

MegaBlast-o-matic Squirt Gun

Prelude™ pro forma

				NPV	
7-year NPV	\$252,286	plus fixed years	10	\$1,876,770	(13)
Cost of Capital	15%	plus fixed forever		\$2,410,164	
(15)		plus growth forever at	0%	\$2,410,164	
				Cash at risk:	\$ (448,000)
				Earnings multiple:	5 (14)
				Valuation:	\$ 4,305,000

	"Development" Years		"Operating" Years					Notes	
	Year -2	Year -1	Year 1	Year 2	Year 3	Year 4	Year 5		
Income									
Number of units sold		0	500					150,000	(1, 8)
Price per unit		\$0	\$5					\$ 12.50	(2)
Other income		\$0	\$10,000						(9)
Total gross income	\$	-	\$ 12,500	\$ 187,500	\$ 468,750	\$ 937,500	\$ 1,406,250	\$ 1,875,000	
<i>Sales ramp</i>				10%	25%	50%	75%	100%	(10)
Expense									
Development	\$	50,000	\$ 250,000						(7)
Facilities & Equip				\$ 45,000	\$ 45,000	\$ 45,000	\$ 45,000	\$ 45,000	(3)
Materials per unit	\$3.25							\$ 487,500	(4)
Labor								\$ 125,000	(5)
Sales & Marketing	10%							\$ 187,500	(6)
Contingency	20%							\$ 169,000	(12)
Total Expenses	\$	50,000	\$ 250,000	\$ 287,250	\$ 529,500	\$ 771,750	\$ 1,014,000	\$ 1,014,000	
<i>Expense ramp</i>				25%	50%	75%	100%	100%	(11)
Profit (Loss)									
	\$	(50,000)	\$ (237,500)	\$ (99,750)	\$ (60,750)	\$ 165,750	\$ 392,250	\$ 861,000	
<i>cumulative:</i>	\$	(50,000)	\$ (287,500)	\$ (387,250)	\$ (448,000)	\$ (282,250)	\$ 110,000	\$ 578,750	

The hypothetical high-tech start-up company

Increase in valuation and dilution of ownership from idea through cash-flow positive company.

	Time zero The beginning At founding	6-12 months Tranche 1 Pre-seed round	Year 1 Tranche 2 Seed round	Year 2 or 3 Tranche 3 VC Round A	Year 3 or 5 Tranche 4 VC Round B	Year 4 or 6 Tranche 5 Bank Loan	Seven to ten years later Exit Point
Valuation							
pre-money investment		\$ 750,000 83.3%	\$ 1,500,000 75.0%	\$ 4,000,000 72.7%	\$ 8,000,000 72.7%	\$ 15,000,000 83.3%	
post-money	\$500,000 100.0%	\$ 900,000 100.0%	\$ 2,000,000 100.0%	\$ 5,500,000 100.0%	\$ 11,000,000 100.0%	\$ 18,000,000 100.0%	\$56,000,000 100.0%
less debt						\$ 15,000,000	\$51,680,000
Share price (rounded)	\$ 0.20	\$ 0.30	\$ 0.50	\$ 1.00	\$ 1.45	\$ 1.98	\$ 6.83
Authorized shares							
Common	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000
Issued shares							
University/Inventors	125,000 5.0%	125,000 4%	125,000 3%	125,000 2.3%	125,000 1.7%	125,000 1.7%	125,000 1.7%
Founders	2,375,000 95.0%	2,375,000 79%	2,375,000 59%	2,375,000 43.2%	2,375,000 31.4%	2,375,000 31.4%	2,375,000 31.4%
Pre-seed investors		500,000 16.7%	500,000 12.5%	500,000 9.1%	500,000 6.6%	500,000 6.6%	500,000 6.6%
Seed investors			1,000,000 25.0%	1,000,000 18.2%	1,000,000 13.2%	1,000,000 13.2%	1,000,000 13.2%
VC round A investors				1,500,000 27.3%	1,500,000 19.8%	1,500,000 19.8%	1,500,000 19.8%
VC round B investors					2,062,500 27.3%	2,062,500 27.3%	2,062,500 27.3%
Total	2,500,000 100.0%	3,000,000 100.0%	4,000,000 100.0%	5,500,000 100.0%	7,562,500 100.0%	7,562,500 100.0%	7,562,500 100.0%
Value of holdings							
University/Inventors	\$25,000	\$37,500	\$62,500	\$125,000	\$181,818	\$247,934	\$854,215
Founders	\$475,000	\$712,500	\$1,187,500	\$2,375,000	\$3,454,545	\$4,710,744	\$16,230,083
Pre-seed investors	\$0	\$150,000	\$250,000	\$500,000	\$727,273	\$991,736	\$3,416,860
Seed investors	\$0	\$0	\$500,000	\$1,000,000	\$1,454,545	\$1,983,471	\$6,833,719
VC round A investors	\$0	\$0	\$0	\$1,500,000	\$2,181,818	\$2,975,207	\$10,250,579
VC round B investors	\$0	\$0	\$0	\$0	\$3,000,000	\$4,090,909	\$14,094,545
Bank (or Mezzanine)	$i = 20\%$					\$3,000,000	\$4,320,000
Total	\$500,000	\$900,000	\$2,000,000	\$5,500,000	\$11,000,000	\$18,000,000	\$56,000,000
Milestone delivered at the end of the stage:	Small team Plan Family collateral	IP assessment License Tech transfer Seed collateral	Space A few key milestones (Prototype, market indicators) VC collateral	The remaining key milestones OEM partner collateral	Design freeze Manuf'g scale up Market'g & Sales ready Distribution	Just starting to SELL! Sales contracts for lots more! Breaking even, except... Scale up & cash flow	4 or 5 years of sales growth: Sales: \$50,000,000 Earnings: \$7,000,000 Multiple: 8

Capitalization table.

This hypothetical example is more typical of a "scale-able VC-Investible idea." Such ideas require more money to be put at risk - about \$8MM in this example. Therefore, they must scale to larger valuations to justify this increased risk. This team has a plan to get to \$50MM in sales with 15% EBITDA in seven to ten years.