

Annual Shareholder Letter

Dear Fellow Shareholders,

I have always wanted to be in a position of writing an annual shareholder letter. Before [starting my own company](#) I had religiously read all of Warren Buffett's letters to the shareholders of Berkshire Hathaway. I even [bought a book](#) that compiled every single letter from 1965 through 2014. Now after years as a spectator and fantasizer, I finally get to write my first letter to shareholders (all two of us as of 3/31/20 with a third that joined us on 4/1/20).

Our Early Beginnings

The official founding of the company was February 25, 2019 – the date I first registered a DBA as a sole proprietor. I had started contemplating this business back in June of 2018, when I was fully employed in the C-Suite. I originally envisioned it as either a new service line under my employer's umbrella or a new entity to be jointly owned by Private Equity (PE), myself, and the CEO of my previous employer. The CEO and PE firm were willing to invest \$1M+ to turn my business idea into a reality. The seed capital was to help grow the business faster than I could do otherwise had I been restricted by my own personal funds and the cash flow generated by the business itself.

As exciting and flattering as it was that these people believed enough in me to provide such a generous amount of capital, I started to wonder what this would look like if I did it on my own. I also realized that I would be giving up 80%+ of the upside and would also be told how to grow MY business – not something that sounded appealing to me. One of the appeals of creating a business was building it on my own terms. This route felt like I was signing up for another job with very demanding bosses (private equity has a 3-5 year time horizon so they want results immediately, if not sooner).

After flip-flopping between going the PE route and going off on my own, I finally decided in February of 2019 to hang up my own shingle – for an initial investment of \$267.42 (business registrations, domain name, dedicated email, and website hosting). I was not yet committed to going all in or full time in the business but I wanted to test the waters. I recruited a co-founder to be my partner in crime

because I didn't think I could nor did I want to do it alone. That was one of the best business decisions I have ever made! We dipped our toes in the water, moonlighting as consultants implementing specialty finance and accounting software while simultaneously fulfilling our day jobs. We both needed confirmation that we would be good at this and that it was something we enjoyed.

We officially started billable work on March 25, 2019, by taking on overflow projects from our software partner (projects they didn't have enough internal resources to implement promptly). We were off to the races! After completing our first implementation in about five weeks and earning our first 100% customer satisfaction score, we were addicted! We decided that we had a secret sauce that would make us incredibly successful in this business.

By June of 2019, I saw the writing on the wall that this business could be more than just a side hustle. This is when I gave notice and was finally prepared to give up my C-Suite role. Rather than a simple two weeks' notice, I gave six months notice to make my exit more palatable for the organization I was leaving. It all worked out as planned - actually, even better than planned. There was a point over the summer where my co-founder and I got a little forward of our skis by taking on too much work with not enough help. We had to keep pushing the boundaries to see how many projects we could manage before we had to hire additional resources. We also had to figure out our project delivery method by trial and error. Our breaking point was found at eight active implementations between two people, but we survived. We figured out what our capacity was (by overcommitting and taking on too many projects at once) and yet we still managed to maintain a near-perfect customer satisfaction rating (although I had my doubts at times that we'd be able to keep that up).

Once we hit our breaking point we felt comfortable starting to recruit help. I didn't believe then, nor do I now, that the talent we need innately exists in the market place. I know the skillsets and background that make up the ingredients for a good consultant in this business, but the bar is high. Luckily, I have some very talented friends in my network, who have the right backgrounds in finance and accounting but may lack the technical skills in the software we were implementing. I made a bet that it was much more important to target seasoned finance and accounting professionals that were tech-savvy and that we could teach them the software.

After sending feelers out to my network, by July we brought on our first part-time resource followed by another in August. Then, in September we made our first "full-

time” hire. I put full-time in quotations because technically everyone – including my co-founder and myself – were 1099 contractors for all of 2019. As a small start-up, we were in no position to offer people salaries or benefits. At this stage, we were just looking for some moonlighters who could help us deliver the work we were contracted to deliver, while at the same time test the talent for potential full-time work when we were ready to cross that bridge. In 2020, we did transition all full-time team members to payroll (W-2 based compensation), and we started offering benefits in March.

Can anyone truly understand how much work it is to start a company from scratch until you’re in the thick of it? As CEO, I made a decision early on that beyond the initial \$267.42 of seed capital that I provided from my personal funds, the business would have to self-fund to grow. We didn’t buy business cards or even put up a website until we sent out and received payment for our first invoice. This is truly a bootstrapped enterprise. There are any number of things you *can* do when starting a business but a lot of those things don’t necessarily bring *revenue* in the door. I wanted the business to prove itself to me, so I went the route of the minimum viable business (MVB).

We did officially incorporate in August of 2019 once we decided the business had legs. This would prove to give us much better tax advantages and it allowed us to formalize the ownership structure in which I own 75% and my co-founder owns 25%. As the business generated cash we made investments in software to help automate as much of the administrative side of the business as possible. We also eventually had to start buying laptops as we left our day jobs – yes, we were doing all of this on the laptops our employers had provided us (bootstrapped through and through).

My vision is to create a performance-based organization that operates on a philosophy of meritocracy. We are well on our way after our first full twelve calendar months in business. Although we planted our flag officially on February 25, 2019 and we started billable work on March 25, 2019, you will see below that our financial results represent our **first full twelve months** in business – defined as April 1, 2019 through March 30, 2020 (we pushed the \$2,892.50 from March 2019 into April 2020). After this inaugural letter, future letters will be based on a calendar year of results, with the next one focusing in on the whole of 2020.

Our Financial Results

The results below represent our first full twelve months with billable revenue. The one caveat is that we technically had some billable revenue during the last four business days of March 2019 (~\$2,900) that I moved into April of 2019. Keep in mind that we (my partner and I) were doing this out of our back pocket while continuing our full time work for our employers. I'm still amazed by how much we were able to accomplish in the early months while moonlighting. By June of 2019, we were both logging 40 hours a week in some fashion for the new business – this was the inflection point that gave us the confidence to go after this full time.

I don't have the statistics, but I'm willing to bet that we are in the top 1% in terms of performance for a start-up business. According to Fortunly, [20% of businesses fail in their first year and it states that the major reason was due to cash flow issues](#) even if they were highly profitable. The problem is that if you can't turn your sales into cash fast enough and you don't have any other forms of liquidity it's an "e-ticket" to the graveyard. And according to [this article](#) on Freshbooks, most businesses are not profitable their first year, typically taking 18-24 months to reach profitability.

With that stage set, here are some unique characteristics and observations about our business:

(1) We pre-collect revenue for our consulting services. This means that working capital is never an issue! Before starting this business, I had assumed that we would be cashflow negative for the first 12-18 months (so, I secured a \$420,000 line of credit that has never been used). Instead, we were almost cash flow positive from day one if you exclude the initial investment of \$267.42 (which on the results below rounds to **zero**).

(2) The commissions we earn selling the software are 100% profit margin. We have an exclusive partnership with one software vendor and as a reseller earn commission on software sales. In some cases, the commission is a one-time payment, while in other cases there is a recurring residual for as long as the client remains a client.

(3) We are a 100% remote workforce. This allows us to keep our overhead very low as we don't need to pay for office space and all the associated ancillary costs.

(4) We have enviable profit margins. I haven't seen very many businesses

with profit margins as high as ours. As a consulting business, our major expense is people.

(5) Our cost structure is 100% variable. Although our team members are on payroll (W-2), they are effectively working on 100% commission. For some this is scary but for high performers, this is a dream come true. In return for this flexibility, I am generous with the pay structure, paying significantly above market rates. Each billable team member gets 50% of the billable revenue they help earn the company (an opportunity to earn well over \$100,000 as a full-time billable resource).

And now the financial results...

ABBREVIATED P&L	Actual Apr-2019	Actual May-2019	Actual Jun-2019	Actual Jul-2019	Actual Aug-2019	Actual Sep-2019	Actual Oct-2019	Actual Nov-2019	Actual Dec-2019	Actual Jan-2020	Actual Feb-2020	Actual Mar-2020	Full Year Results
Reimbursable Revenue	-	-	5,892	3,906	6,311	2,969	1,317	4,062	2,239	3,935	7,566	601	38,798
Software Reseller Commissions	-	-	13,754	-	19,160	15,065	-	-	15,250	68,600	-	-	131,829
Fee Revenue	21,710	21,679	31,877	42,917	54,470	56,195	64,705	44,297	27,463	50,016	69,249	74,704	559,284
Gross Revenue	21,710	21,679	51,523	46,823	79,942	74,230	66,022	48,359	44,952	122,551	76,815	75,305	729,911
Reimbursable Expense	(1,202)	2,936	4,158	3,906	6,311	3,471	1,161	3,717	2,719	7,974	1,831	1,412	38,394
Net Revenue	22,912	18,743	47,365	42,917	73,631	70,759	64,861	44,643	42,233	114,577	74,984	73,893	691,517
Direct Labor	8,166	12,489	15,938	21,459	27,481	31,282	36,032	26,205	15,090	30,630	36,084	38,864	299,720
Gross Profit	14,746	6,254	31,427	21,459	46,150	39,477	28,829	18,438	27,143	83,947	38,900	35,029	391,797
GM %	64.4%	33.4%	66.3%	50.0%	62.7%	55.8%	44.4%	41.3%	64.3%	73.3%	51.9%	47.4%	56.7%
Indirect Expenses	5,078	4,029	7,002	13,914	14,183	9,047	9,770	8,736	10,412	11,924	33,872	20,910	148,876
EBITDA \$	9,668	2,225	24,425	7,545	31,967	30,430	19,059	9,702	16,731	72,023	5,028	14,118	242,921
EBITDA %	42.2%	11.9%	51.6%	17.6%	43.4%	43.0%	29.4%	21.7%	39.6%	62.9%	6.7%	19.1%	35.1%
Add Backs	4,038	2,490	6,338	13,725	13,083	8,291	8,590	6,828	4,480	857	11,509	4,923	85,152
Adjusted EBITDA \$	13,706	4,715	30,763	21,270	45,050	38,720	27,649	16,530	21,211	72,880	16,538	19,042	328,073
Adjusted EBITDA %	59.8%	25.2%	64.9%	49.6%	61.2%	54.7%	42.6%	37.0%	50.2%	63.6%	22.1%	25.8%	47.4%
Notes												EV @ 5X EBITDA	\$ 1,214,607
GM%, EBITDA%, and Adjusted EBITDA % are all based off of Net Fee Revenue since the reimbursable is pass through with no margin.											EV @ 5X Adj. EBITDA		\$ 1,640,366
Add backs are for things like one-time legal costs, CAPEX, and in 2019 paying myself an above market rate.													

I asked Google what the annual sales were for small businesses to get a sense of where we fit. [It turns out that 89% of businesses do less than \\$500,000 per year in revenue](#), which puts us in the top 11% in terms of revenue performance for small businesses. I was already extremely satisfied with our results, but given some of the stats I have shared, I think we hit a home run our first year in business.

You may be wondering what the add-back of \$85,152 is all about. I have my eye on an eventual exit and so I keep our books aligned with that goal in mind. The items I am adding back are comprised of the following:

Add-Back Item	Amount
CAPEX (Laptops & Monitors)	\$8,748.53
Attorney Fees (Incorporation, Buy/Sell Agreements, etc.)	\$15,474.86
Above Market Pay	\$60,928.48
Total Add-Back	\$85,151.87

What you see on the “EBITDA” line (green shading) in the above screenshot is synonymous with pre-tax net profit. As an S-Corp the taxes are passthrough to the shareholders, meaning that the corporation doesn’t pay taxes on the profits, they are taxed on the individual owner’s tax returns. For those not familiar with the term, EBITDA stands for **Earnings Before Interest, Taxes, Depreciation, and Amortization** (we currently have no ITDA in our cost structure). However, we have chosen to expense our CAPEX (capital expenditure) as we don’t see a lot of value in creating a depreciation schedule for such a small dollar amount, which leads us to our first add-back of \$8,748.53. We also have some one-time attorney costs for incorporating and getting buy/sell agreements in place between the corporation and the shareholders, representing \$15,474.86. And lastly, from April through December of 2019, I had paid myself an above-market rate as I tested the business’s ability to replace the income from my day job.

From my experience in M&A transactions, I believe I would be able to justify these add-backs. That said, should we enter into an agreement to be acquired there will likely be give and take as to what is or isn’t a valid add-back. All of these financial gymnastics are to serve one purpose and that is to arrive at an economic value (EV) of the business. Internally, we are using a 5X multiple, and currently, this values our business between \$1.2M and \$1.6M. This is what we are currently estimating the value to be but that doesn’t guarantee that we could find a potential buyer today that would be willing to pay that price.

(Note: for long time blog readers, I do not hold any value for this business in my net worth.)

Our Secret Sauce

We had a hunch that we might have something unique to offer the CPM marketplace but we knew we would actually have to jump in to find out. Our partners also believed that we had something special we could offer the clients

looking to implement their software, which is why they extended a personal invitation to become one of their earliest partners. Validation was received after our very first implementation when we received a 100% customer satisfaction rating. We actually earned a perfect score on our first six implementations before breaking our streak. I'm confident in saying we blew everyone's wildest expectations out of the water - including our own. We have set a bar that is matched by no other partner nor been done internally with our partner's in-house implementation team. Although we don't have a perfect record, we have continued to receive 100% ratings on the regular, and today our life-to-date average is 98%!

We believe our secret sauce boils down to the following:

- (1) My co-founder and I have 15 years of combined experience in Financial Planning & Analysis (FP&A). This means we are not career consultants but instead practitioners. We have solved many of the same problems our prospects and customers are trying to address with software. We have since brought on a third partner that takes our combined experience to 25+ years.
- (2) We were first clients and power users of the very software we now sell and implement. As clients, we used the product to solve many if not all of the problems that our clients are now trying to solve. Most consultants have never used the software they are implementing for their clients.
- (3) We have exclusivity with a single software vendor. A lot of the consultancies we've come across implement many different software solutions in the Corporate Performance Management (CPM) space where we operate. Instead of being a "jack of all trades and master of none" we have significant expertise in a single product. I've heard this referred to as going an inch wide and a mile deep.
- (4) We care deeply about customer satisfaction. We quickly learned that this is not typical of third party vendors. You would think this is obvious, but the feedback from customers is that customer-centricity is often lacking.
- (5) We don't believe that bigger is better. We would rather be known as the **best** rather than the **biggest**. This requires discipline when there is so much opportunity to grow. We regularly turned down additional work when we didn't have the resources to fulfill it. We favor quality over quantity, even if that comes at the sacrifice of a faster growth rate.

(6) We have a unique filter for talent that we stick to. This builds on number five above. Although we could have taken on more work and hired more resources over the last year, it would have been to the detriment of our clients. A tighter filter on talent means slower hiring that ultimately results in slower growth (but really high customer satisfaction).

(7) We were product evangelists of the software we now implement long before we made money selling and implementing it. It is so much easier to sell a product that you are passionate about. I joke with people when I tell them that I don't sell, I share! As a client, I probably did close to 100 customer reference calls, many of which ended up in closed deals (I've been told that when a customer gets to a point of reference calls that there is a 40% chance of closing the deal, but if they were sent to me for the reference call that probability increased to 90%).

(8) We act as the consultants we would have wanted during our own software implementation.

(9) Our number one goal is to work ourselves out of a job, post-implementation. This is counter-intuitive for a consultancy. Many would love the opportunity to be engaged indefinitely, but that is not our goal. We want to enable and empower our customers and leave them happy and self-sufficient.

(10) We go out of our way to WOW every client! This is accomplished through a very high-touch relationship. We error on the side of over-communication. We over-deliver as often as we can.

All of these combine to provide a unique value proposition to the client. It also allows our company to act as both a management consultancy as well as a software implementation partner. Our continued success will ultimately be determined by our ability to maintain this secret sauce as we grow.

A Nod to Our Partner

We couldn't have done any of this without such an incredible partner. It all starts with the amazing product they brought to market almost a decade ago. They have relentlessly continued to innovate and improve that product ever since. As the guinea pigs to this new formalized partner community, we probably got a lot more attention and support than each progressive partner that joined after us. It's not

just because we were asked to join, or that we were first to join, but I also look at it as cashing in on the accumulated goodwill over my six years as a client and product evangelist.

I happily took every reference call they asked me to take. I happily participated in every interview that would help spread the word. I happily participated as a presenter at their annual user conferences. I happily gave my time to co-host webinars and sit on customer panels. I happily volunteered to beta test new product features. I happily spent time with the product team to discuss product enhancements. I happily spoke to venture capital and private equity investors when our partner was raising money to continue growing and evolving the product. I happily said YES to anything and everything that would help my partner prosper (even before they were my partner). I willingly did all of this for FREE!

I thank every single member of our partner's team for treating us so well and for allowing us to help write the next chapter in their company's history book - a chapter filled with many successes accomplished together!

Final Words on the Current State of the World

You know I couldn't finish this letter without [addressing COVID-19](#) and how it has or will impact our business for the remainder of 2020 and beyond. The world changed drastically halfway through the last month of our first full twelve months in business. We have yet to feel the impact directly in the financial results of our business but that is because we are still working through a backlog of pre-contracted work. And because our services are pre-paid, our clients are incentivized to continue forward with getting their software implementation over the finish line. It is more important than ever that they get the project complete so that they can have the visibility they need to make the hard decisions required to adjust to the new world we find ourselves in. As many companies downsize it becomes even more important to leverage technology to do more with less (in many cases, that "less" unfortunately means "people").

However, I would be delusional to think we are not impacted at all. Our sales pipeline has vanished overnight as companies hoard cash and freeze all discretionary spending. And who can blame them? There is so much uncertainty. We live in unprecedented times. The Federal Reserve and the Federal Government have been battling a war on two fronts. On one front they have taken monumental action to keep our people safe from the COVID-19 virus, while on the other front

they have provided historic amounts of financial capital to support our people's economy and livelihoods.

I have no idea how this all unfolds or where we go from here, but I do encourage each of you to [remain optimistic](#) and think of this as an opportunity to reflect, reset, and communally rejigger our path forward as one people. Let's use this as an opportunity to connect with our families and our communities now in new ways, and then even more deeply once the restrictions on our daily lives are lifted. Truly, the only way we are getting out of this crisis is together!

There is no doubt that life will be different. Business will be different. But what won't be different is our ability to adapt and thrive! This is our "Greatest Generation" moment!

Although I can't predict how painfully or for how long our lives will be disrupted, I can say with full confidence that we (the world) have decades of prosperity and happiness ahead of us. We will emerge from this more resilient than ever. This crisis will ultimately lead to more innovation and unintended insights that will propel us toward a brighter tomorrow.

Onward & Upward!

Your CEO



Gen Y Finance Guy

Hey, I'm Dom - the man behind the cartoon. You'll notice that I sign off as "Gen Y Finance Guy" on all my posts, due to the fact that I write this blog anonymously (at least for now). I like to think of myself as the *Chief Freedom Officer* here of my little corner of the internet. In the real world, I'm a 30-something former C-Suite executive turned entrepreneur turned capital allocator. I am trying to humanize finance by sharing my own journey to Financial Freedom. I believe in total *honesty* and *transparency*. That is why before I ever started blogging, I

decided that I would share all of my own [financial stats](#). I do this not to brag, but instead to inspire motivate, and also to hold myself accountable. My goal is to be a beacon of hope, motivation, and inspiration for *you*, the reader, by living life by example and sharing it **all** here on the blog. My sincere hope is that you will be able to learn from me - both from my successes and my failures! [Read More](#)