Economic & Financial Plan

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Subvencionat pel Departament d'Empresa (**Programa Primer)** i amb el cofinançament del Fons Social Europeu Plus

Introduction to Economic &Financial Plan

To execute the economic-financial plan, we will use the calculation sheet and start introducing the economic information that comes from the…..



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Part 1 · Today's Journey

Impuls Agritech

1	2	3	4	5
Warm-up	**Financial statements**	**Treasury**	**Business analysis**	**Sensitivity**
Poll: how long can you run before your first sale?	Balance Sheet Puzzle + where each euro goes	The Harvest Campaign: predict & reveal	BEP challenge + Risk Committee role-play	Shock Roulette
5'	20'	20'	35'	15'

Thread case: RegaSmart, a fictional agritech start-up. In Part 2 you build your own plan.

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POLL · 5 MIN

Warm-up Poll

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Before your first sale, how many months can your project run with the money you have?

A	B	C	D	E
Less than 3 months	3 – 6 months	6 – 12 months	More than 12 months	No idea… yet!

Vote at **menti.com** · code: _____

Count every cost you will pay until your first customer pays you. By the end of today, you should be able to answer with a number.

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Accountancy, the basics of the Economic & Financial Plan

- In the Financial Plan Chapter of the Business Plan, **the first step is to define**, without exaggerating on the numbers, the main financial aspects of the project:
  - **Initial investment required.**
  - **Available financing sources.**
  - **Sales forecasts for the 3-5 initial years.**
  - **Treasury plan for the first 3-5 years.**

- It is important **not to be excessively optimistic and above all reasonably justify and explain each number** and forecast.

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Meet RegaSmart, Our Thread Case

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RegaSmart

Fictional agritech start-up from Lleida.

Sells soil-moisture sensor kits plus an irrigation app to fruit growers and cooperatives.

Sales season: February – May, before irrigation starts.

We use its numbers in every activity. Then you repeat each step with your own project.

€1,200
price per sensor kit

€700
variable cost per kit

€30 / month
app subscription per farm

€8,000 / month
fixed costs (salaries, rent, marketing)

200 kits
sales target, year 1

€30,000
cash at the start

Keep this slide in mind: every RegaSmart activity uses only these six numbers.

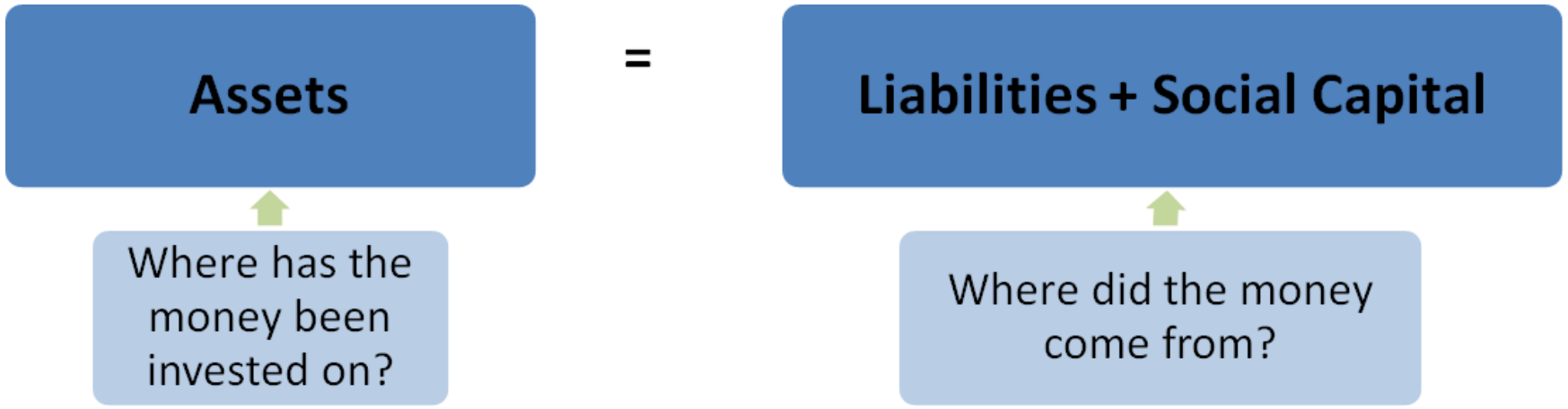
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What are the Financial Statements

Investment and Financing Plan	When creating a company it shows where the investment has gone and what financing funds have been used. The difference is a funding that enables us to know what the initial treasury will be.
Balance Sheet	Reflects the property structure of the company: Goods and Rights (what the company owns), gathered in the assets Financing sources used to achieve these goods (what the company owes), gathered in the liabilities
Result Account	Show the benefits or losses of the company's activity. To do so, it compares incomes and expenses of the period
Treasury Statements	It gathers the collections and payments of the company. It is formed by Cash Money, Money in bank accounts and temporary financial investment

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The Investment and Financing Plan



Business accounting is based on the two-sided nature of the accounting equation:

- **Assets:** Rights and goods; property of the company.
- **Liabilities:** Credit extended to the business.
- **Social Capital:** Capital invested by owners in the business.

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The Investment and Financing Plan

Total investment	Total financing
▪ Intangible Assets **Patents/Licenses** **Computer Applications** **Transfer Rights** ▪ Material Fixed Assets **Ground/Constructions** **Machinery** **Information process equipment** **Furniture** **Transport Elements** ▪ Long Term Deposits ▪ Stock ▪ Constitutional Expenses ▪ Funding ←	▪ Own Resources ▪ Credit/Loans ▪ Capitalization /Subventions **It's the initial Treasury Statement.**

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The Investment and Financing Plan

Year 0	Year 1, Year 2, Year 3, etc.
Initial Investment	**Periodical Expenses**
Material assets Intangible assets Bonds and deposits First supply Constitution expenses Treasury funds	Variable expenses Fixed expenses
Initial Financing	**Periodical Income**
Own resources Debt capital	Sales

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QUICK CHECK · 5 MIN

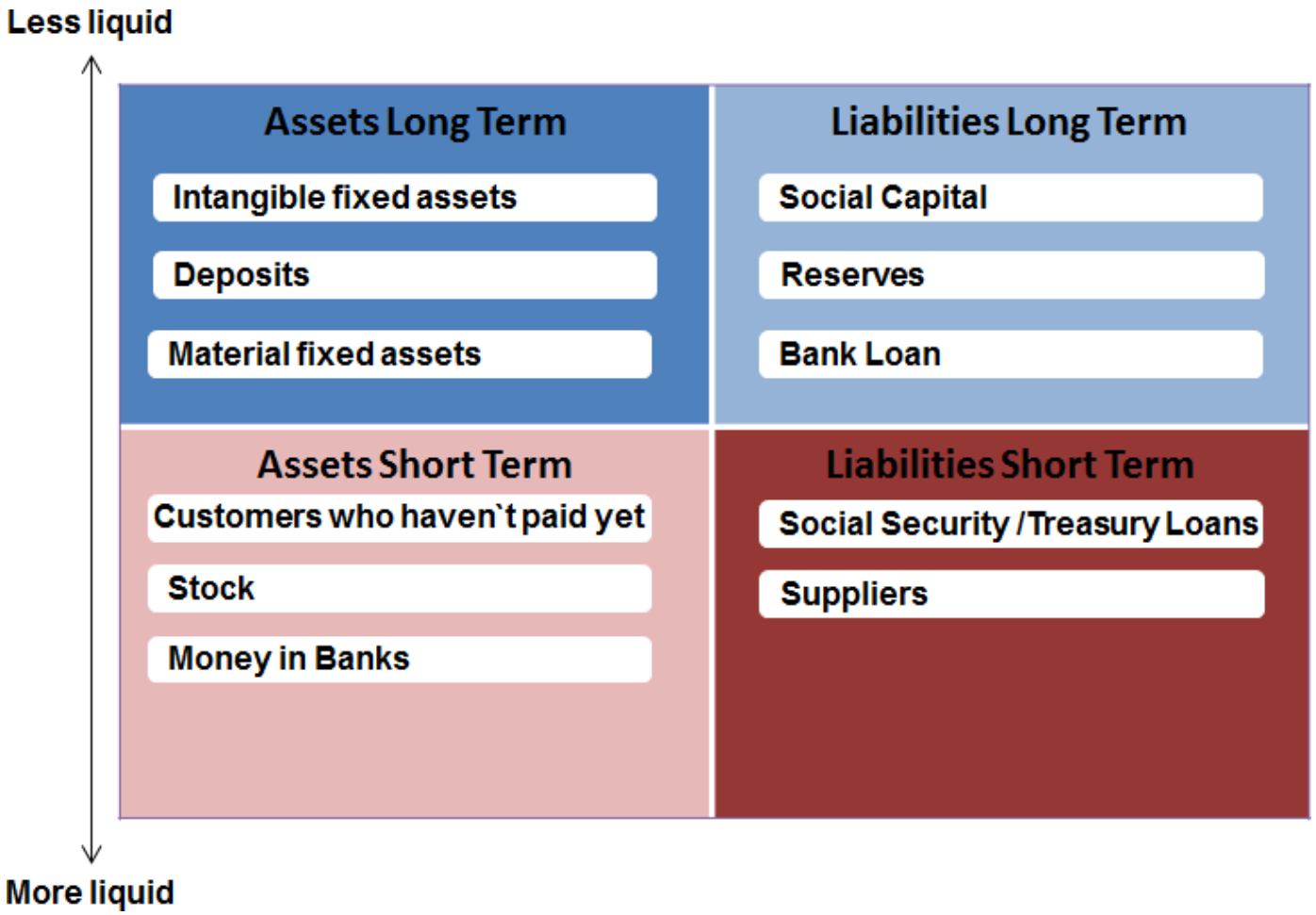
Where Does Each Euro Go?

Source	Cash flow	P&L	In the template
Equity (partners, angels, VC)	Cash in on the date received	Nothing: equity is not income	Funding Strategy · section 1
Operating grant	Cash in on the date received	Income in the month received	Section 2 · type ‘Operating’
Investment grant	Cash in on the date received	Income spread over the asset’s life	Section 2 · type ‘Investment’ + years
Bank or public loan	Cash in at disbursement, instalments out every month	Only the interest is an expense	Section 3 → Loans tab

Quick check: in March RegaSmart receives a €12,000 grant for a machine that lasts 5 years. How much appears in the year-1 Cash flow? And in the year-1 P&L?

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Balance Sheet



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TEAM ACTIVITY · 15 MIN

Balance Sheet Puzzle

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In teams of 3–4

1. Place each RegaSmart card in Assets, Liabilities or Equity.
2. Split assets and liabilities into long-term and short-term.
3. Add them up. Does it balance?

First team to balance wins.

Delivery van €18,000	**Irrigation app (software)** €25,000	**Sensor design patent** €7,000
Warehouse rental deposit €2,000	**Sensors in stock** €9,000	**Invoice pending from a cooperative** €14,000
Cash in the bank €15,000	**Bank loan (5 years)** €40,000	**Supplier invoice pending** €8,000
Social Security & taxes due €3,000	**Founders' capital** €45,000	**Loss of the year** –€6,000

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Profit & Loss Account

- It compares Incomes Vs. Expenses
- It's an indication of the company's profitability
- A company which permanently has greater expenses than incomes is not viable, it cannot last over time

Total Income
- Purchases/Works by other companies (e.g. primary material for production)
= Contribution Margin
- External Services (e.g. publicity, MKTG)
- Personnel Expenses (e.g. salaries)
= EBITDA
- Amortization
- Provisions for Depreciation
= Operation Results
- Financial Expenses
= Results Before Taxes
- Tax
= YEAR RESULT

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Treasury Account

- It gathers the collections and payments of the company.
- It is formed by **Cash money, Money in bank accounts and temporary financial investment**.
- Payment Terms are a key element to build this statement.
- Incomes/Payments are linked to Collection/Payments, but they not necessarily coincide.
- **What happens if the Final Treasury Balance is Negative?**
  - Liquidity Problems
  - We must analyse where it comes from: if it is punctual or due to a lack of solvency (results account negative: expenses permanently higher than incomes).

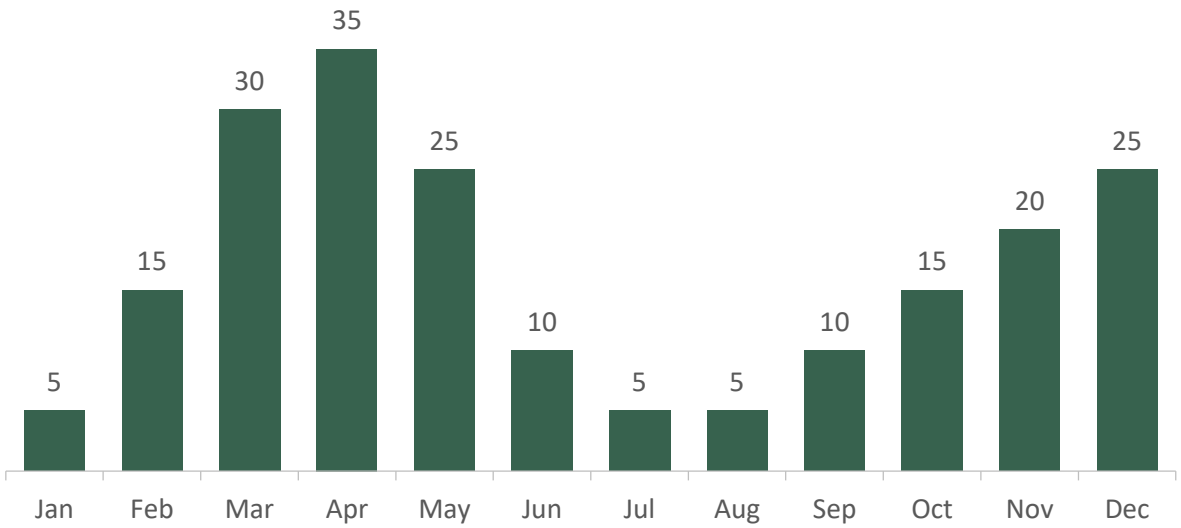
Initial Treasury Balance
+ Collection of the period
- Payments of the period
Final Treasury Balance

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PREDICT & VOTE · 10 MIN

Harvest Campaign: Predict

RegaSmart: kits sold per month (year 1)



Same 200 kits. Same profit: **+€4,000.**
Only change: the cooperatives now pay **90 days** after delivery instead of on delivery.

What is RegaSmart's lowest cash balance during the year?

A Still positive

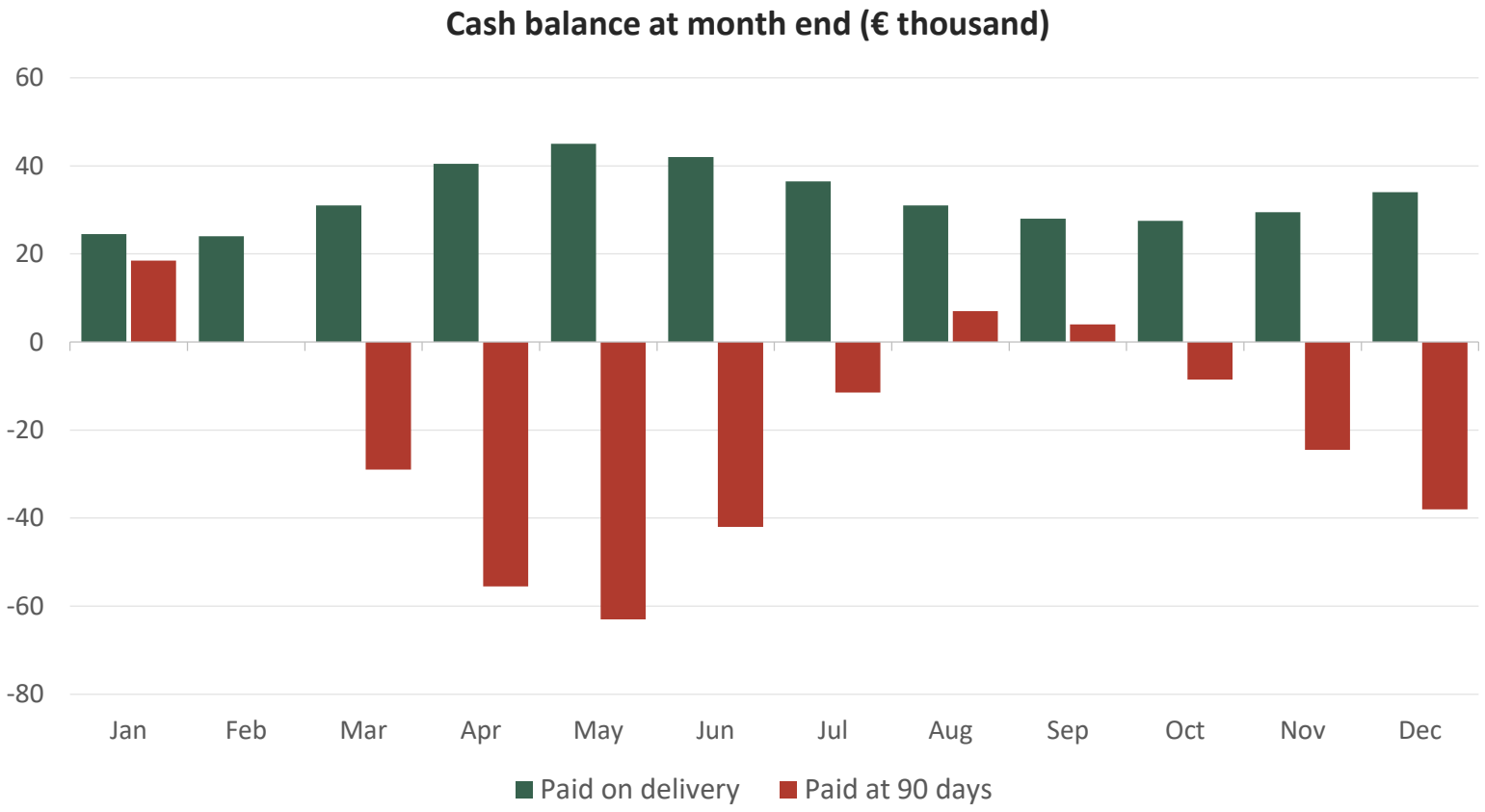
B Around –€10,000

C Around –€30,000

D Worse than –€50,000

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Harvest Campaign: Reveal



–€63k

lowest cash, in May, when paid at 90 days

€108k

cash gap in May between the two scenarios

+€4k

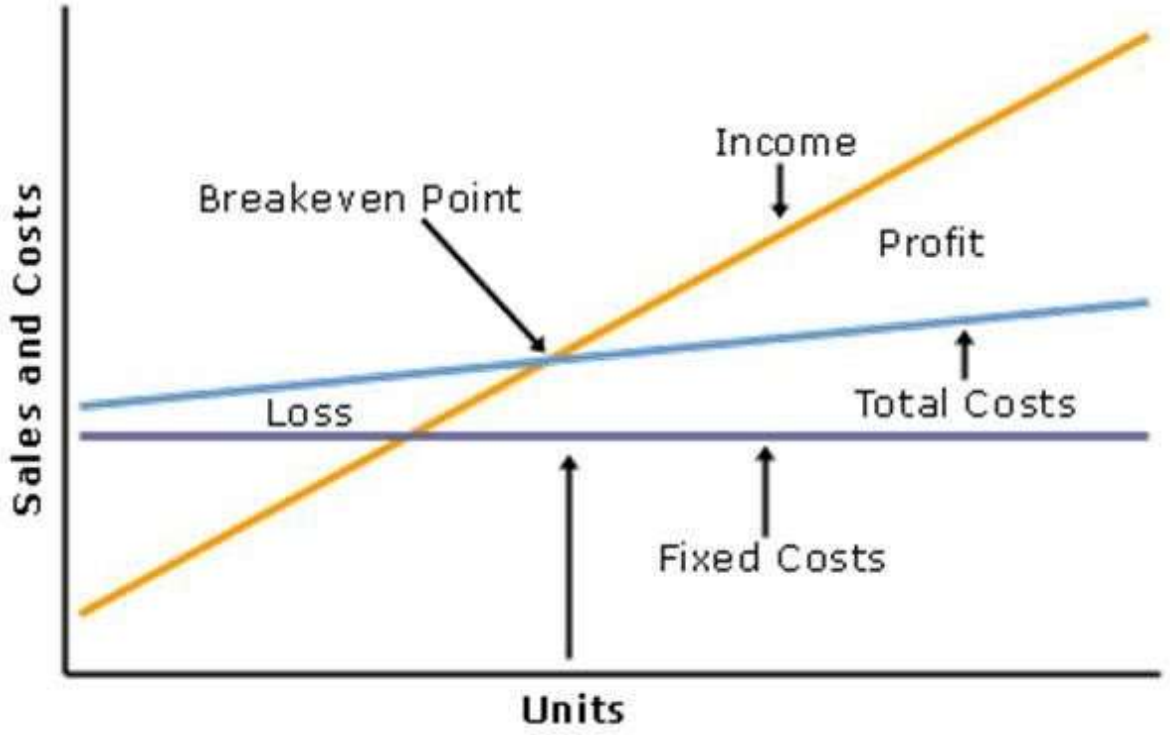
profit is identical in both scenarios

Profit ≠ cash.

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Business Analysis: Breakeven Point

- It shows how much the company has to invoice at least to cover all its expenses (both fixed and variable).



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Business Analysis: Breakeven Point

How many Units shall we sell in order to reach the **BEP**?

- Selling Price of a specific product (SP): 100€
- Variable Cost (VC): 50€
- Fixed Cost (FC): 200.000€

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Business Analysis: Breakeven Point

If Incomes = Expenses		
→ SP * Number "X" of Units = (VC * Number "X" of Units) + FC		
100€ * X	= (50€ * X) + 200.000€	
(100€ * X) – (50€ * X)	= 200.000€	
50€ * X	= 200.000€	
X	= 200.000€/50€	= 4000 Units of Product.

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CHALLENGE · 15 MIN

Your Turn: RegaSmart's BEP

Data: price €1,200 per kit · variable cost €700 per kit · fixed costs €96,000 per year

Round 1 · Guess

Before calculating, write your gut-feeling on a post-it: how many kits per year to break even?

1 min

Round 2 · Calculate

How many kits does RegaSmart need to sell per year to break even?

It plans 200 kits: what is its safety margin?

7 min

Bonus round

Each farmer also pays the app: €30/month, costing RegaSmart €10/month. How does the BEP change in year 1?

7 min

Then: calculate your own project's BEP and share it in one sentence: "We break even at … units / € per year."

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Business Analysis

SOLVENCY & LIQUIDITY:

- **Debt Ratio**: Relation between the Debts of the business and the Equity and Liabilities. The lower, the better!!!
- **Funds' Performance**: Relation between the Debts of the business and the Equity. The lower, the better!!!
- **Working Capital**: Show our capacity to face to short time debts. The higher, the better!!!
- **Inventory turnover:** is a ratio showing how many times a company has sold and replaced inventory during a given period.

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Business Analysis

- **ECONOMIC BUSINESS GENERATION**
- **Breakeven Point:** If you reach this amount, you won't gain or lose money.
- **EBITDA (Earnings Before Interests, Taxes, Depreciation and Amortization):** Gross benefit of the business. The higher, the better!!!
- **Profitability Income:** Measures the profitability of the benefits in relation with the sales.

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Business Analysis

PROFITABILITY OF THE INVESTMENTS

- **Return On Investments (ROI)**: Shows the profitability of the Investments in relations with the Benefit before Taxes. The higher, the better!!!
- **IRR** (Internal Rate of Return): it measures the opportunity cost of the benefit
  - **IRR** > Interest rate of the market → Engage the business
  - **IRR** < Interest rate of the market → Leave the money in the bank
- **Payback** : it's the time taken to recoup the investment. The sooner, the better!!!
- **NPV** (Net Present Value): it measures the future cash flows (benefit) in the present time.

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ROLE-PLAY · 20 MIN

Role-play: The Risk Committee

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The Bank

"Can you repay me every month?"

Asks about:

- Debt ratio
- Working capital
- Treasury: lowest month

The Public Lender

"Do the founders have skin in the game?"

Asks about:

- EBITDA
- Funds' performance (debt / equity)
- Founders' capital

The Business Angel

"When and how much do I get back?"

Asks about:

- ROI
- IRR vs. market interest rate
- Payback and NPV

1 Team pitches its key numbers
2 min

2 Committee asks 3 ratio questions
3 min

3 Committee votes: fund · fund with conditions · decline
1 min

4 Rotate roles

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Business Analysis: SENSITIVITY ANALYSIS

- It measures the different scenarios we could meet if the initial conditions fixed vary.
  - If my incomes forecast came down to 5%, would my company still be profitable?
  - If my incomes forecast came down to 10%, would my company still be profitable?
  - If my purchase expenses increased 5%, would my company still be viable?
  - If my structure expenses increased 10%, would my project still be viable?
- The sensitivity analysis shows us which external disruptions or deviations of the forecast we can be more sensitive to.

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TEAM ACTIVITY · 15 MIN

Shock Roulette

Base case: 200 kits · year-1 profit +€4,000 · BEP 192 kits. Spin the wheel and recalculate.

1 Drought
Sales volume falls 30%

2 Energy crisis
Fixed costs rise 20% (diesel, electricity)

3 Late grant
A €20,000 grant arrives 6 months later

4 Big cooperative
Your largest client demands 120-day payment

5 Chip shortage
Component costs rise 15%

6 New competitor
You must cut your price by 20%

For each shock: Does it hit profit, cash or both? · New profit / BEP? · What would you do? · Then test it in the template: levers P&L C4:F4, collection days Cash flow C4, grant dates in Funding Strategy.

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Thank you!

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