payment policy is demonstrated**
- In DK: legal minimum equity capital is checked