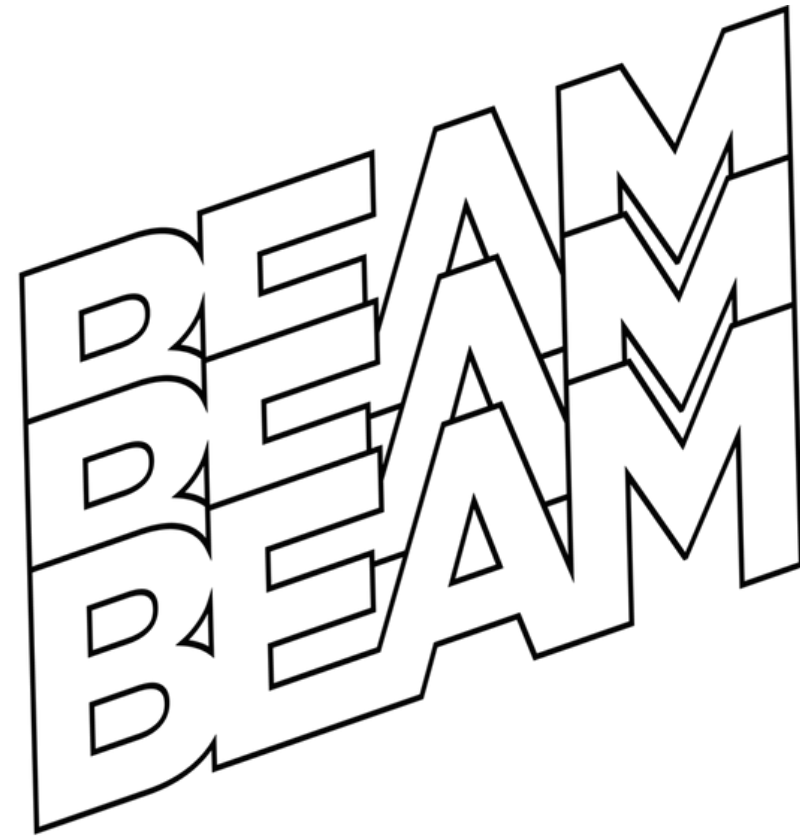


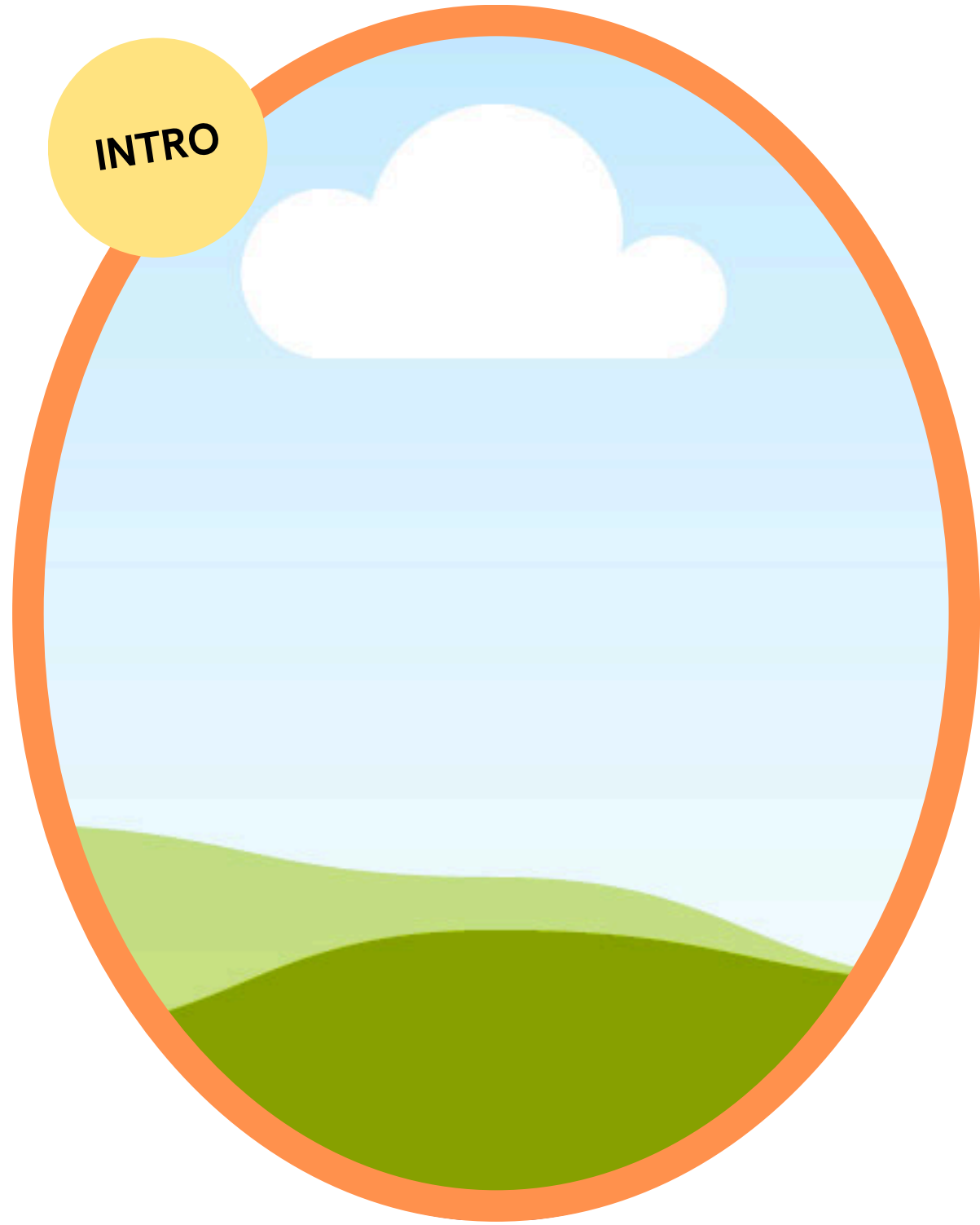
PRO FORMA ESSENTIALS

An introduction to financial forecasting with Eduardo Cabral



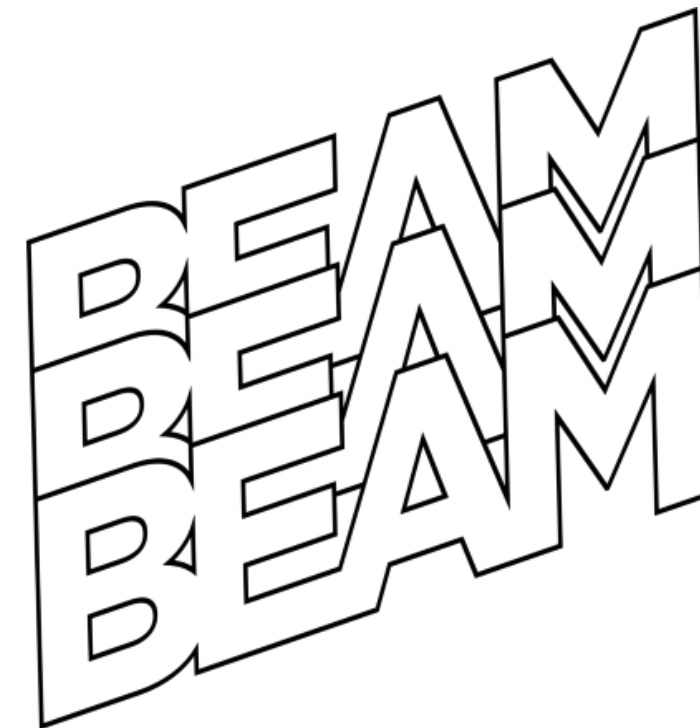
TRIPLE BEAM ADVISORS

INTRO



**EDUARDO
CABRAL**

OUR ACADEMY



TRIPLE BEAM ADVISORS

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COURSE OBJECTIVES

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COURSE OBJECTIVES

Pro Forma Essentials



What is a Pro Forma?

Types of Pro Formas

Pro Formas for Cannabis Applications

Pro Formas in Practice

Pro Forma Limitations

Tips to Keep in Mind

WHAT IS A PRO FORMA?

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WHAT IS A PRO FORMA?

A pro forma is just a method of calculating financial results using certain projections or assumptions.

DEFINITION

A pro forma is a tool that helps you estimate how much money you may earn or spend in the future or test what might happen in different scenarios for your business.

ASSUMPTIONS

An assumption refers to a projected estimate or prediction about future conditions or events that are critical for creating the financial forecast.

OBJECTIVE

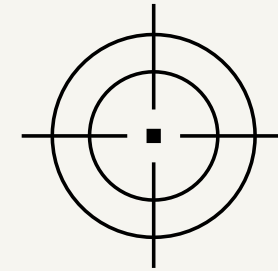
A pro forma allows you to model different scenarios for your business.

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A PRO FORMA IS A TOOL

Just like there are different types of hammers, there are different types of pro formas.

The type of pro forma you use will depend on:



THE GOAL IN MIND



THE AUDIENCE



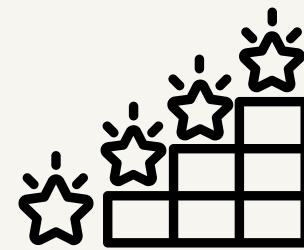
**THE LEVEL OF DETAIL
NEEDED**

BENEFITS OF A PRO FORMA

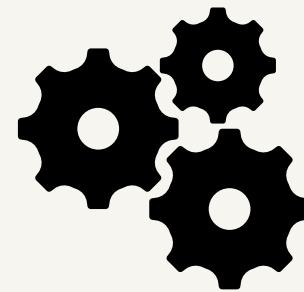
Having a pro forma is like having a roadmap for your business's financial future.



BENEFIT #1:
ATTRACTS INVESTORS



BENEFIT #2:
PROVIDES A BENCHMARK



BENEFIT #3:
HELPS WITH PLANNING

read

COMMONLY USED TERMS

ACCOUNTS PAYABLE	Money your business owes to suppliers or vendors for goods or services received but not yet paid for.
ACCOUNTS RECEIVABLE	Money owed to your business by customers who have received g&s but have not yet paid.
BUILDOUT COSTS	Expenses incurred to renovate/prepare a physical space, such as construction, fixtures, and equipment.
WORKING CAPITAL	Means the difference between your current assets and current liabilities.
TERMINAL VALUE	The estimated value of a business at the end of a specific period or the price at which it can be sold.
VALUATION	Process of determining the overall worth of a business based on its assets, earnings, and market conditions.
DEBT CAPITAL	Involves borrowing money that needs to be repaid with interest.
EQUITY CAPITAL	Involves selling ownership stakes in the company in exchange for funds.
INVENTORY COST	Total cost associated with purchasing, storing, and managing the goods that your business intends to sell.

TYPES OF PRO FORMAS

#1

SALES FORECAST PRO FORMA

TYPE OF PRO FORMA	INPUTS USED	OUTPUTS PRODUCED	AUDIENCE
Sales Forecast Pro Forma	Historical sales data, market trends, marketing strategies	Projected sales revenue over a specific period of time	Store managers and owners

BUDGET PRO FORMA

TYPE OF PRO FORMA	INPUTS USED	OUTPUTS PRODUCED	AUDIENCE
Budget Pro Forma	Rent, utilities, employee salaries, advertising and marketing expenses, cost of goods sold, other costs associated with running the store	Projected expenses over a specific period of time	Store managers and owners

CASH FLOW / WORKING CAPITAL PRO FORMA

TYPE OF PRO FORMA	INPUTS USED	OUTPUTS PRODUCED	AUDIENCE
Cash Flow (or Working Capital) Pro Forma	Sales revenue, expenses, investments, accounts receivable, accounts payable	Projected cash flow or working capital over a specific period of time	Owners and investors

INVENTORY MANAGEMENT PRO FORMA

TYPE OF PRO FORMA	INPUTS USED	OUTPUTS PRODUCED	AUDIENCE
Inventory Management Pro Forma	Inventory levels, sales forecasts, reorder point, lead time, inventory carrying cost, order cost	Optimal inventory level, reorder quantity, reorder point	Inventory managers and store managers

PRO FORMAS IN PRACTICE

#1

OPERATING DECISIONS

EXAMPLE #1:

Making informed
business operating
decisions



Can I afford to pay this lease?

How much capital is required to open my store?

How much inventory should I order and how often?

How many employees can I afford to hire?

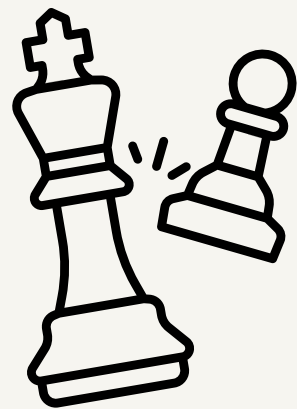
How much money should I put aside for taxes?

What is my marketing's return on investment?

MANAGEMENT DECISIONS

EXAMPLE #2:

Making strategic
decisions



How much could I earn in the next 1, 3, 5 years?

Do I need to raise capital?

If so, when, how much, and at what cost?

Should I enter this business partnership?

What is my business worth?

What is the cost/benefit of expanding my business?

BUSINESS GOALS & PLANS

EXAMPLE #3:

Communicating
business goals &
plans to others



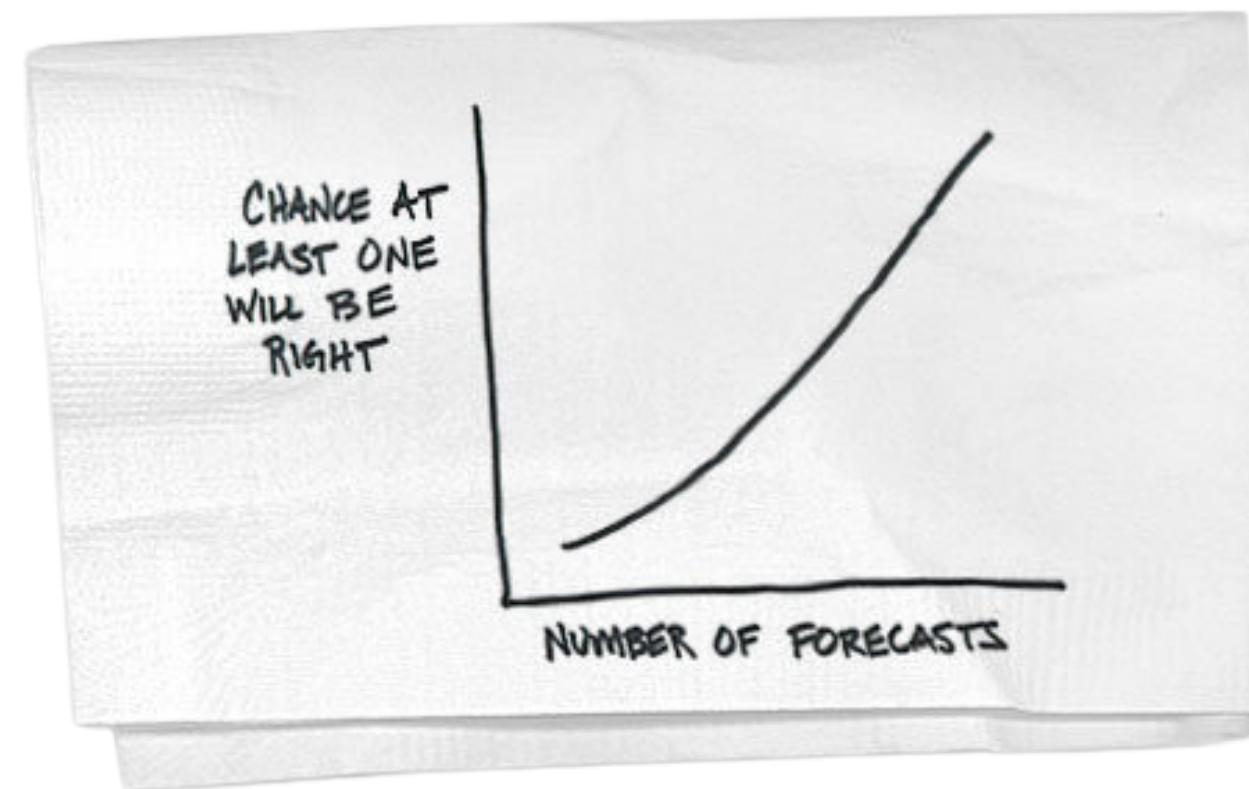
My investor asked what my projected free cash flow is next year.

I have to provide a profit & loss forecast to a potential lender.

I'm selling my business and need to justify the price I want.

I'm expanding and must demonstrate how everyone will benefit.

PRO FORMA LIMITATIONS



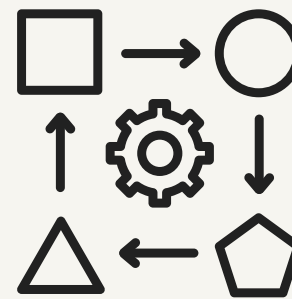
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PRO FORMAS RELY ON ASSUMPTIONS

LIMITATIONS

- Pro formas rely on assumptions and estimates about future market conditions, consumer behavior, and other factors that can be difficult to predict.
- These assumptions may not always be accurate, and changes in the business environment can quickly render a pro forma outdated or inaccurate.

GARBAGE IN
/ GARBAGE
OUT!



REMEDIES

- Be conservative!
- Qualify strong vs. weak assumptions to your audience.
- Gather assumptions from multiple sources & ask an expert.
- Update your assumptions often.

PRO FORMAS CAN BE OVERLY OPTIMISTIC

LIMITATIONS

- Pro formas are often used to project future revenue and profits, but they may not reflect unexpected expenses or challenges that can arise in the operation of a business.
- As a result, pro formas may be overly optimistic in their projections and fail to accurately capture the risks and uncertainties that the business may face.

ALWAYS BE
CONSERVATIVE!

REMEDIES

- Take it with a grain of salt.
- Get multiple opinions & sources for your assumptions.
- Always use a contingency (a rainy-day fund).



PRO FORMAS CAN BE COMPLEX

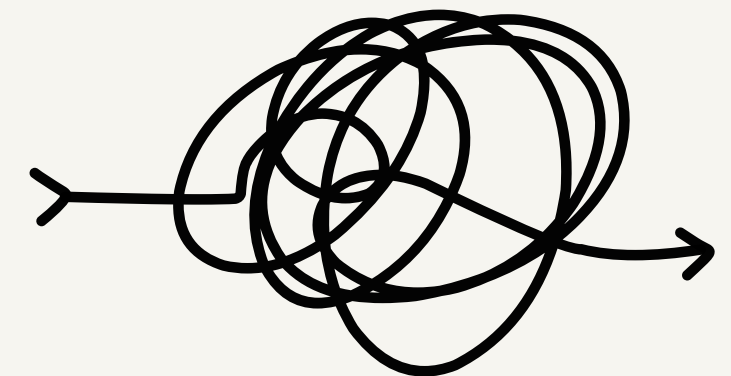
LIMITATIONS

- Depending on the level of detail and complexity, pro formas can be difficult to create and understand for individuals without financial expertise.
- This can make it challenging for store managers or small business owners to accurately use pro formas when making decisions about their business.

ASK LOTS
OF
QUESTIONS!

REMEDIES

- Engage a finance expert to help build your forecasts.
- Know the right level of detail for the target audience.
- ASK QUESTIONS!



PRO FORMA EXPERT TIPS

#1

PRO FORMA EXPERT TIPS (PT.1)

**MAKE SURE
YOUR
FORECAST IS
REALISTIC IN
THE LONG
TERM**

1. What % of the market are you projecting to capture?
2. Are your projected margins realistic?
3. Are you appropriately modeling market trends like saturation (revenues fall as more licenses are added)?
4. Can your store support that many employees?
5. Can your max number of cashiers facilitate that many sales in a day?

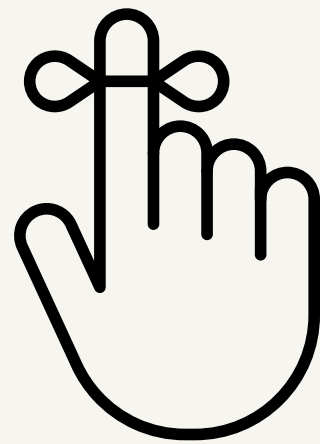
Don't
forget to
check!



"What's really exciting is if you extend this out five years, we own around 400% of the market!"

PRO FORMA EXPERT TIPS (PT.2)

KEY TAKEAWAYS FROM TODAY'S LESSON



- Pro formas are living documents.
- Investors are skilled at spotting a lofty pro forma.
- Conservative estimates are always best.
- The contents of your pro forma are confidential - don't share without careful consideration first (and possibly an NDA).
- Be prepared to answer questions about your pro forma's assumptions if you provide it to other parties.