



Startup Downturn Playbook: Finance Best Practices in Uncertain Times

Agenda

- Burkland Introduction
- Market context
- Downturn playbook
- Q&A

Burkland Introduction

Build The Right Foundation Scale With Confidence

600+

Venture-Backed
Startup Clients

\$6.5B+

Venture Funding
Raised by Clients

\$10M+

Client R&D Tax
Credits /Year

50+

Venture Capital
Partners



Fractional CFO

Strategic guidance to scale your startup faster and achieve your vision sooner



Startup Accounting

Accounting and bookkeeping that scale with your needs



Tax Services

Tax preparation and tax credit research for growing startups



People Operations

Strategy and management of your HR so you can focus on building a great team

Why Do You Need a Downturn Playbook Now?

Recent commentary from the venture ecosystem

"No one can predict how bad the economy will get, but **things don't look good**. The safe move is to plan for the worst." - Y Combinator

"You have to honestly assess your ability to fundraise in a downturn. The bar has gone way up. Give yourself time to fix any problems in your business. **Cut burn ASAP** to give yourself that time."
- David Sachs, Craft Ventures

"Global **funding slowed dramatically** in the second quarter of 2022 as investors shied away from later-stage funding bets. It also marked the first quarter with a significant drop in funding since the beginning of 2020."
- Crunchbase

"We do not believe that this is going to be another steep correction followed by an equally swift V-shaped recovery... It will be a **longer recovery**..."
- Sequoia Capital

"Founders & executives... have been quick to recognize and adjust... the cost of capital just went way up & **high cash burn rates are now impossible**."
- Bill Gurley, Benchmark Capital

"Make necessary changes to reduce spending now. The earlier you can course correct to **stretch your runway**, the more optionality you give yourself in the long run." - Jessica Peltz Zatulove, Hannah Grey VC

Startup Downturn Playbook

Four steps startup founders should take to prepare for a downturn



Keep your ear to the ground



Adjust your fundraising expectations



Know your runway & seek to extend



Build scenario plans

Step #1: Keep Your Ear to the Ground

The earlier you receive warning signals, the more valuable they are



Make client /
customer calls

Meet with your
investors

Talk to your
founders' networks

Watch your
numbers like a
hawk

Step #2: Adjust Your Fundraising Expectations

The fundraising landscape is changing, and founders must reset expectations accordingly



Expect These to Increase:

- Lead time and time investment required to raise capital
- Timeline between capital raises
- Investor-friendly terms



Expect These to Decrease:

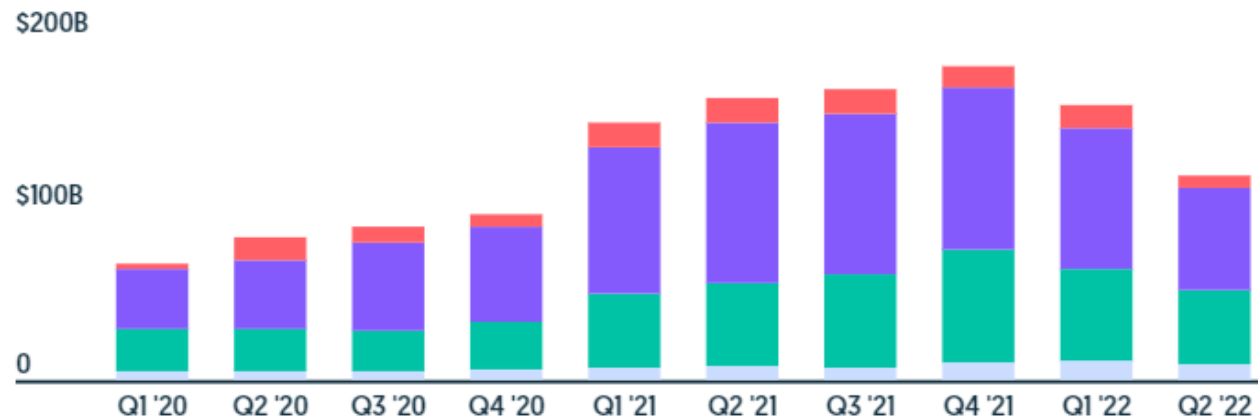
- Number of deals funded
- Amount of capital deployed
- Valuations
- Average funding size per stage

Step #2: Adjust Your Fundraising Expectations

Venture Capital Funding Globally Down Significantly in Q2 2022



Global Venture Dollar Volume Through Q2 2022



● Angel-Seed ● Early Stage ● Late Stage ● Technology Growth

	QoQ Change [%]	YoY Change [%]
Overall Dollar Volume	-26%	-27%

crunchbase

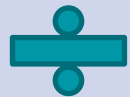


Step #3: Know Your Runway

Two methodologies for determining the number of months until you run out of cash

Simplified

Cash
balance



Monthly
cash
burn*

Recommended

Monthly financial model
forecasting # of months
until cash out

* Cash burn = EBITDA – interest – taxes – capex – change in working capital

Use Monthly Financial Model to Determine Cash Runway

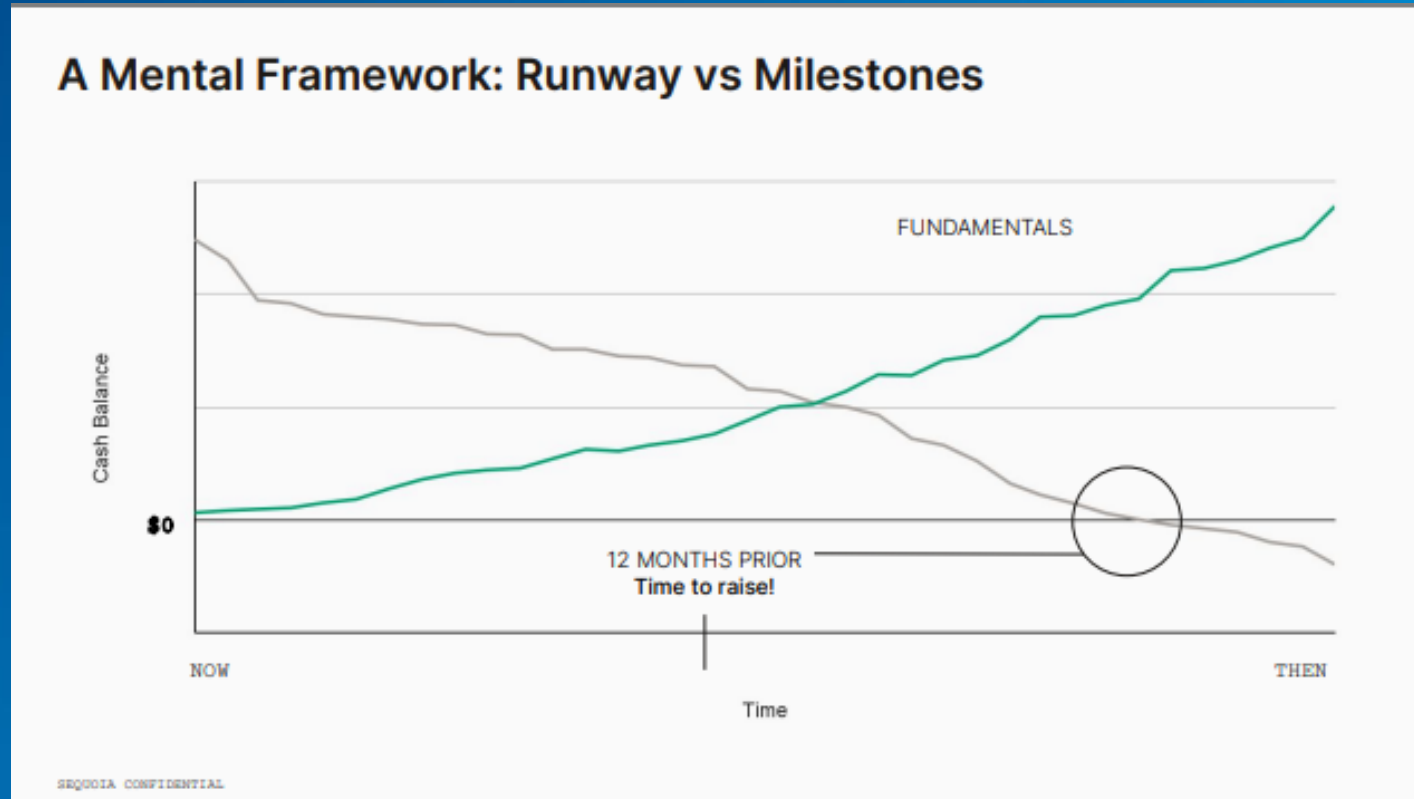
- Build three year monthly financial model
- Include income statement, balance sheet and cash flow
- Excel or Google Sheets is best tool for early-staged startups
 - Cost effective
 - Enables customization for your business model
 - Planning systems make sense at later stage
- Hire experienced finance support to build financial model
- Cash forecast in model will provide your # months runway

Excerpt of Example Model - Extend to 3 Years	Actual Jan-22	FCST Feb-22	FCST Mar-22	FCST Apr-22
Monthly Income Statement				
Revenue	102,000	108,120	115,688	124,943
% Growth	6.0%	6.0%	7.0%	8.0%
Cost of Goods Sold	20,400	21,624	23,138	24,989
Gross Profit	81,600	86,496	92,551	99,955
Gross Margin %	80.0%	80.0%	80.0%	80.0%
Total Operating Expenses	125,000	125,000	125,000	125,000
Operating Income	(43,400)	(38,504)	(32,449)	(25,045)
Non-Operating Expenses	10,000	10,000	10,000	10,000
Net Income	(53,400)	(48,504)	(42,449)	(35,045)
Monthly Statement of Cash Flows				
Net Income	(53,400)	(48,504)	(42,449)	(35,045)
Adjustments to reconcile net income/(loss) to cash flow from operating activities				
Depreciation and Amortization	2,000	2,000	2,000	2,000
Δ in Working Capital/Other	(2,600)	(7,956)	(9,839)	(12,032)
Δ in Deferred Revenue	10,000	10,000	10,000	10,000
Cash Flow from Operating Activities	(44,000)	(44,460)	(40,288)	(35,077)
Purchases of property and equipment	(3,000)	(3,000)	(3,000)	(3,000)
Cash Flow from Investing Activities	(3,000)	(3,000)	(3,000)	(3,000)
Proceeds From Convertible Debt	-	-	-	-
Proceeds from Preferred Equity	-	-	-	-
Cash Flow from Financing Activities	0	0	0	0
Δ in Cash	(47,000)	(47,460)	(43,288)	(38,077)
Cash Balance - Beginning of Period	1,000,000	953,000	905,540	862,252
Cash Balance - End of Period	953,000	905,540	862,252	824,175
Balance Sheet				
ASSETS				
Cash	953,000	905,540	862,252	824,175
Accounts Receivable	153,000	162,180	173,533	187,415
Other Current Assets	100,000	100,000	100,000	100,000
Fixed Assets	101,000	102,000	103,000	104,000
Other Assets	50,000	50,000	50,000	50,000
Total Assets	1,357,000	1,319,720	1,288,784	1,265,590
LIABILITIES AND EQUITY				
Liabilities				
Accounts Payable	145,400	146,624	148,138	149,989
Deferred Revenue	510,000	520,000	530,000	540,000
Other Current Liabilities	100,000	100,000	100,000	100,000
Total Liabilities	755,400	766,624	778,138	789,989
Equity	601,600	553,096	510,647	475,601
Total Liabilities and Equity	1,357,000	1,319,720	1,288,784	1,265,590



How Much Runway Do You Need?

Some investors have advised all companies target 24-36 months (or even drive to cash flow positive), but reality is more nuanced by company



Source: Sequoia Capital, [Extending Your Runway](#) presentation 5/26/22

Look for Opportunities to Extend Your Runway

Bucket into easy, medium and hard changes. Also consider level of impact on cash flow.



Where to look		Easy	Medium	Hard
<ul style="list-style-type: none">• People cost• Ad spend• Office exp.• Working Capital• Capex• Revenue• Fundraising	High Impact	Reduce hiring plans	Hiring freezes	Layoffs
	Low Impact	Reduce office snack budget	Eliminate gym membership subsidies	Reduce health insurance coverage



Consider Implementing Easy and Possibly Some Medium Runway Extension Opportunities Now

	Current	Easy Saving Opportunities	Adjusted
Revenue	\$110K		\$110K
Expense	\$230	-\$15K	\$215
EBITDA	-\$120		-\$105
Cash Burn	-\$100		-\$85K
Cash Balance	\$3,000K		\$3,000K
Runway	30 months	+ 5 months!	35 months



Step #4: Build Scenario Plans

- Scenario planning approach:
 1. Identify your key uncertainties and bucket them into scenarios (likely grouped by expected revenue growth)
 2. Identify responses to each scenario
 3. Build financial model for each scenario that achieves targeted runway
 4. Forecast and monitor trigger points. Be prepared to act and respond quickly
- Common to build three scenarios
- Sequoia shared scenario planning matrix shown at right in their recent [Forecasting & Scenario Planning](#) presentation
 - Helpful framework for how to think about scenario planning
 - Red/Yellow/Green definitions need to be customized by company

Sequoia Scenario Planning Matrix

	REVENUE SCENARIO A Down 0%	REVENUE SCENARIO B Down 25%	REVENUE SCENARIO C Down 50%
COST PLAN A Down 0%	3+ YRS RUNWAY	<3 YRS RUNWAY	<3 YRS RUNWAY
COST PLAN B Down 25%	FULLY FUNDED!	3+ YRS RUNWAY	<3 YRS RUNWAY
COST PLAN C Down 50%	FULLY FUNDED!	FULLY FUNDED!	3+ YRS RUNWAY



Simplified Example of Scenario Planning

	Base Case	Minor Recession	Prolonged Recession
Revenue	\$110K	\$88K _(-20%)	\$66K _(-40%)
Expense	\$215	193 _(-10%)	171 _(-21%)
EBITDA	-\$105	-105	-105
Cash Burn	-\$85	-85	-85
Cash Balance	\$3,000K	\$3,000K	\$3,000K
Runway	35 months	35 months	35 months



Regular Forecasting and Waterfall Analysis

Implement monthly forecasting process and track changes via waterfall analysis

- Forecast based on “most likely” scenario
- Identify trigger points that will drive you to shift to an alternate scenario, and implement associated contingency plans
- Waterfall analysis is a helpful tool to track the trigger points and not get misguided by small incremental monthly changes that in aggregate are large variances to original plan; choose several key metrics to monitor

Waterfall Analysis Example

		Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	FY22
Revenue (K \$'s)														
	Plan	63	67	71	77	83	89	99	110	119	130	141	151	1,202
Jan-22	Actual + Fcst.	42	48	52	58	65	72	82	93	103	114	125	135	990
Feb-22	Actual + Fcst.		41	48	54	60	67	78	88	98	110	121	131	938
Mar-22	Actual + Fcst.			40	48	51	54	57	60	63	67	75	85	683
Apr-22	Actual + Fcst.				52	58	61	64	67	70	74	79	87	735
May-22	Actual + Fcst.													
Jun-22	Actual + Fcst.													
Jul-22	Actual + Fcst.													
Aug-22	Actual + Fcst.													
Sep-22	Actual + Fcst.													
Oct-22	Actual + Fcst.													
Nov-22	Actual + Fcst.													
Dec-22	Actual + Fcst.													

Questions?