JENNY KASSAN

How to complete your financial projections

The highlighted cells in the spreadsheet are the ones you should fill in.

1. Annual Revenue

Think about the revenues (sales) you expect to generate from your products and services. Fill in your annual projections in Rows 3-5. If you have only one or two products/services that you sell, only fill in projections for those. If you have more than three, add more rows.

For example, let's say I sell pastries, lattes, and magazines. I would project my sales for each of those items in these rows. If I expect to sell 100 magazines per year and I sell magazines for $5 each, I would fill in $500 for projected sales. Be sure to take into account changes in price. For example, if I know I plan to raise my prices to $6 starting in Year 2, I would adjust my revenue projections accordingly.

Most projections assume a regular increase in revenues. Be very realistic about this and don't just assume a certain percentage annual increase in revenues without thinking about how exactly you will achieve that increase.

The spreadsheet will automatically calculate your total revenue (if you added rows, be sure the calculation totals all of the rows that include revenue).

2. Cost of Goods Sold

Row 9 is for COGS which stands for Cost of Goods Sold. This is the variable cost associated with the products and services you sell. Sometimes it's hard to know whether to include something in COGS or Expenses (expenses are costs that don't change very much regardless of how much you sell).

COGS are expenses that vary depending on your revenues. So if you sell 100 units in January and 200 units in February, your COGS should double from January to February. For a retail business, it is pretty straightforward to determine COGS. If you sell magazines, your cost to purchase the magazine would be your COGS. So if you buy magazines for $2 and sell them for $5, your COGS percentage is 2 divided by 5 or 40%.

For a service business, if you pay service providers by the hour to provide services to your clients, your COGS percentage would be the hourly rate you pay the service providers

divided by the amount you bill your clients per hour.

If you sell software as a service, it is not always clear what to include in COGS. Some possibilities would be use of server space and credit card fees that are incurred whenever someone pays for the software.

Your COGS may be different for different items you sell. If so, you should add rows for COGS for each product line.

This spreadsheet assumes that you can state COGS in the form of a percentage of revenues. This is a shortcut that may or may not be appropriate for your business model. If you prefer, you can enter estimates of COGS for each year rather than using a set percentage.

3. Gross Profit

Row 11 is your gross revenues calculated in Step 1 minus COGS. This is called Gross Margin or Gross Profit. This is what you have left over after you've paid all the variable costs associated with creating and selling your products and services. This is the money that you have to pay other (fixed) expenses and to compensate investors (if you plan to share profits with investors).

Row 12 shows your Gross Margin percentage which is your Gross Profit divided by revenues. Having this percentage makes it easier to compare your businesses to others in the same industry.

4. Expenses

Now, in Rows 15-44, fill in all your expenses that are not COGS. This could be your salary, salary for administrative staff, employee overhead, insurance, etc. Try to think of every possible expense you will need to cover as you operate your business. Expenses tend to go up over time so be sure to show that in your projections (for example, you may want to assume a 5% annual increase in insurance costs). Try to use actual numbers from your own business or, if you are just starting out, try to find someone with a similar business who is willing to share information about their expenses. Don't include payments to investors or interest payments in this section.

Row 45 shows your total expenses for each year.

Row 47 adds a 10% cushion to your expenses since we tend to underestimate our expenses. Feel free to increase or decrease this percentage as you see fit.

Row 49 shows your total expenses with the contingency amount added.

Row 51 shows your pre-tax profit aka operating profit aka EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization). It is not unusual for this number to be negative for several years. At some point, you should ideally show "break- even" – this is when you are able to cover all of your expenses with your revenues. Some businesses take

a very long time to get to this point. That is why you need investment up front!

Row 52 shows your Operating Margin percentage which is your Operating Profit divided by revenues.

Row 54 estimates the taxes you will have to pay. It is best to have a tax professional give you a more accurate estimate.

The spreadsheet does not include rows for amortization/depreciation or interest payments to keep things simple, but you would add those in below the tax row if applicable.

5. Net Profit

Row 57 shows the effect of taxes on your bottom line. This row represents your Net Profit. Row 58 shows your Net Margin (Net Profit divided by revenues).

In Row 60, you can enter amounts that you want to take out of the business to compensate yourself (in addition to your salary and benefits which are included as expenses). You should only enter amounts in this row if the business is showing a profit.

Row 64 shows your cumulative profit or loss. If you make a loss for several years in a row, this number will be a larger and larger negative number as your losses accumulate. If your spreadsheet shows this, you need to find a way to pay for your operations until you break even. That is one of the main reasons to raise capital from investors – to give you the cushion you need to be able to operate the business until it breaks even. Looking at Row 64 can give you a good idea of how much investment capital you need to raise to prevent running out of money before break even.

Congratulations! You now have financial projections for your business!