



# **MS IN FINANCE CAPSTONE PROJECT**

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## **General overview**

### ***Business description***

This Capstone project is done for one of the successful companies joined the Central European University (CEU) InnovationsLab in March 2018. By that time the Company was already more than two years on the market. The project consists of several parts, such as analysis of the Company's business model (actual revenues and expenses), key ratios, benchmarking, and the forecast. The following section continues with the description of the Company itself, followed by the analysis of the Company's financials and the forecast of operations in full years of 2018 and 2019.

The Company has been established in 2015 by means of capital contributions of three people. It has a business model that is based on the two main divisions, such as 'Conferences' and 'Intel'. Under 'Conferences', the Company creates events that "attract the world's leading marketers, entrepreneurs, disruptors, brands, and technology under one roof". The 'Intel', on the other hand, provides website visitors with "latest reviews, techniques, interviews and research from around the globe".

Before continuing with the analysis of the Company's revenue and cost structure, it is worth mentioning that this is a service company, and its financial statements are different from those of a manufacturing company. There is no inventory on the balance sheet of the Company, and the income statement does not have the cost of goods sold section. As the Company provides services, it does not make investments in long-term assets, hence, the investing section of the cash flow statement is absent. Moreover, the Company does not use external financing rather than initially contributed capital, which leads to zero changes in the financing cash flow.

Analysis of the Company's financials for 2016 and 2017 was done by means of preparing financial statements, including detailed analysis of revenue and cost structure.

### ***Revenue***

The only source of revenue is the sales of different event packages for attendees. The packages are divided into two main categories: sponsorship package and delegate passes. The sponsorship is further subdivided into several types depending on the exposure to public that a certain sponsor

requires. The sponsorship packages are subject to discounts from 20% for more expensive packages and up to 50% for less expensive ones. Discounts are decided upon the negotiation process with sponsors on an individual basis. The reasons for discounts are the size of a company, the speed of decision-making if offered a discount, and an attendee's budget restraints. Because of the discounts being subject to the terms negotiated via the phone calls or emails, the average per unit price was used as a basis for calculations. Delegate passes are sold to companies that want to sell something directly to consumers (B2C). Delegates are representatives of different spheres, such as e-Commerce and fashion, travel and hospitality, retail, finance and insurance, etc. The terms of payment are such that the Company requires every issued invoice to be paid within one month. In addition, all the revenue related to the event is received prior to the event.

### ***Expenses***

In the process of analyzing the Company's financials, the costs were divided into two groups: direct expenses and indirect expenses. Direct expenses are the expenses that the Company bears only once a year, and they are directly related to the event. Direct expenses include the rent of venue and equipment, printing for the event, mobile application costs and travel expenses for the staff. Indirect expenses include the operational costs that do not change from month to month, such as payroll, office rent, address registration renewal (quarterly), website maintenance, sales and marketing, etc. There are currently four employees, who are the owners at the same time. Three of them started the business, and the fourth joined later same year by means of share capital contribution. Three initial owners receive a minimum salary.

The only current asset of the Company is cash, and the only current liability is down payments received. The calculated working capital is negative in 2017. This is not an indicator of problem, however. Down payments received is the prepayment for the upcoming event. Sales for the upcoming event in June are open from Autumn. Therefore, these prepayments are converted into revenue once the event is over. This means that no current liability may become due before the event. The same reasoning is for the liquidity ratio less than 1 in 2017.

### ***Comparable events***

In order to understand where the Company stands among the comparable events on the market, a search for comparable events has been performed. The key characteristics are location (only

Europe), concept (the topics covered), speakers and sponsors, number of attendees (where available), and the cost of attendance (including available discounts and the components included in each type of ticket). Among the comparable events, the average price per ticket starts from EUR 750 and up to EUR 1,500. The Company, on the other hand, charged as much as EUR 500 on average in 2017. This is explained by the early stage of development of the Company, and its owners aim to be as “cheap as possible” for now in order to attract more attendees and let them spread the word about the event. The outcome of almost three years of events and the comparable analysis is that there is room for increasing the price per ticket without harming the number of attendees.

## **Portfolio**

### ***New event concept***

The additional event is planned to be held at the beginning of 2019 – approximately at the end of January. It will be a business-to-consumers (B2C) marketing event for approximately two hundred attendees. The concept of the event is a series of workshops by experts on different sides of the general topic in digital marketing, artificial intelligence, voice search in marketing, etc.

The preferred location is either Berlin, Prague, or Amsterdam. Because the Company is familiar with the Amsterdam venues market, a closer look has been taken on Berlin and Prague possible event locations. The primary focus was on hotels conference rooms in theater style for two hundred people, with all the needed audio-visual equipment and furniture, and catering offerings. Again, a comparative table with possible venues for both Berlin and Prague, was created, indicating such characteristics as location, venue size, capacity, facilities (in terms of available equipment) and cost of venue and equipment rent in euro per day. Many suitable venues were identified during the search, but the websites do not disclose the costs. Therefore, an email to each venue was sent. The response rate, however, was low. In total only two venue costs for Prague, and one for Berlin were identified. The Berlin venue costs were used in the forecast, as the costs fall in the budgeted amount range for the new event, and also because Berlin is a more popular place for marketing events than Prague, as was identified during the comparable events search.

### ***Revenue and cost structure***

The new event costs are approximated to be XX,XXX euro, which is in line with the Company's approximated budget for it. Revenue structure, however, is not detailed because the Company's management has to decide on the concept of the event. Therefore, the assumption is that in order to break-even on this new event, each ticket has to be sold for a minimum of 200 euro. Thus, all the new event associated costs can be covered.

Expenses for the new event assumed to be similar to the bigger event in terms of types, the costs, however, are scaled to the size of the new event.

### ***Forecast financials***

The forecast for 2018 full year is based on the data available up to 31<sup>st</sup> of May 2018 – almost up to the event itself. The bigger event in 2019 will be for 700 people. The owners plan to sell more delegate passes and receive more sponsorship revenue. The 2019 sales revenue is forecasted assuming year-on-year growth in price per pass of each type, as the Company is not planning to sharply increase prices and adding revenue from the new event equivalent to double of its costs, as expected by the owners. Projected expenses for 2018 include the monthly operating costs and direct – current event associated costs. Expenses forecast for 2019 consists of cost of two events already. Monthly expenses in 2019 are assumed to be higher than in 2018 because the Company plans an additional employee – sponsorship sales person – for the new event. In terms of down payments received for the upcoming event, the assumption is that the Company will receive prepayments for the bigger event in the amount proportional to the increased size of the event, and half of the projected revenue for the new event. By the end of 2019, the Company is projected to receive prepayment for both events as well, on the same level as in 2018.

As indicated by the Company's owners, they are going to take out a certain amount of dividends in both 2018 and 2019. The actual and forecast financials indicate that it is totally possible, as the business is going to end both years with sufficient amount of profit.

### ***Monthly cash flow targets***

Monthly cash flow targets are calculated based on the actual amount of the passes sold each month, and on the fact that there are very low sales volumes during the Summer period, and

during December and the first week of January. Therefore, the Company has to sell the eighth amount of its annual sales revenue each month.

## **Conclusion**

The overall conclusion is that the Company is a relatively new and growing company that is getting more known on the market and expanding in terms of revenue and portfolio. After running in the red for the first event in 2016, breaking even in 2017, the 2018 operating year is going to be profitable and allow the owners to receive dividends. Although only one part of the business is the source of revenue for the Company, the second – publications is a potential source if monetized. This assumed to increase the weight of the Company on the market and make it more profitable business.

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