

Maximizing Founder Wealth Creation

Through Effective Tax and Corporate Finance Strategies

Participants will receive an email within 48 hours with a link to the slide deck and recording.

Learning Objectives



During today's webinar, participants will:

- **Review** Tax Optimization
- **Identify** Corporate Finance Strategies
- **Discuss** Dilution Fundamentals

Armanino Overview



PURPOSE

To be the **most innovative** and **entrepreneurial** firm that makes a **positive impact** on the lives of our **clients**, our **people** and our **communities**.

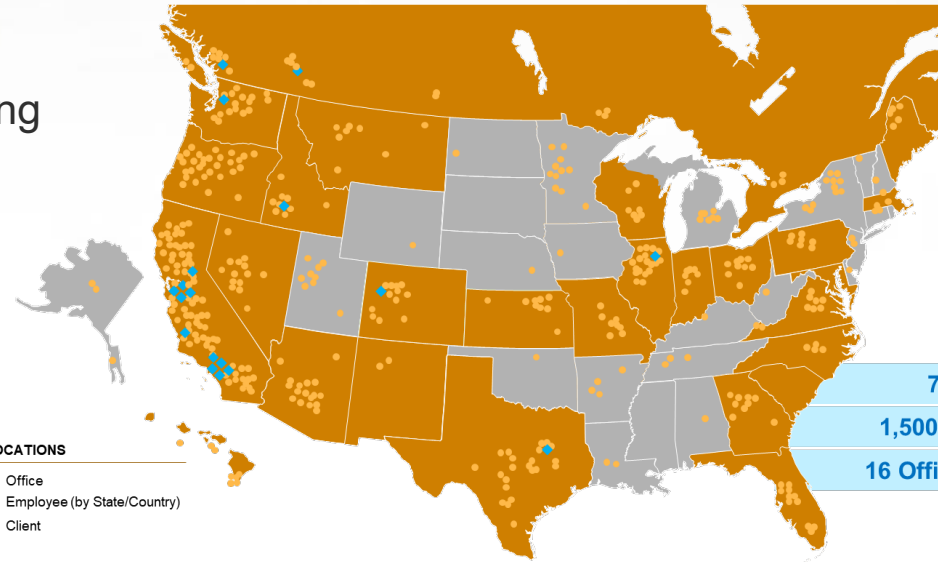


SNAPSHOT

- 1,500+ Employees
- 21st Largest CPA & Consulting Firm in the Nation
- Team Members Across U.S.
- Top Partnerships With Technology Partners



LOCATIONS



- CALIFORNIA**
 - San Ramon
 - San Jose
 - San Francisco
 - Folsom
 - Los Angeles (2)
 - Irvine
 - El Segundo
 - Woodland Hills
 - San Luis Obispo
- TEXAS**
 - Dallas
- WASHINGTON**
 - Seattle
- IDAHO**
 - Boise
- COLORADO**
 - Denver
- ILLINOIS**
 - Naperville
- CANADA**
 - Vancouver

7,000+ Clients

1,500+ Employees

16 Office Locations

RECOGNITION & AWARDS



Team



John Kogan

*Director, Consulting
Strategic Finance Outsourcing*



Andrea Mannering

*Senior Manager, Consulting
Strategic Finance Outsourcing*



Yu-Ting Wang

Partner, Tax



Tom Bondi

Partner, Tax

AGENDA

- Tax Optimization
 - Entity Structure
 - LLC, C Corp or S Corp?
 - Harmonizing Corporate with Personal Tax
 - Founder vs. Investor
- Corporate Finance
 - Understanding Corporate Finance
 - Reporting
 - Analysis
 - Forecasting – See the Future Before Living It
- Dilution Discussion
- Summary

Tax Optimization

TAX – Entity Structure

- Choice of Entities
 - SMLLC (Single Member Limited Liability Company)
 - LLC, Taxed as Partnerships or Corporations
 - Corporations
 - S Corporation
 - C Corporation

- How to go about selecting the correct choice
 - What will the company be doing
 - What does the future look like
 - Types of business may warrant further considerations, not always clear
 - Do the founders have a meeting-of-the-minds
 - How are you holding title to ownership

TAX – Capitalization Of Company

- Capitalization of company
- What might a typical corporation at formation look like from a stock perspective
- Qualified small business stock
- What other tax considerations should founders be aware of

TAX – Harmonizing Corporate / Personal Tax

- Executive Compensation
 - How does a founder get compensated
 - What is the tax impact for cash compensation vs equity compensation
 - Cash compensation: benefits
 - Equity compensation: founder shares, options, 83(b) election

- Exit Strategies
 - M&A
 - Sale of company stock vs sales of company assets
 - Noncompete
 - Earnout
 - Venture funds – more investors
 - Dilution
 - IPO

Corporate Finance

Finance Has Two Primary Jobs

- Report and analyze to understand the past and improve
- Forecast to chart a path to a profitable future
- Use both to succeed with your company strategy and reach your goals

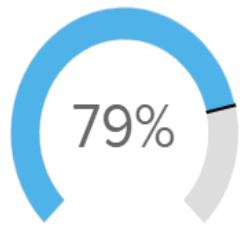


Job 1a: Reporting

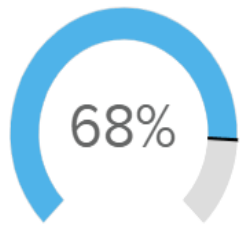
- GAAP reporting doesn't help you understand 'why'
- ...And it misses all the good stuff
- Based on a Chart of Accounts built years ago by your first accountant
- Non-financial can be as or more important than financial information
- What are your KPIs

Income Statement

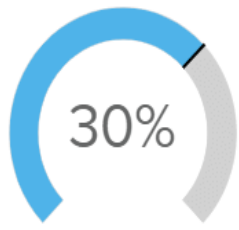
Revenue	118,086	131,345	142,341	150,772
Cost of Goods Sold (COGS)	48,004	49,123	52,654	56,710
Gross Profit	70,082	82,222	89,687	94,062
Expenses				
Marketing, Advertising & Promotor	22,658	23,872	23,002	25,245
General & Administrative	10,125	10,087	11,020	11,412
Depreciation & Amortization	18,150	17,205	16,544	16,080
Interest	2,500	1,500	1,500	1,500
Total Expenses	53,433	52,664	52,066	54,237
Earnings Before Tax	16,649	29,558	37,622	39,825
Taxes	4,858	8,483	10,908	11,598
Net Earnings	11,791	21,075	26,713	28,227



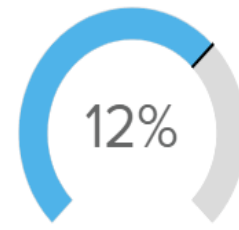
GROSS PROFIT MARGIN



OPEX RATIO



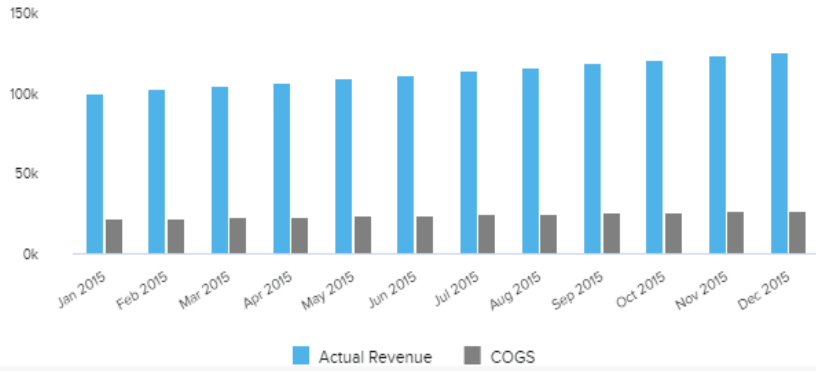
OPERATING PROFIT MARGIN



NET PROFIT MARGIN

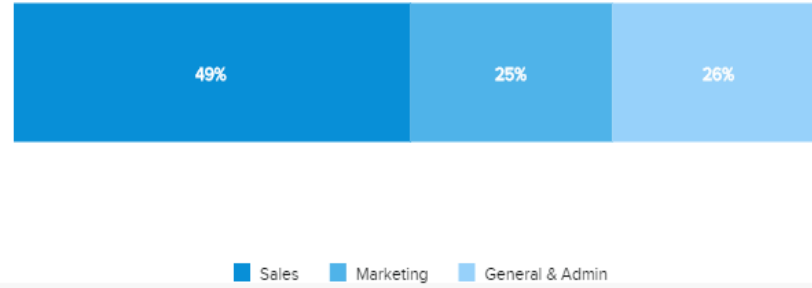
Revenue & COGS

Month-to-Month | YTD



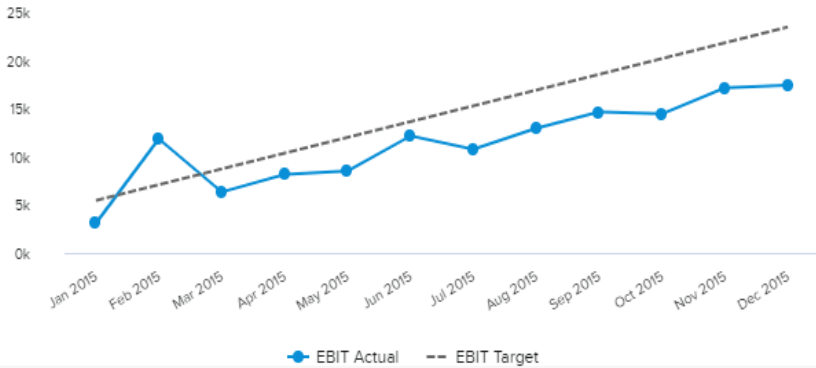
OPEX

Year-to-Date



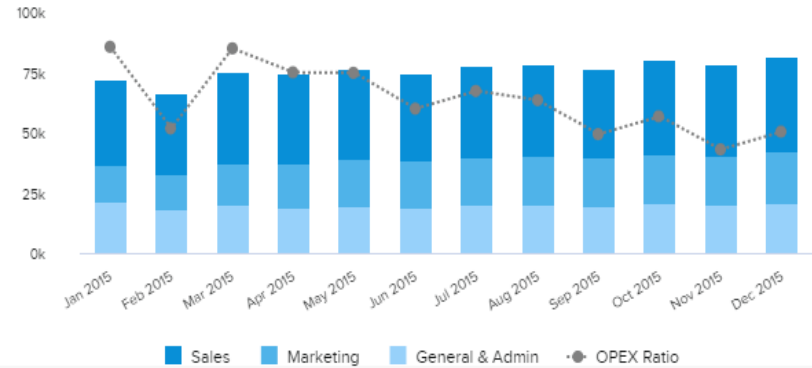
Earning before Interest and Taxes

Month-to-Month | YTD



OPEX

Month-to-Month | YTD



INCOME STATEMENT

Revenue 1,351,503 \$

COGS 289,859 \$

GROSS PROFIT 1,061,698 \$

OPEX 913,015 \$

Sales 446,901 \$

Marketing 225,951 \$

General & Admin 240,117 \$

Other Income 7,440 \$

Other Expenses 18,804 \$

OPERATING PROFIT (EBIT) 137,329 \$

Interest and Tax 58,943 \$

NET PROFIT 78,386 \$

Revenue YTD 2016



Quick Ratio | Current Ratio | Debt-Equity

1.9:1

Quick Ratio Target: 1.00 or higher

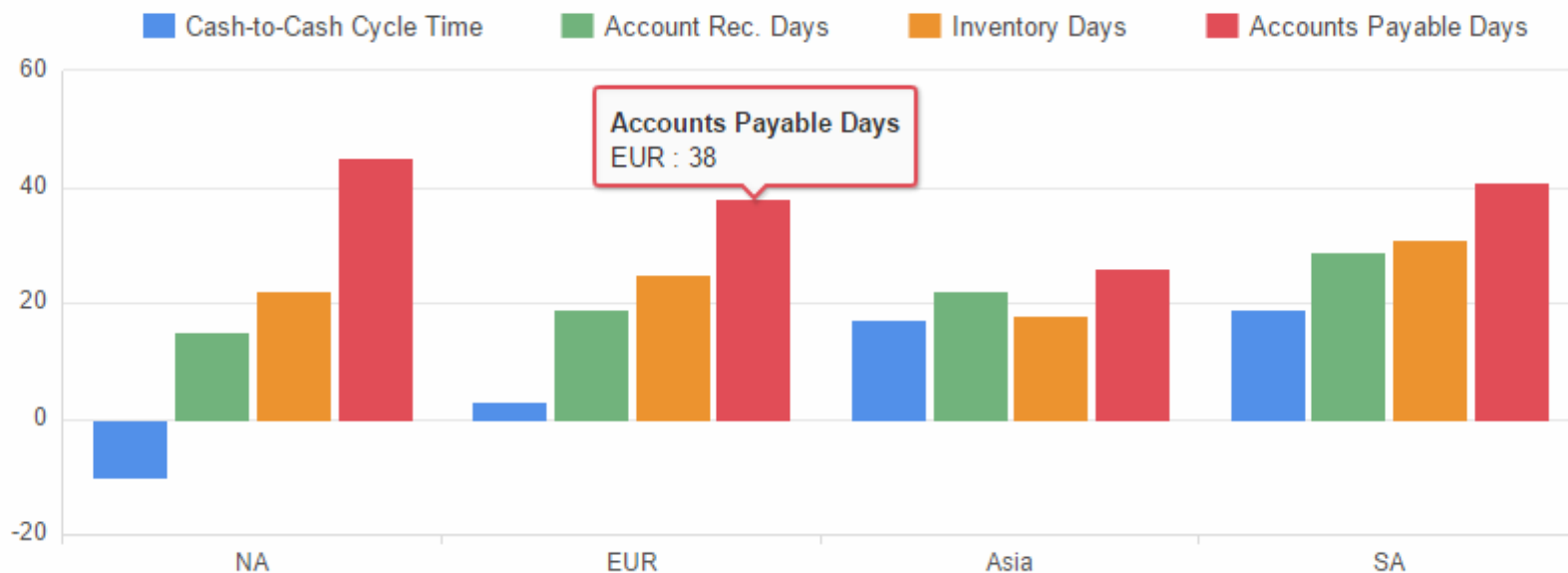
2.5:1

Current Ratio Target: 2.00 or higher

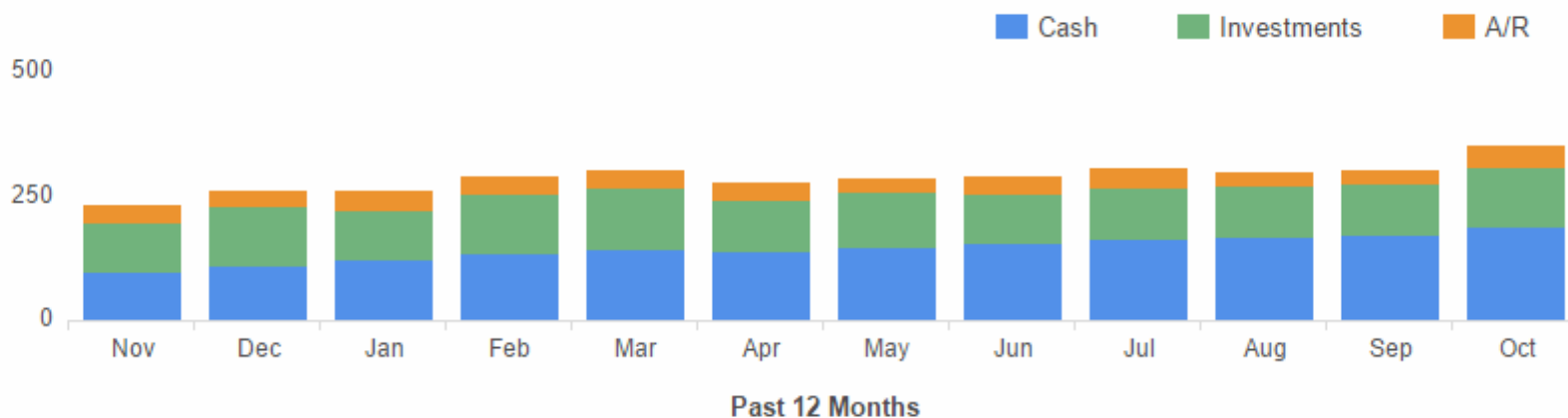
0.7:1

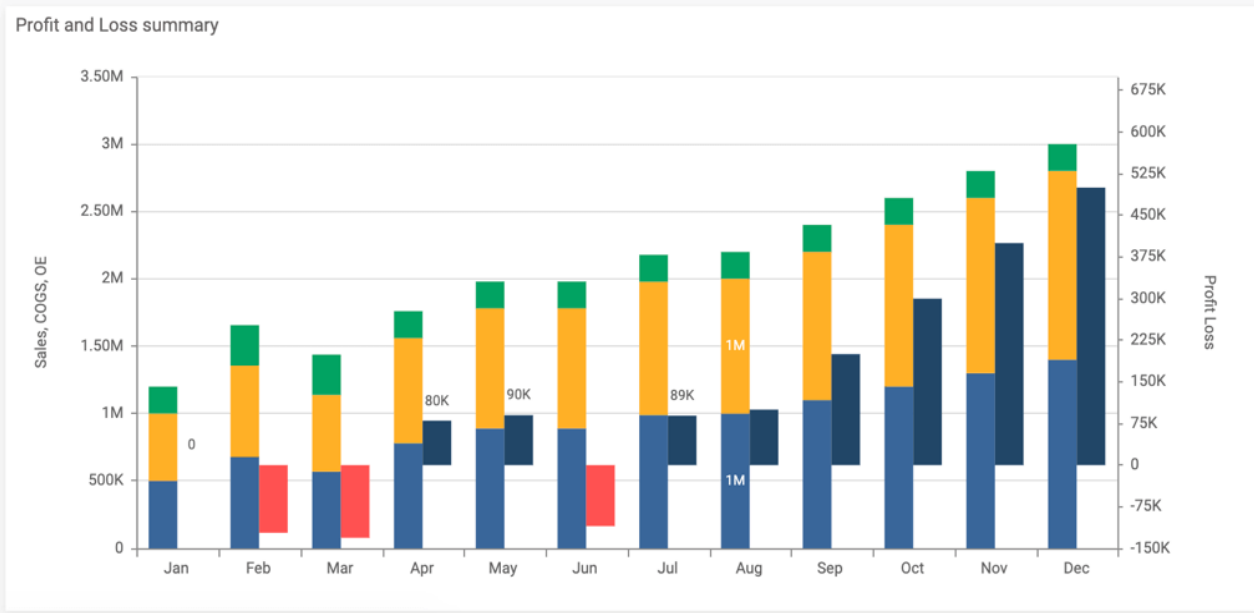
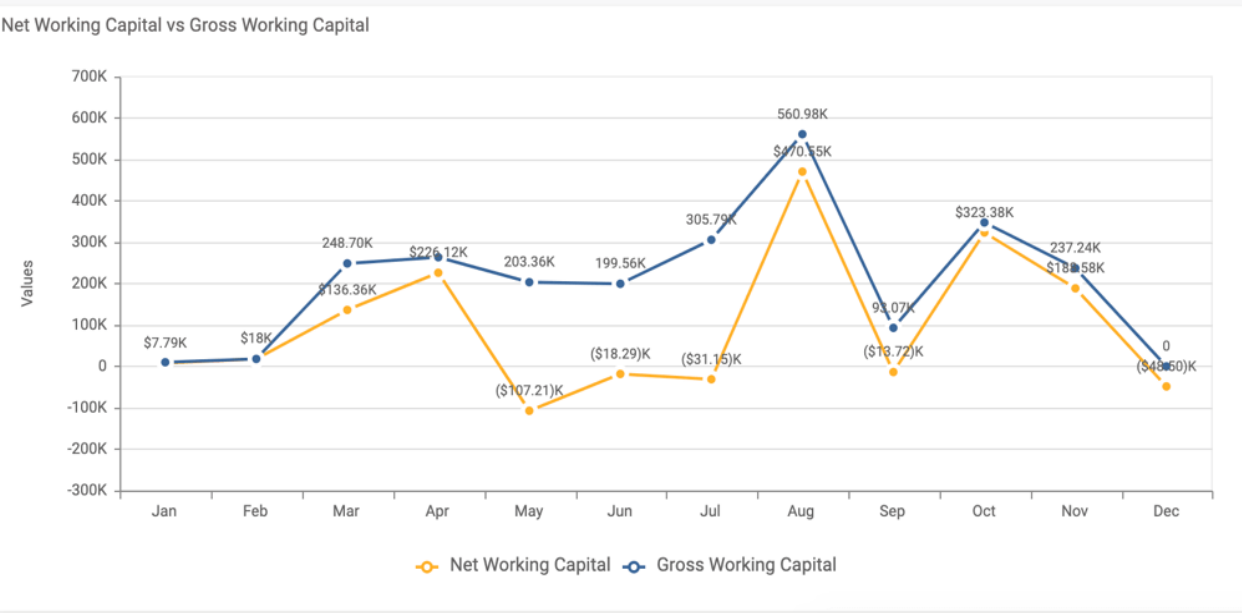
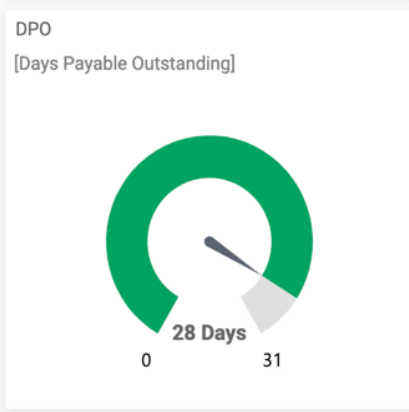
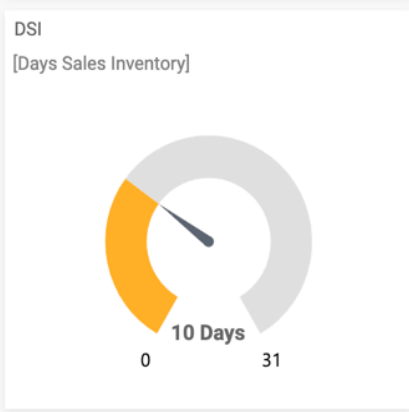
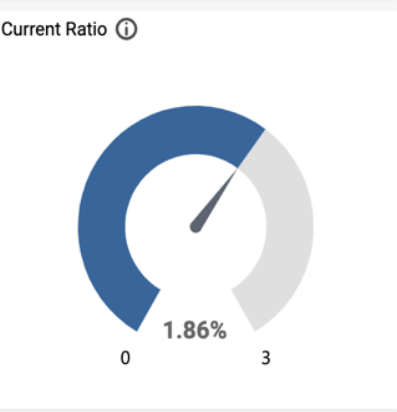
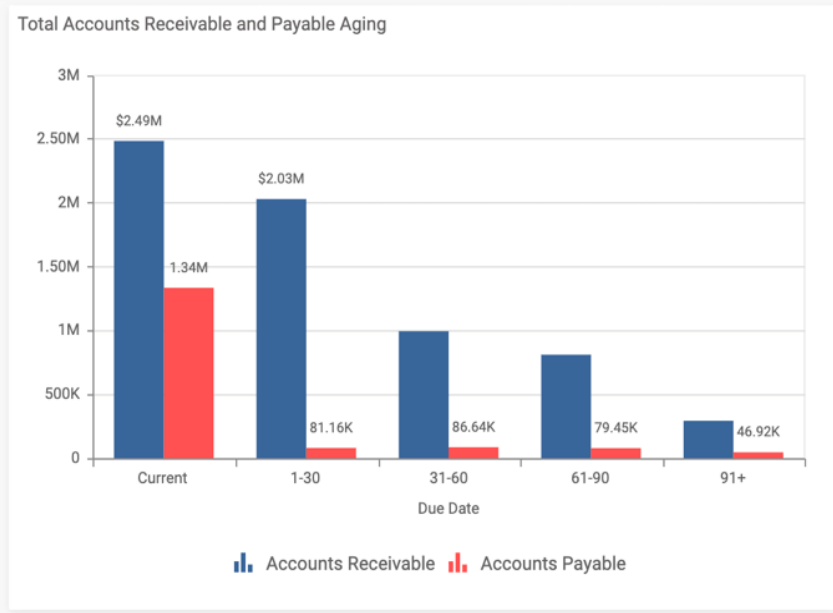
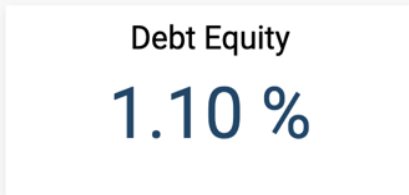
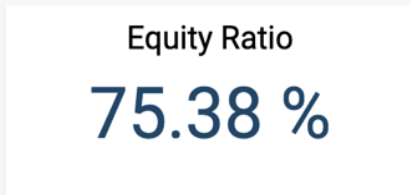
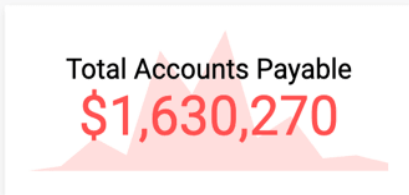
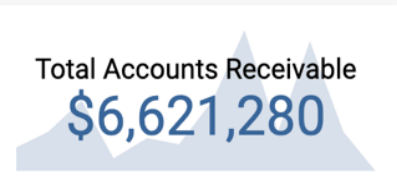
Debt to Equity Target: 0.50 or less

Global Financial Performance



Short Term Assets





Job 1b: Analysis

- Analyze anything performance-related
- Every major function has its analytical needs
- Every KPI has its analysis
- Analysis is to a) *Measure* and b) *Improve*

Sales

- Sales Cycle Length
- Quota Achievement
- Churn
- Avg Deal Size
- M/M Pipeline Value
- So Many More...

Marketing

- MQLs and SQLs
- Funnel Conversion Rate
- Customer Acquisition Cost (CAC)
- Lifetime Value (LTV)
- Return on Ad Spend
- So Many More...

Operations

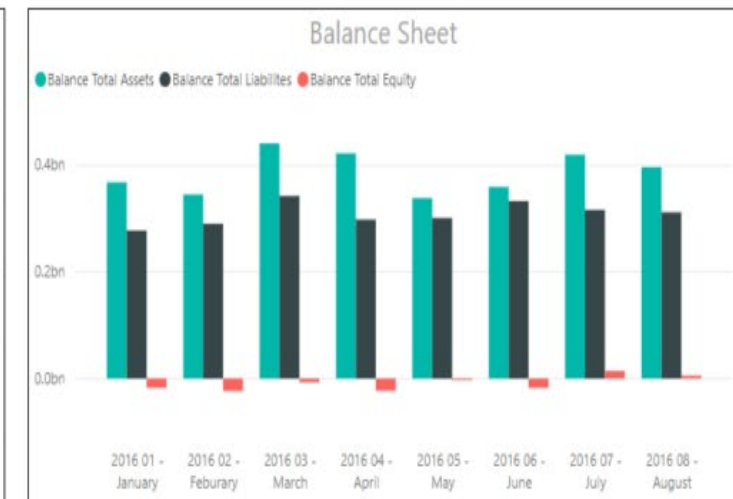
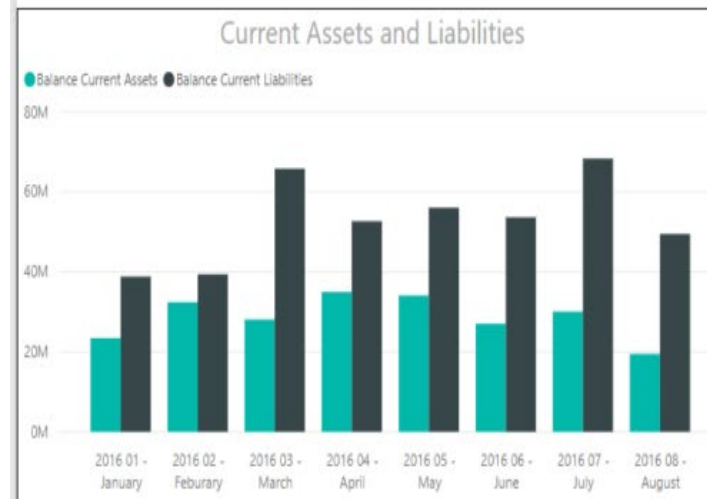
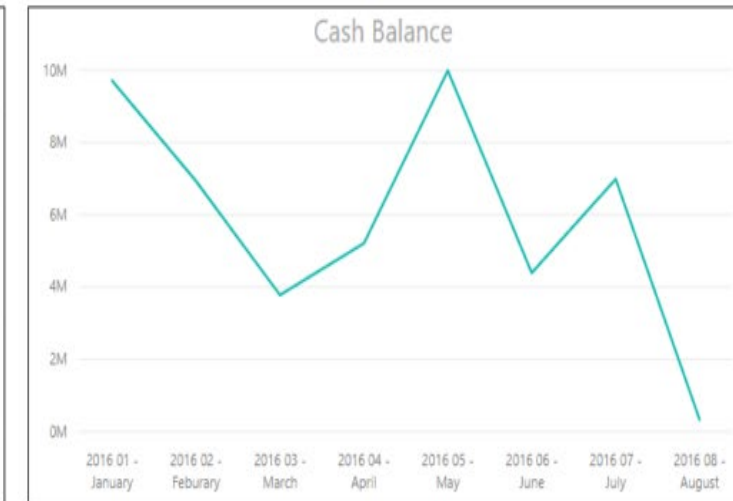
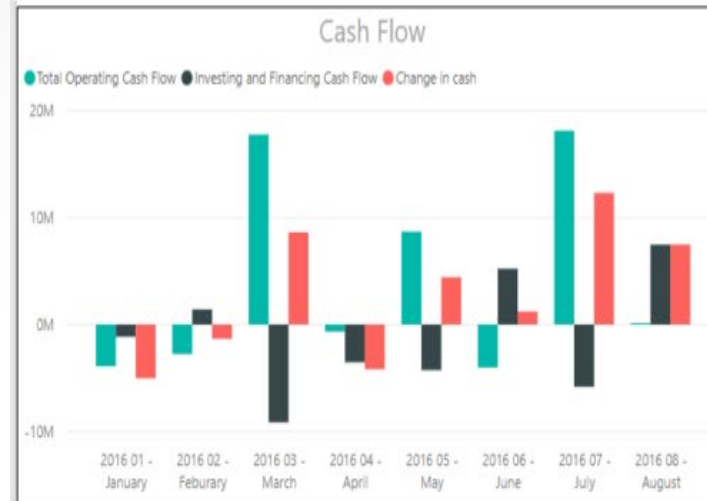
- Employee Efficiency
- Revenue/Employee
- Customer Satisfaction
- Error Rates/Rework
- So Many More...

Financial

- EBITDA
- Contribution Margin
- Net Cash Flow
- Liquidity Ratio
- A/R Turnover
- So Many More...

Job 2: Forecasting

- See the future without having to live it
- Change it before it happens



Key Forecast Elements

- Drive-based revenue and cost
 - Every 5% + product with volumes and prices, and “other”
 - COGS for production or services, internal and external
 - Annualized growth with seasonality
- OPEX
 - Detailed headcount
 - Overheads
 - Outside services
- Cash
 - CAPEX
 - Debt or equity
- How long? Start with 2 years back and 5 years forward

Cap Table and Dilution Discussion

What is a Cap Table? ↖

- Track equity
 - Founder's stock
 - Investor equity
 - Stock options
 - Warrants
- Equity 'Meta-data'
 - Who: legal name of owner – may be an entity
 - When: when did ownership or right to own pass to recipient
 - How many shares or options/warrants
 - How many dollars

	A	B	C	D	E	F	G	H
	Holder Name	Class of Stock	Certificate No.	No. of Shares	Effective Date	Issue Price per Share	Issue Reason	% of Company
1								
2	Founder 1	Common Units	1	10,000,000	4/13/2009		Founders Shares	20.5%
3	Founder 2	Common Units	2	10,000,000	4/13/2009		Founders Shares	20.5%
4	Blake Larson	Common Units	3	300,000	7/23/2010		Restricted Stock f	0.6%
5	Lindsey Conway	Common Units	4	150,000	7/23/2010		Restricted Stock f	0.3%
6	Prince Alvarado	Common Units	5	20,000	11/3/2010		Exercised options	0.0%
7	Truman Henry	Common Units	6	5,000	8/27/2012		Exercised options	0.0%
8	Marietta Gonzalez	Common Units	7	340,000	12/26/2013		Exercised options	0.7%
9								
10	Total			20,815,000				

Cap Table Continued

■ KPIs

- Who owns what % of the entity
- Amounts raised
- Pre- and post-round valuations
- Founder total ownership

■ Reporting

- By class of stock
- By round
- By investor and major shareholders
- Options and warrants
- Outstanding vs. “fully diluted”

ACME, INC.				
CAPITALIZATION TABLE				
12/31/2019				
		Units	%	
I.	COMMON Units (Authorized: 52,000,000)			
	A. Founder's shares	20,000,000	40.99%	
	B. Restricted stock and exercised options	815,000	1.67%	
	Total:	20,815,000	42.66%	
II.	PREFERRED STOCK (Authorized: 24,222,463)	Units	%	Raised
	A. Series Seed Issued and Outstanding (Auth: 5,302,152)	5,302,152	10.87%	\$477,194
	B. Series A Issued and Outstanding (Auth: 10,624,998)	10,416,666	21.35%	\$1,250,000
	C. Series B Issued and Outstanding (Auth: 8,295,313)	6,822,895	13.98%	\$1,645,000
	Total:	22,541,713	46.19%	\$3,372,194
III.	2010 STOCK PLAN (Authorized: 5,546,435)	Units	%	
	A. Options Granted and Outstanding	2,654,652	5.44%	
	B. Remaining Options available under 2010 Option Plan	2,076,783	4.26%	
	Total:	4,731,435	9.70%	
IV.	Warrants	Units	%	
	A. Bank 1 Debt Warrants (Series A shares)	208,332	0.43%	
	B. Bank 2 Debt Warrants (Series B shares)	500,859	1.03%	
	Total:	709,191	1.45%	
		Units	%	
V.	Fully Diluted Shares\Securities	48,797,339	100.00%	

Dilution Fundamentals ↖

- Think about publicly traded stock values – what are they based on?
- Sentiment, and the most recent trade
- When you're a founder, you raise capital by selling shares
- Entity value is based on an agreed upon \$ amount divided by the # of shares
- E.g., entity value of \$1,000 / 100 shares = \$10.00/share

An Example

Pre-Round		
Shareholders	# of shares	% Ownership
Founder	1,000,000	100.0%
Total Shares	1,000,000	100.0%

Pre-\$ Valuation	\$ 1,000,000	Negotiated perceived value
Price/Share	\$ 1.00	
Investor A Invests	\$ 500,000	Cash
Post-\$ Valuation	\$ 1,500,000	Cash + "perceived value"

Post-Round		
Shareholders	# of Shares	% Ownership
Founder	1,000,000	67%
Investor	500,000	33%
Total	1,500,000	100%

How quickly
we go from
Full to
Two-Thirds
ownership!

Now Add Stock Options

Pre-Round		
Shareholders	# of shares	% Ownership
Founder	1,000,000	87.7%
Stock Option Pool	140,000	12.3%
Total Shares	1,140,000	100.0%

Pre-\$ Valuation	\$ 1,000,000	Negotiated perceived value	
Price/Share	\$ 0.88		

Investor A Invests	\$ 500,000	Cash	
Post-\$ Valuation	\$ 1,500,000	Cash + "perceived value"	

Post-Round		
Shareholders	# of shares	% Ownership
Founder	1,000,000	58.5%
Stock Option Pool	140,000	8.2%
Investor A	570,000	33.3%
Total	1,710,000	100.0%

By adding stock options, the Founders just dropped another 8%

Now Add Multiple Investment Rounds

Round	Pre-\$	Raised	Founder Ownership Post-Round (incl. Option Pool)	Post-Round Founder Worth <i>On Paper</i>
Pre-funding	N/A	\$0	100%	\$0
Series Seed	\$1M	\$500K	58%	\$900K
Series A	\$10M	\$5M	24%	\$3.7M
Series B	\$30M	\$10M	14%	\$5.7M

Probably don't need to remind you what "Worth On Paper" is actually worth!

[Techcrunch](#) study from 2007 to 2013 noted average successful startup raised \$41M and exited at \$243M

Tax & Finance Together: A Case Study

- A growing Amazon reseller skyrockets
- Run on the very good gut instincts of the founders, until it got too complex
- Armanino finance built a forecast that provided visibility to
 - Need for short-term capital
 - Revenue forecasting
 - Profitability
 - EBITDA
- Helped them navigate a due diligence and sale process
- Led to a change in business structure to optimize founders' tax outcomes
- Ultimately led to an offer on the business 2x bid received before SFO

Summary

- Start at the beginning with tax optimized structure
- Have a tax strategy, every year
- Don't run your business by gut alone
- Reporting, analysis and forecasting are the foundation of effective finance...
...and effective tax and finance get you to your goals faster, and with less risk!

Where Do We Go From Here...Armanino Diagnostic

- Provide us with:
 - Existing financial forecast and recent financial statements
 - Prior 2 years tax returns
- We will provide:
 - **FREE** one hour assessment of tax and finance strategies
- What & How
 - Discuss your current tax and finance situation
 - Discuss your goals for the entity
 - Freely and openly share thoughts about how to get from here to there
- Reach out to our Experts – Experts@armaninoLLP.com

Contact Us!

John Kogan

Director

John.Kogan@armaninoLLP.com

Andrea Mannering

Senior Manager

Andrea.Mannering@armaninoLLP.com

Yu-Ting Wang

Tax Partner

YuTing.Wang@armaninoLLP.com

Tom Bondi

Tax Partner

Tom.Bondi.@armaninoLLP.com