Racefields

4. Financial Projections

If you are seeking debt or equity you will need to produce financial projections. For equity you need to show how the funds you raise will be spent, and if you are a start-up you will need to show when revenues will start to appear. As you are selling shares in your new business your projections should indicate the value of the business before funds are raised and post-fundraising. This is crucial when deciding how much of your business you will need to offer investors.

If you are seeking debt (a peer-to-peer loan) your financial projections need to demonstrate that you can afford the loan payments. Investors will also want to know what impact the loan will have on your cash flow and does you taking on the proposed debt make sense.

At Racefields we produce three sets of projections; cash flow, P&L accounts and balance sheets for up to five years. We recommend that if you are producing financial projections that you do the same for both debt and equity raisings.

Projections are estimates, guesswork even, but they are vitally important when seeking to raise funds. Our golden rules are:

1. Be realistic. Don't be too optimistic but don't be too prudent either.
2. Make sure they make sense. Are they rational?
3. Your projections need to be as simple as possible. Investors are not stupid but if they cannot understand your projections it is almost certain that they will not invest (and will probably not tell you the reason why).
4. Make them dynamic so potential investors can change your assumptions to see what happens to the results.
5. List your assumptions, explain why you think your income and expenses will be as you predict.

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