



Synergistic Solutions for Accelerating Business Success

## I. OVERVIEW OF SYNOGY FINANCIAL PROJECTIONS

The model used to produce Synogy's Financial Proforma Program is a proprietary Excel program developed by Hank Tate (hanktate@synogy.com). It is designed to present dynamic financial planning information in a logical fashion with the ability to quickly see the background assumptions used to produce every line-item value shown and to readily model financial scenarios by changing the background assumptions.

### PHILOSOPHY OF DESIGN FOR SYNOGY FINANCIAL PROFORMA PROGRAM

*Screen captures demonstrating examples of some of the following are included in Section III.*

1. A business goal cannot be reached unless adequate funds are available to cover all costs of reaching the goal.
2. Failure to plan for all costs is planning to fail.
3. Accurate cost projections cannot be determined by guessing.
4. Every line-item expense represents a collection of smaller component expenses necessary to accomplish the purpose of that line-item.
5. Accuracy in financial projections is enhanced by breaking each line-items cost down into its component expenses.
6. Each line-item breakdown needs to be clearly marked to facilitate lookup of component costs.
7. Financial projections only have value when calculated from actual and realistic costs for each component required to produce a line-item expense.
  - *Example:* The expense for an employee is not just their salary and taxes. To project a realistic cost for each employee, ALL expenses of that employee must be assessed, including:
    - Salary
    - Taxes
    - Annual Bonuses
    - Cost of employee setup (expenses for desk, chair, phone, computer, software, etc.)
    - Equipment required (every lab technician may require \$40k of lab equipment)
    - Travel: Car, air travel, per diems for days out of office
    - Misc. overhead: cell phone, internet connection
    - Company car
    - Club membership for executives
    - Employee acquisition expense: Recruiting costs, signing bonuses
8. All assumptions for component expenses must be available for quick review and for ease in changing underlying assumptions to provide the ability to perform "what-if" financial modeling.

9. Line-item costs must be determined from real-life assessment of what must be done to accomplish the task – NOT defined by general percentages of other projected numbers.
  - *Example:* Cost of sales or marketing CANNOT be projected by a percentage of projected revenues. To try and do so would produce the fanciful result that there would be no marketing expenses in the early days of the company before sales had commenced. Instead actual costs must be determined by assessing the methods to be used and actually calculating all of the component costs for those methods.  
For instance:
    - What marketing materials will be used?
    - Success rate of materials – how many necessary to bring in each customer?
    - Cost of each piece of collateral material?
    - How will they be distributed? Cost of distribution?
    - How will they be followed up? Cost of follow-up?
    - Method for closing sales? Cost of closing a sale?
10. Assumptions for cost will change over time, and all costs do not change at the same rate. Some expenses grow over time, some will decrease with volume as the company grows. There needs to be a way to adjust each baseline assumption over the life of the projections.
  - Salaries typically go up each year – how is the salary increased automatically for each year of the projections
  - The per-item cost of collateral materials or parts will go down as the size of orders increase.
11. Staffing requirements should be calculated based on growth of the company. Greater accuracy will result if support staff size can be correlated to the number of customers, and designed so that the timing of hiring is adjusted automatically for each “what-if” model.
  - *Example:* Instead of manually guessing a time for hiring additional customer support staff, the projections should take an assumption for how many customers each customer support staff can handle and then automatically increase or decrease the staff based on the sales growth assumptions.
12. Physical plant and office requirements must be adjusted according to growth of staff. Accuracy of the projections will improve if the facilities size is recalculated based on the number of employees in the company each year. The components of facilities required should be calculated – not guessed:
  - Number of staff
  - Square feet of office required for each staff
  - Common areas necessary
  - Facilities clean-up & maintenance
  - Furnishings required
  - Any special equipment or design issues covered
13. Capital Expenses need to be separated from general expenses
14. Cash flow must be analyzed monthly to determine how much money must be provided to complete the project. Since marketing, sales, and product development will precede sales the startup expenses will produce a financial “hole” before revenues begin. The amount of capital required is based on the “hole” during the year, not on the financial status at the end of a year. It is impossible to assess actual cash requirements based on annual net profit or loss.

15. The trustworthiness of financial projections will be reflected by how effectively a company shows the details of its analysis to break all line-items into component costs.
16. Perception of the professionalism of a company's management will be enhanced by showing the details of its financial analysis.
17. Building a strong detailed financial projection is one of the most effective tools for helping management think through the details of HOW the company is going to do business so the company can PLAN effectively the process of turning its vision into reality.

## II. DESIGN OF SYNOGY FINANCIAL PROJECTIONS

The following sections of information are included in Synogy's complete financial package:

### **EXPLANATION OF SYNOGY FINANCIAL PROFORMA PROGRAM**

Explains the design and philosophy of the proforma.

### **FINANCIAL ASSUMPTIONS**

A detailed explanation of the assumptions used for creating the financial projections.

### **5-YEAR ANNUAL REPORT**

This report shows only the annual totals for each of the five years. All monthly columns are hidden to enable annual totals to be shown in a short report. The categories and layout is the same as the Annual Summary Report.

### **SUMMARY REPORT**

Collects the financial details of Synogy's projections into an summary report showing each month for each year.

### **DETAIL REPORT**

This report presents all of the detailed calculations from which the Annual Summary Report and the 5-Year Summary Report are derived. All financial projections are broken down into component assumptions and calculations. All assumptions are shown at the beginning of each section of calculations. Most projections are dynamically based upon financial calculations driven by the assumptions rather than being directly entered, and are designed so that the entire package is recalculated when any assumption is changed.

When printed in color, light purple is used to identify all of the spreadsheet cells containing formulas that calculate the value shown. All cells with manually entered data are colored light yellow.

### III. SPREADSHEET DESIGN

The Synogy Financial Proforma Program is based on a proprietary spreadsheet that enables dynamic financial proformas to be built very quickly while showing all of the component expense breakdowns for each line-item. The design of the spreadsheet enables multiple functional areas to be created very quickly by duplicating an existing functional area and changing a few variables.

Since the spreadsheet is proprietary and complex the spreadsheet itself is not distributed, but the PDF printouts reflect the following structure of the financial proforma spreadsheet.

SYNOGY		Financial Proforma Package Overview							
Year 1		Year 2		Year 3		Year 4		Year 5	
<b>SUMMARY</b>		<b>SUMMARY</b>		<b>SUMMARY</b>		<b>SUMMARY</b>		<b>SUMMARY</b>	
<<< DETAILS		<<< DETAILS		<<< DETAILS		<<< DETAILS		<<< DETAILS	
Assumption Changes by Amount or %		Assumption Changes by Amount or %		Assumption Changes by Amount or %		Assumption Changes by Amount or %		Assumption Changes by Amount or %	
% Gross Rev		% Gross Rev		% Gross Rev		% Gross Rev		% Gross Rev	

## SUMMARY

The top section of the spreadsheet collects all appropriate information and financials into a Summary Report, by month, for each year. The 5-year Annual Report presents the same information with only the annual totals. The Summary Reports include the following sections:

- ◆ Growth Projections - describes the appropriate growth statistics which drive the Revenue projections
- ◆ Revenues - describes the various Revenue sources of the company
- ◆ Cost of Goods
- ◆ Gross Margin
- ◆ Expenses
  - Total Employees
  - Equity Placement Fees
  - Expenses
    - Staff Expenses
    - Support Expenses
    - Miscellaneous Expenses
    - Technical Expenses
    - Marketing & Sales Expenses
    - Facilities Expenses
- ◆ Net Income (Loss)
- ◆ Sources & Uses of Cash
- ◆ Capital Expenditures by Functional Area, including:
  - Employee Setup
  - Furnishings & Equipment
- ◆ Total Investment Required
- ◆ Net Present Value (calculated at 10% interest)
  - NPV on Net Income
  - NPV on Cash

## DETAIL REPORT

The bottom section of the spreadsheet presents a Detail Report of all the assumptions and calculations which drive the Summary Reports. Each section of calculations starts with a statement of the key assumptions used to drive the financial calculations. All employee calculations reference a common collection of assumptions which is presented after the sections calculating growth and income, and prior to the sections calculating expenses.

Each division of the company provides for four to eight levels of staff. Each staff level is independently calculated for salary, benefits, overhead, travel, conventions, recruiting expenses, and bonuses. Staff growth for each employee level is calculated independently. Each staff expenses section has the following calculations:

- Staff Assumptions
- Staff Expense Calculations
- New Staff Calculations

- Total Cumulative Staff
- Payroll & Benefits
- Travel, Conference, & Entertainment Expenses
- Recruiting & Bonus
- Billable Adjustment (for billable employees)

Adjustments to each year’s assumptions are made in columns separating each year’s Detail Report Calculations.

### IV. SCREEN CAPTURES

The following screen captures from a client’s Synogy Financial Proforma Program demonstrate the design and features of the program.

**PREMIER PUBLISHING**  
Financial Projections  
Year Projections  
**GROWTH PROJECTIONS**

	Mar-2008	Apr-2008	May-2008	Jun-2008	Jul-2008	Aug-2008	Sep-2008	Oct-2008
<b>Magazines</b>								
(1) New Titles Released		1	0					
(2) Cum Total Titles								
<b>Magazine Growth Statistics</b>								
(3) Total Page Count		804	0					
(4) Total Print Run		178,000	0					
(5) Printing Price / Unit (Mag)		\$1.66	\$0.00					
(6) Total New Subscriptions from Magazines		42	38					
(7) Cumulative New Subscriptions From Campaign		200	200					
(8) Magazine Subscription Newsstand		441	72					
(9) Cumulative Magazine Subscriptions		758	771					
<b>Website Growth Statistics</b>								
(10) Total New Memberships		55	5					
(11) Total Cumulative Memberships		1,444	1,488					

**REVENUES**

	Mar-2008	Apr-2008
<b>Magazine Revenues</b>		
(12) Gross Page Revenue - Time Adjusted	0	1,344,000
(13) Gross Cover Revenue - Time Adjusted	0	27,800
(14) Gross Newsstand Revenue - Time Adjusted	0	401,173
(15) Gross Subscription Revenue	8,188	2,810
(16) Gross Magazine Revenue	8,188	1,775,183
<b>Website Revenues</b>		
(17) Gross Website Broker Membership Revenue	35,639	0
(18) Gross Website Ad Revenue	42,208	82,238
(19) Gross Website Revenue	101,847	82,238
(20) Gross Revenue	\$111,035	\$1,845,144

**COST OF GOODS**

	Mar-2008	Apr-2008
<b>Magazine Production Costs</b>		
(21) Total Magazine Development Cost	5,250	26,800
(22) Total Paper & Printing Cost	276,654	0
(23) Total Magazine Shipping Cost	40,250	0
(24) Total Magazine Production Costs	322,154	26,800
<b>Marketing &amp; Sales</b>		
(25) Total Marketing & Sales Cost	18,600	67,800
(26) Total Commissions - Paid Out	19,900	19,900
(27) Distribution Fees - Time Adjusted	0	0
(28) Fulfillment Costs	1,758	655
(29) Total Marketing & Sales Costs	\$17,758	\$77,855
<b>Website Costs</b>		
(30) Total Website Costs	27,785	24,258
<b>Cost of Sales</b>	\$391,710	\$130,913
<b>Bad Debt Allocation</b>	\$2,221	\$0,000

**GROSS MARGIN**

	Mar-2008	Apr-2008	May-2008	Jun-2008	Jul-2008	Aug-2008	Sep-2008	Oct-2008
Gross Margin	\$102,690	\$1,687,768	\$102,690	\$143,680	\$879,712	\$1,028,899	\$19,640	\$166,182

**GROWTH PROJECTIONS:** Provides information on the sales and growth assumptions that drive all revenue and expenses. Provides a foundation for understanding the projections. This information is often not included in other proformas.

**REVENUES & COST OF GOODS:** Broken down into multiple subsets to reflect detailed component assumptions.

The purple background color shows that all Summary numbers are calculated from the Details Section, NOT manually entered.

	1	2	3	4	5	
<b>EXPENSES</b>						
(31) Total Salespeople	1	2	4	6	6	
(32) Total Employees	5	6	9	11	13	
(33) Equity Placement Fees	0	0	0	0	0	
<b>General &amp; Administrative</b>						
(34) Total G&A Staff	4				7	
(35) G&A Payroll & Benefits	271,096				880	
(36) G&A Travel, Conf. & Enter	116,978				840	
(37) G&A Retiral & Bonus	29,800				765	
Total G&A Staff Expenses	417,874				865	
(38) Synogy BP Interest in Gross Margin	13,320				228	
(39) Personnel Support	21,580				820	
(40) Office Resources	3,900				234	
(41) Professional Services	28,850				1,000	
(42) Misc. Overhead	6,770				806	
(43) Contributions	5,000				800	
Total G&A Misc. Expenses	66,100				460	
(44) Computer Software & Upgrades	960				126	
(45) Internet Connection Fee	900				294	
(46) Total Technical Expenses	1,860				220	
(47) Total Image & Materials	6,000				893	
(48) Total Advertising & Publicity	27,450				400	
(49) Total Special Event & Sponsorship Expenses	0				100	
(50) Total Marketing & Sales Expenses	33,450				893	
(51) Office Rental / Payments	20,250				150	
(52) Utilities & Maint	11,400				824	
(53) Total Facilities Expense	31,650				874	
(54) Total G&A Expenses	529,804				967	
<b>TOTAL EXPENSES</b>	529,804				967	
Earnings Before Interest & Taxes	(267,247)				599	
Interest	0				0	
Earnings (Loss) Before Taxes	(300,693)				599	
Accumulated Losses	(300,693)				0	
Taxes 35.0%	0				805	
Total Expenses + Taxes	529,804				773	
<b>NET INCOME (LOSS)</b>	<b>(300,693)</b>				893	
<b>CAPITAL EXPENDITURES</b>						
<b>G&amp;A Capital Expenses</b>						
(55) G&A Employee Setup	28,000				800	
(56) Total Furnishings & Equipment	6,250				900	
(57) Total G&A Capital Expenses	34,250				900	
<b>M&amp;S Capital Expenses</b>						
(58) M&S Employee Setup	2,000				0	
(59) Total M&S Capital Expenses	2,000				0	
<b>Total Capital Expenditures</b>	<b>36,250</b>				900	
<b>Cumulative Capital Expenditures</b>	<b>36,250</b>				825	
<b>SOURCES &amp; USES OF CASH</b>						
<b>SOURCES OF CASH</b>						
Net Income (Loss)	(300,693)				893	
Investment	0				0	
Increase (Decrease) in Liabilities	0				0	
Add Non-Cash Items: Depreciation	0				0	
<b>Total Sources of Funds</b>	<b>(300,693)</b>				893	
<b>USES OF CASH</b>						
Total Capital Expenditures	36,250				900	
Investment in Inventory	0				0	
<b>CASH USED in Operations</b>	<b>36,250</b>				900	
<b>Cash (Required) Available</b>	<b>(337,443)</b>	317,782	564,300	818,346	974,793	
<b>Cummulative Cash (Required) Available</b>	<b>(337,443)</b>	<b>(19,861)</b>	544,639	1,362,986	2,337,778	
<b>Value (Cum Cash + Cum Capital Exp)</b>	<b>(300,693)</b>	23,889	600,514	1,426,711	2,413,403	
<b>Total Investmt Required</b>	<b>(479,413)</b>					
<b>NET PRESENT VALUE</b>						
<b>NPV on Net Income</b>						
NPV on Net Income	1,805,081	(300,693)	324,582	576,625	826,196	966,693
<b>NPV on Cash</b>	<b>1,544,042</b>	<b>(337,443)</b>	317,782	564,300	818,346	974,793

**EXPENSES:**  
Synogy's Financial Proforma Program is designed so that multiple functional areas for expenses can be created quickly.

In each functional area expenses are broken down into multiple expense categories with Staff expenses calculated separately for each functional area.

Expenses are tracked from an operational and cash flow view to enable accurate determination of the TOTAL INVESTMENT REQUIRED to accomplish the goals.

**CAPITAL EXPENDITURES:**  
Capital Expenses are reflected separately to facilitate GAP and asset accounting.

**SOURCES & USES OF CASH:**  
Cash is tracked to facilitate calculation of the TOTAL INVESTMENT REQUIRED.

**TOTAL INVESTMENT REQUIRED:**  
The montly cash position of the company is analyzed to identify the month with the greatest "negative" position. The cash "hole" is used to define the amount of investment required to accomplish the goals.

**NET PRESENT VALUE:**  
On the 5-Year Annual Summary Report the Net Present Value is calculated on both the annual Net Income (Profit) and the annual Cash position of the company.

EXPENSES		Mar-2004	Apr-2004	May-2004	Jun-2004	Jul-2004	Aug-2004
(31)	Total Salespeople	0	1	1	1	1	1
(32)	Total Employees	3	4	5	5	5	5
(33)	Early Placement Fees	0					
<b>General &amp; Administrative</b>							
(34)	Total G&A Staff	3					
(35)	G&A Payroll & Benefits	19,883					
(36)	G&A Travel, Conf. & Enter	9,644					
(37)	G&A Recruit & Bonus						
	Total G&A Staff Expenses	29,527					
(38)	Synogy BP Interest in Gross Margin	9,750					
(39)	Personnel Support	3,000					
(40)	Office Resources	0					
(41)	Professional Services	3,000					
(42)	Misc. Overhead	300					
(43)	Contributions	0					
	Total G&A Misc. Expenses	23,300					
(44)	Computer Software & Upgrades	0					
(45)	Internet Connection Fee	75					
(46)	Total Technical Expenses	75					
(47)	Total Image & Materials						
(48)	Total Advertising & Publicity	12,500					
(49)	Total Special Event & Sponsorship Expenses	0					
	Total Marketing & Sales Expenses	12,500	2,000	2,000	2,000	2,000	0
(51)	Office Rental / Payments	0	0	2,025	2,025	2,025	
(52)	Utilities & Maint	600	800	1,000	1,000	1,000	
(53)	Total Facilities Expense	600	800	3,025	3,025	3,025	
<b>Financial Projections</b>							
<b>5 Year Projections</b>							
<b>DETAILS REPORT</b>							
<b>GROWTH PROJECTIONS DETAIL</b>							
<b>Magazines</b>							
(50)	Total Marketing & Sales Expenses		2,000	2,000	2,000	2,000	0
<b>G&amp;A Office Rental Expenses</b>							
<b>Office Space Assumptions</b>							
<b>Office Space Expenses</b>							
(51)	Office Rent	0	0	2,025	2,025	2,025	2,025
<b>Utilities &amp; Maint</b>							
	Electricity	0	0	0	0	0	0
	Telephone Service Fees	300	400	500	500	500	500
	Telephone & Long Distance	300	400	500	500	500	500
	Cleaning	0	0	0	0	0	0
	Repairs & Maintenance	0	0	0	0	0	0
(52)	Utilities & Maint	600	800	1,000	1,000	1,000	1,000
(53)	Total Facilities Expense	600	800	3,025	3,025	3,025	3,025
(54)	Total G&A Expenses	74,752	35,152	42,492	42,262	39,262	

**LINE-ITEM NUMBERING:**  
All line-item numbers correspond to the Details Report section for identifying the component breakdown and assumptions for each expense.

**YEAR TRACKING:**  
Section dividers show which year of the projections is being reviewed.

**ASSUMPTIONS:**  
Line-items are calculated from basic component assumptions. Each assumption can be quickly examined or modified. Modifying an assumption changes the entire spreadsheet.

Employees at end of year	5.0	All employees in all functional areas
Employee planning space for	8.0	
Common Area	1,500	
Sq Ft per Employee	150	
Office Size Sq Ft	2,700	
Rent / Sq Ft / Year	\$9.00	Annual rent rate
Monthly Rent	\$2,025.00	
Employees per phone line	2	
Sq Ft per Cleaning Rate	3,000	
Sq Ft per Repair Rate	1,000	

**DETAILED EMPLOYEE EXPENSE CALCULATIONS**

Employee Overhead Calculations		Assumptions:	
Work Days / Month	22	(Work Days) / Month	22
Monthly Time (min) / Employee	7,583	(Work Days) / Month	22
FICA & Benefits	30%	(Work Days) / Month	22
Cell Phone / Month	\$100	(Work Days) / Month	22
E1 Employee Setup	\$6,000	(Work Days) / Month	22
E2 Employee Setup	\$3,000	(Work Days) / Month	22
E3 Employee Setup	\$4,000	(Work Days) / Month	22
E4 Employee Setup	\$4,000	(Work Days) / Month	22
Health Insurance	\$500	(Work Days) / Month	22
Recruiting Expense	3.0%	(Work Days) / Month	22

**EMPLOYEE ASSUMPTIONS:**  
Multiple assumptions are defined to address a variety of expenses that are normally not addressed in most proformas. Different Employee Setup Expenses are defined for each level of employee. Assumptions are also defined for car and air travel.

EMPLOYEE ASSUMPTIONS & COUNT	
High Speed Home Internet	\$50.00
Gas Price	\$1.75
Ave Miles / Gallon	18
Car Allowance	500
Mile/Day	75
Mileage Reimbursement Rate	\$0.32
Auto Expense @ 100% Travel	\$320
Per Diem	\$150
Ave Entertainment/Day	\$50
Conference Expense	\$1,500
Flight Average	\$500
Club Membership	\$50

FUNCTIONAL DIVISIONS - DETAILS	
GENERAL & ADMINISTRATIVE	
G&A Staff Exp Calc	
Functional Title	Annual Salary
GA1 Founders	\$ 65,000
GA2 Managers	\$ 56,000
GA3 Assistant	\$ 48,000
GA4 Clerical	\$ 30,000

**MULTIPLE LEVELS OF EMPLOYEES:**  
Different assumptions can be set for 4 different "levels" of employees.

**SETUP ADJUSTMENT:**  
Some employees require extra equipment expense.

**TRAVEL EXPENSES:**  
Expenses are calculated for both auto and air travel based on assumptions for what percentage of time is spent in car travel and how many flights are expected each month.

Travel Expenses	
Club	Car Allowance
	% Car Travel
	% Out of Town
	Flights Month
	Uniform per person
	% Billable

(2) Total Magazine Development Cost	16,650	1,750	1,660	7,650	16,650.00
Price / Base Run			\$49,500.00		49,500.00
Pages in Base			144.00		144.00
Units in Base Run			35,000.00		35,000.00
Per Additional Page			\$328.13	Based on \$45,000 / 35,000 / 144	328.13
Additional / 1,000 Magazines			\$955.50		955.50
<b>(22) Total Paper &amp; Printing Cost</b>	<b>0</b>	<b>94,755</b>			
(5) Price Per Unit	\$0.00	\$1.35	\$0.00	\$0.00	0.00
Max Page Rate for Printing	\$0.00	\$526.42	\$0.00	\$0.00	0.00
% to Newsstand			80.0%		0.80
Postage & Shipping / 1000 Units			\$200.00		200.00

**ASSUMPTION MODIFICATIONS:**  
Every assumption can be adjusted up or down by either a specific amount or a percentage for the following year.