

## A Short Guide to Financial Reporting for Start-Ups

*by Patrick Kedziora Board Member & Deal Flow Director*

I must admit that I struggled long and hard to come up with the most boring title I could think of for this article. The other choices were What to Do and What Not to Do After You Close Your Funding Round, Quick Ways to Tell Your Investors to F'Off and Don't Bother Me, I Don't Care About You Anymore.

As an entrepreneur, I know how difficult it is to switch from running your business to having to speak to or write to investors. Sure, you are all over them when you need their money, and you jump on calls with them on a minute's notice. But once you have their money you go back to just running the business. It's not that you don't care about them it's just that you need to focus on the business. The point is, once you have investors, they are just as important as customers – they are your leads (hopefully) for more customer introductions, introductions to other investors and perhaps most critical of all a source of sage advice and counsel.

I hear you say, "I don't have the time". I understand, it seems like a huge effort to switch from "customer building mode" to "investor hand-holding mold". So here are some tips for entrepreneurs on how to have your cake and eat it too.

Just send out a short email every month giving your investors the following numbers from the last month. Make it a template so that you or an assistant just need to update the email with the new numbers. Or think about a WhatsApp group instead of email – I find it must more immediate. Just list the following information:

- Sales for the month (highlight anything unusual and explain it)
- Expenses for the month (highlight anything unusual and explain it)
- Cash in the bank at the start of the month
- Cash in the bank at the end of the month
- Current burn rate if different from your expenses
- Number of months left before you are out of money (a. if no new money comes in and b. if revenues/profits continue coming in).
- Add a few key KPIs (Key Performance Indicators) you use to manage the business.

I do hope you have KPIs. For example: number of new customers, % recurring revenue, or month-to-month growth rate in users. Anything that gives a sense of the heartbeat of your business and how well or bad it is doing. Send this short summary to investors no later than the 10th of the month. That's plenty of time to get your numbers. If you can do it in 5 days even better. As CEO you should require this information EVERY DAY! You can't afford to wait 1, 5 or 10 days to find out you are running out of cash. So having the numbers is good business and sharing the numbers quickly is also good business.

Add a sentence or two of editorial; something like "terrible month, lost a major deal due to a customer going bust. As a result, we are ...", or "New version released, Month to Month growth up 26%". Tell a story.

**TELL THE TRUTH. DON'T HIDE BAD NEWS:** it eventually comes out and when it does investors will say "why didn't you tell us sooner" and they will hold it against you. Why? Because investors have seen startups stumble, fall or fail and the sooner they know something is wrong the sooner they can help with advice, money, or introductions.

Don't be a fool and think you can fix it alone. That's the reason you took investor money in the first place – not just for their money I hope but also for their expertise. And, if you did take dumb money then its double important that you give them the bad news as soon as possible as they are likely to have the most emotional reaction with the least amount of valuable advice and it's best to get them working with you rather than against you.

And remember, the top three reasons a startup fails are: 1. no one wants to buy what you are selling (no MVP) 2. your team sucks 3. you ran out of cash. But for me, if you find yourself in the first case and/or in the third case it's simply because of number 2. In short, you're the problem. Good luck, Live long and prosper.

### About the Author



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