ZELL LURIE INSTITUTE
FOR ENTREPRENEURIAL STUDIES
UNIVERSITY OF MICHIGAN

WDI PUBLISHING

conceptual note 1-428-846
July 3, 2009

James D. Price

Note on Developing Financial Projections for Startups and Growth Businesses

DO NOT COPY

Raising capital for a startup or growth business can involve a complex communication process calling for a number of tools. If you're like many entrepreneurs and startup teams engaging potential investors in conversations, you may be well-prepared with a strong executive summary and a competent business plan describing your company. And, like many growth company teams, you may also be approaching the capital-raising process equipped with a compelling slide presentation.

But as the saying goes, watch what you wish for. If a potential investor shows interest, the next thing she's likely going to ask to see is a copy of your detailed financials. Let's look at exactly what that entails. At a high level, the investor expects to see detailed information in the following three categories:

1. **Historical Financials** – financial statements covering the past several years (or however long the company has been in business)
2. **Projected Financials** – a forecast of how you expect the business to evolve over the next several years
3. **Financial Narrative & Assumptions** – a written explanation both of past highlights and future expectations, along with clearly-laid-out assumptions for your model

Both the historical company results (item #1 above) as well as your future projections (#2) should be presented in the form of integrated financial statements. These are comprised of three standard, interlinked financial tables or spreadsheets that, when taken together, unambiguously describe the financial essence of any business:

- **Income statement** – sometimes referred a profit and loss statement, or P&L, a financial statement that shows the profitability of a business entity in each period (quarter or year) by showing revenue, expenses, pre-tax operating profit (revenue minus expenses), and after-tax profit.
- **Cash flow statement** – also known as a statement of cash flows, a financial statement that shows the amounts of cash that are spent by a business (cash outflows) and collected by that business (cash inflows) in each period (quarter or year). The cash flow statement can differ substantively from the income statement for the same business, primarily due to: a) timing differences between when cash comes into a business and how and when that cash is recognized as revenue on the income statement; and b) timing differences between when cash is paid out by a business and when those expenses are recognized on the income statement.

Published by WDI Publishing, a division of the William Davidson Institute (WDI) at the University of Michigan.

©2009 James D. Price. This note was prepared by James D. Price, Adjunct Lecturer of Entrepreneurial Studies of the Ross School of Business at The University of Michigan.
This case was prepared exclusively as the basis for class discussion and is not intended to illustrate either effective or ineffective handling of a situation. The case should not be considered criticism or endorsement and should not be used as a source of primary data.

Unauthorized reproduction and distribution is an infringement of copyright. Contact us for permissions: Permissions@WDIpublishing.com or 734-615-9553