



MUSE
ADVISORS

**Reassessing your Business Drivers and Understanding
how Your KPIs Measure Changing Milestones**

Davis Wright Tremaine LLP

May 13, 2020

SESSION OBJECTIVE

Define your Key Objectives >>

Assess your Key Drivers >>

>> Use key drivers to press the accelerator in the right places

>> Evaluate Results based on new objectives



Define Your Key Objectives

- A **clear** objective is essential to business success because it **guides** the allocation of capital.
- Think about what is most important to your company during the next 12 months.
 - Driving a new business line (Covid-friendly)?
 - Preserving Cash and lengthening your Cash Runway?

Key driver identification will help you accomplish your objectives



Financial Forecast = Foundation

- Data-driven decision making
- Better operational results
- Enhanced capital allocation
- Strategic and contingency planning
- Valuation



BUSINESS DRIVER?



Why are **KEY** drivers important?

Identification of your key drivers allows
you to **FOCUS** your two most critical
assets (**TIME** and **MONEY**)



Major impact on operational and financial results

reflects performance

is measurable

can be compared

can be acted upon



Ask yourself what drives.....

Revenue?

Costs?

Cash flow?



Revenue Drivers

SKUs

platform volume

strategic partners

users

sales people

#meetings

add-ons

Churn: renewal rates

of Locations: Average
size Website traffic:
conversion

Time to close deal

Close rates

Repeat purchase

Referral rate



Cost Drivers

- Salaries
- Commissions, fees, and other selling expenses
- Shipping costs
- Rent and office space
- Material prices (commodities, energy)
- Interest Expense



Cashflow Drivers

Payment terms (annual vs monthly)

A/R Days Outstanding (DSOs)

Inventory Days Outstanding (DIO)

Capex requirements + Depreciation

Sales cycle time to close



KEY Drivers

MAJOR IMPACT

+

YOU CONTROL



Sensitivity analysis helps identify key drivers

Strategic decisions >>> focus on **key** drivers



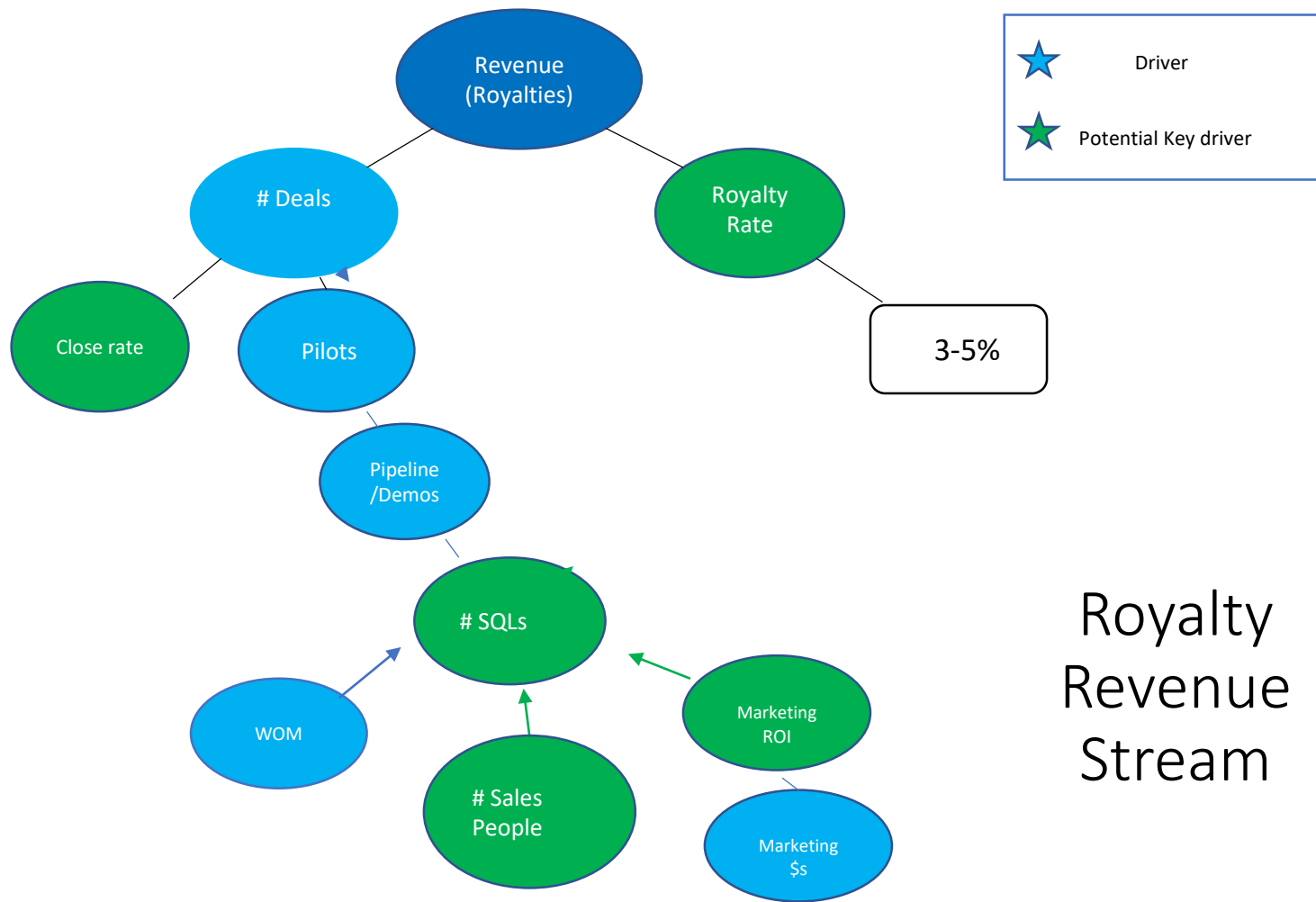
Root Cause Analysis

Identify underlying cause >> “**what drives this line item?**”

Those drivers analyzed to determine *their* drivers

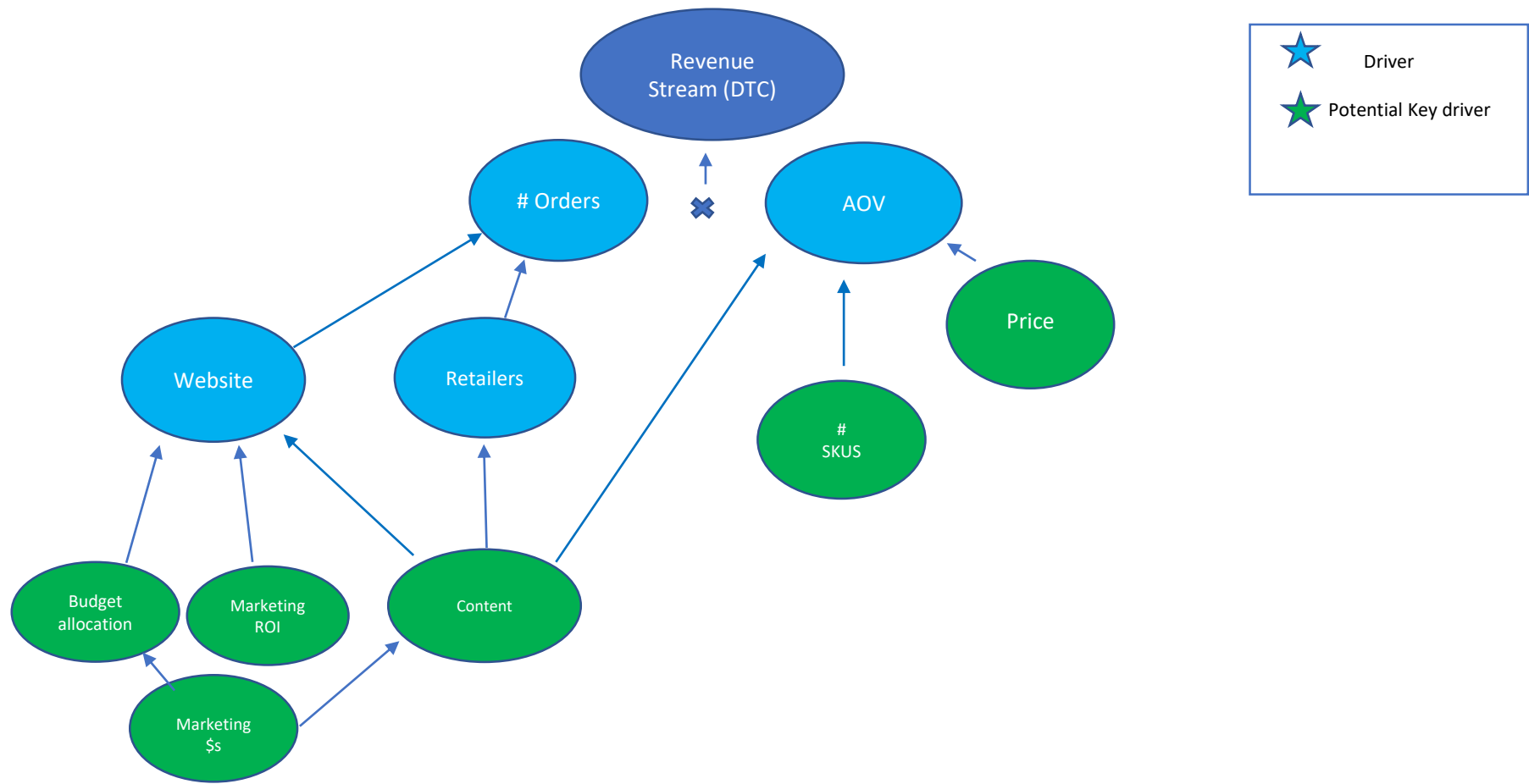
True drivers stem from an **operational** or **capital** decision





Royalty Revenue Stream

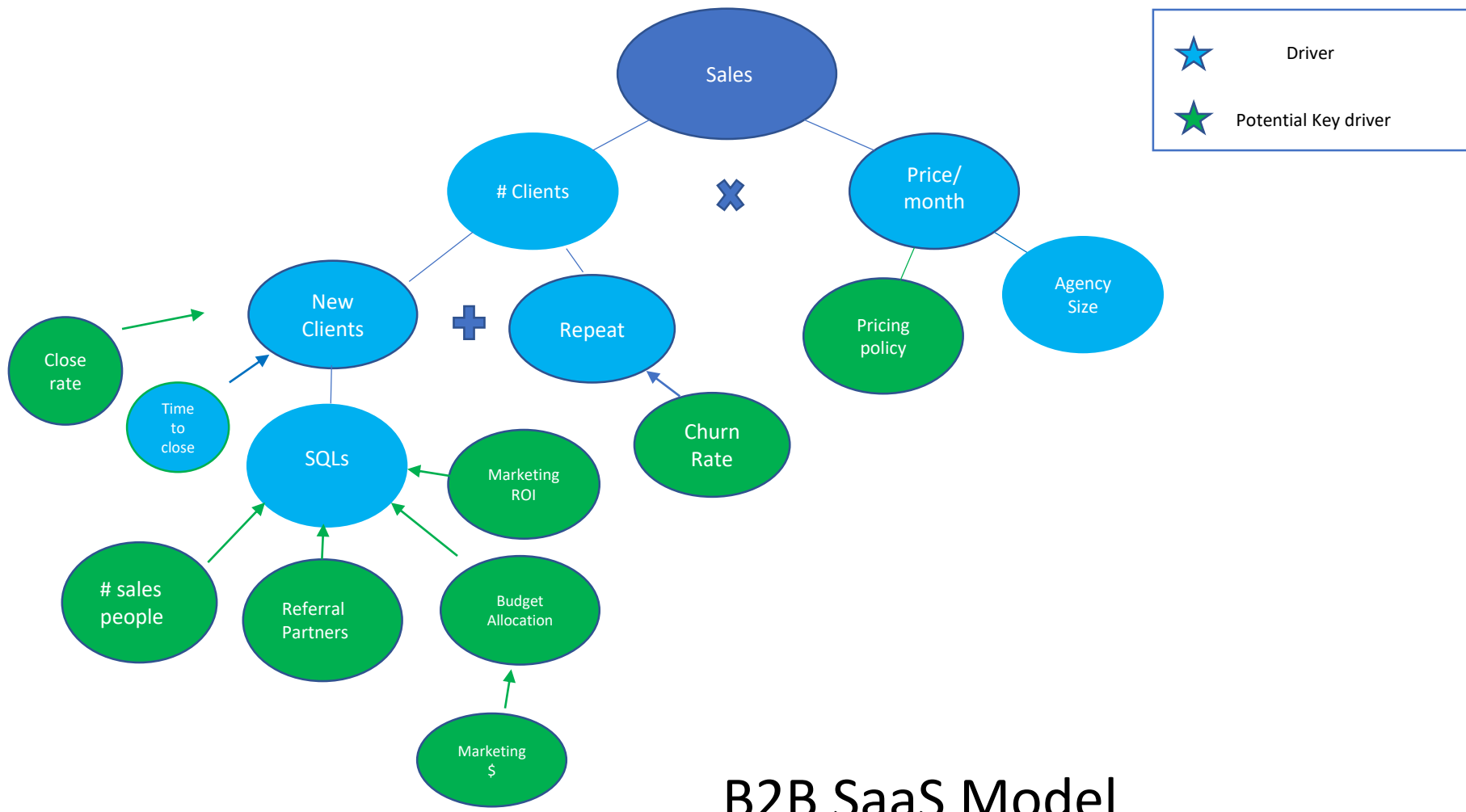




★ Driver
 ★ Potential Key driver

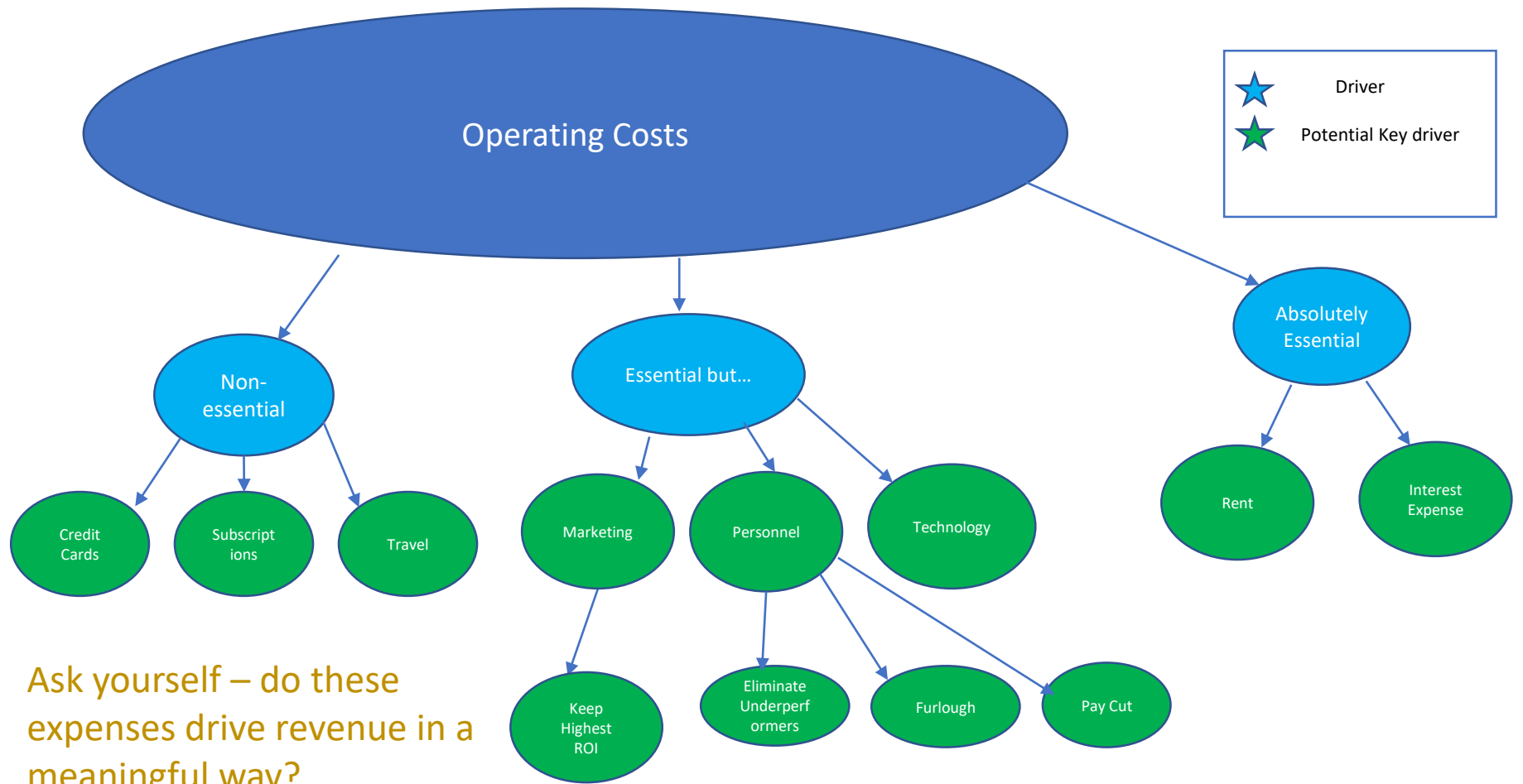
Ecommerce model





B2B SaaS Model





Ask yourself – do these expenses drive revenue in a meaningful way?

These expenses drive revenue but can be spent more efficiently.

These expenses are essential for your business to operate but accommodations may be given.

Costs – all stem from operational decisions



Identify KPIs+ Evaluate

- Once you know your key drivers and start acting on them, **identify which KPIs to track** to measure your new objectives/milestones.
- KPIs could include things like: AOV, Revenue per employee, or cost as a % of revenue.
- When you notice meaningful changes in your KPIs, analyze the operational or capital decisions that drive those KPIs (key drivers) – and change them accordingly.
- **Collect data** to track that the operating decisions you are making are driving the results you want.
- Then you can **press the accelerator in the right places** as you navigate your business in this new economic environment.

Contact information:

Monica Logani, CFA

monica@museadvisors.com



Surviving the Covid Crisis

Assess

+

Project Cash Runway (repeat)

+

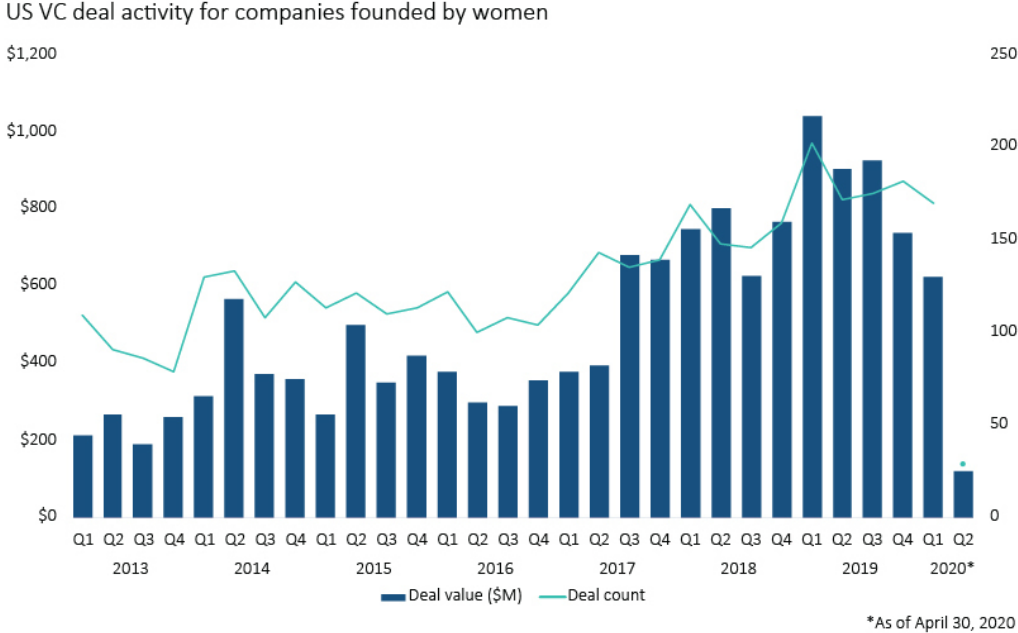
Seek \$\$

+

Communicate



Female Founders share of Q120 deal activity fell to 4.3% in Q120 vs 7.1% in Q119



Step 1: Assess

- Accounts Receivable
- Accounts Payable
- Inventory
- Review debt covenants
- Personal guarantees
- Sales pipeline
- Operating expenses
- Cash runway



Step 2: Measure Cash runway

2a: Reforecasting Revenues

- Assume impact to both existing contracts/business and new business in BOTH 2020 and 2021
- **Realism** is critical

Reforecasting Revenues
(within context of current GDP estimates)

	Q1 2020	Q2 2020	Q3 2020	Q4 2020
GDP e	-4.8%	-27%	+9%	+6.4%
Chg to sales	N/A	- 25 to -90%	- 25% to +5%	- 20% to + 10%

Step 2a: Reforecast revenues

Create multiple revenue scenarios based on current reality

- 3 scenarios -- V, U and “canoe” shaped
- Assume the current slow environment will last several quarters
- Assume existing contracts will be renegotiated
- Assume new deals will be delayed in closing
- Look at each sales prospect and probability weight conversion OR track your AOV and conversion rates daily
- Consider new revenue streams based on Covid environment



Step 2: Measure Cash Runway

2b: Cut Operating Expenses

Line by line first pass through operating expenses to eliminate any unnecessary spending. **BE PROACTIVE**. Don't wait for revenues to drop (further)...assume they will .

- Travel, meals, entertainment, mortgage or loan payments for which you've received forbearance, payroll taxes
- Minimize prepaid expenses such as annual vs. monthly software subscriptions,
- Take opportunity to eliminate underperforming employees or marketing strategies with poor ROI
- Eliminate all unnecessary expenses; then take another pass through to see what's next?

Request forbearance on rent, principle payments

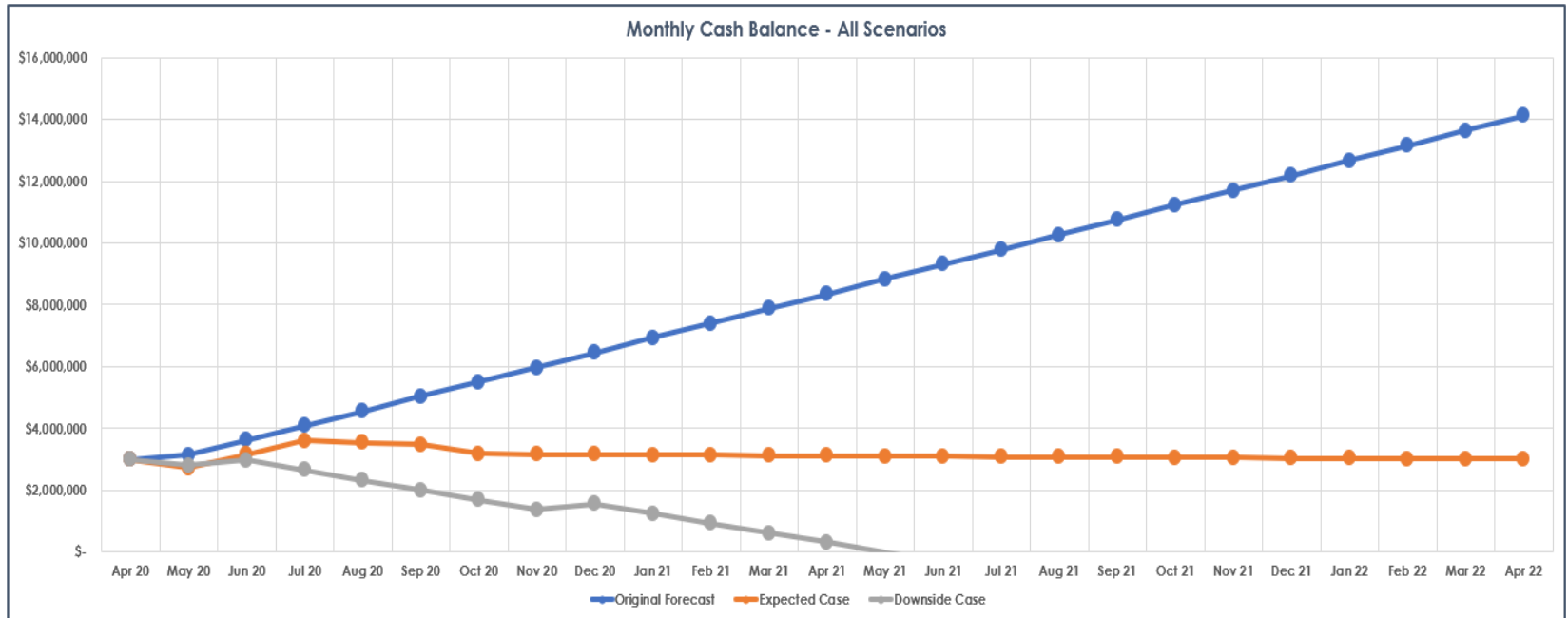
Second pass through expenses to extend your cash runway

- Marketing expenses – eliminate all but high ROI efforts
- Headcount – assess team (critical, important, releasable)
- Consider both variable and fixed costs for potential savings
- Eliminate all but critical capital expenditures and other expense

Goal: 12 months cash runway, for venture backed companies with high cash burn, 18-24 months total runway is ideal



Muse FREE Cash Runway Tool

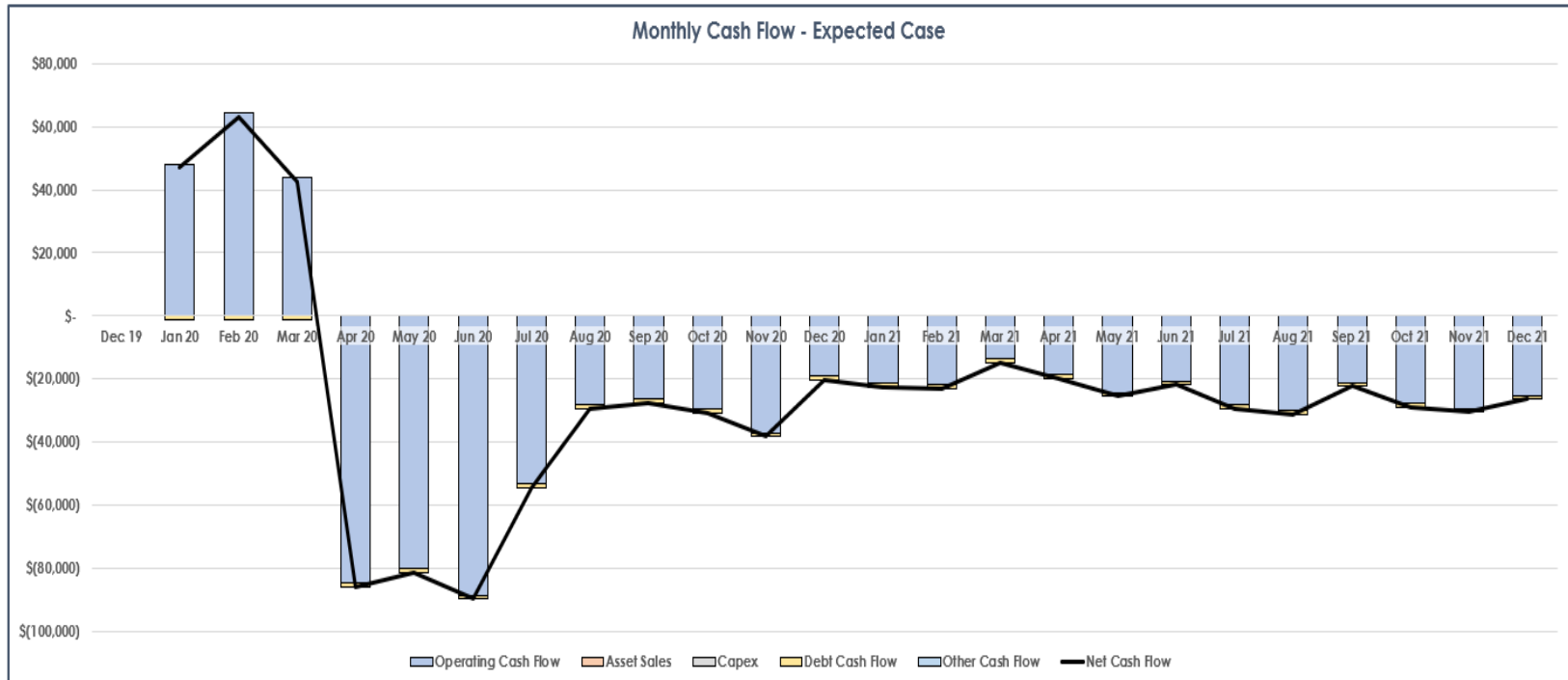


Original Forecast	
Remaining Cash Runway	24 Months
Average Monthly Cash Burn	N/A

Expected Case	
Remaining Cash Runway	24 Months
Average Monthly Cash Burn	N/A

Downside Case	
Remaining Cash Runway	12 Months
Average Monthly Cash Burn	\$250,000

Muse FREE Cash Runway Tool



Step 3: Seek new sources of cash

Apply for all applicable relief programs: PPP, EIDL, Small Business Debt Relief, HEDCO, Main Street Lending Facility (details TBD)

Contact all existing lenders or investors to see if they are willing to provide additional funds and reconfirm existing facilities are still available

Draw down any available cash – get it on your balance sheet

Keep up to date on when these programs become available via the Women's Business Development Council [CTWBDC](https://ctwbdc.org) (ctwbdc.org) or your local Small Business Administration (SBA) District Office, which you can locate [here](#). [CARES summary](#)



Step 4: Communicate

All relevant parties – senior management/key employees, lenders, investors

You cannot **over** communicate

Share cash runway and operating plans

Keep revisiting and revising, resharing

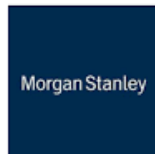


Summary

- Be proactive, don't wait to cut expenses, capital spending or seek additional capital until you need it
- Monitor sales, A/R, A/P and covenants weekly and share with senior management so they reflect situation in decision-making
- Create at least 3 operating plans
- Draw down available debt, secure additional funding
- Prioritize cash preservation over growth
- Communicate early and often (weekly, if necessary) to all parties: employees, lenders, investors, partners
- Get FREE cash runway tool [MuseAdvisors.com](https://www.MuseAdvisors.com)

Janet DeFrino

Outsourced CFO, Strategic Advisor
20+ years financial analyst public companies
10 years early stage investor
3x entrepreneur
Venture Partner, 1843 Capital
Mentor and Advisor to early-stage companies



Employee Matching Gift Program

