

# What is a Proforma?

By William Camacho, HRVST

Forming a new business or a substantial expansion of an existing business is a life changing risk. A proforma transforms that risk to an educated level. This establishes confidence in the process of the person or group undertaking this voyage along with the financiers backing it up.

The goal of authoring a proforma is to reveal the true bottom line to answer one simple question: Are my assumptions viable?

The essence of a proforma is reflected in the following equation:

$$\text{Cost} + \text{Sustainability} + \text{Payback} = \text{Viability}$$

The components on the left side of the equation break down as follows:

- Cost
  - A successful proforma happens when you can overcome the amount of Start-Up cash flow needed to get past the break-even point (where cash overcomes debt).
- Sustainability
  - Are your income assumptions realistic?
    - Does sales volume align with your equipment assumptions (CAPEX: capital expenses) to support a real-world production schedule?
    - Are your real estate assumptions adequate to support the volume needed for dry goods, raw materials, finished goods, production, retail, etc?
    - Is your personnel loading aligned with supporting your income sources?
    - Does your business operating expense reflect the growth?
    - Is your COGS (cost of goods sold) taking into consideration volume price points when you reach certain thresholds?
    - Does your COGS reflect the true costs needed to support your different product types?
    - Are your price points aligned with true market metrics?
- Payback
  - How long will it take to pay back the original investment?
    - Will it satisfy all the financial vehicles you plan to procure?
    - Can you sustain a good debt to income ratio?

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Then, there is the other side of the equation, the resulting Viability.

## Viability

- Fully understanding all the assumptions in the proforma, do you have the confidence to start your journey?
- Are you confident you can raise the adequate amount of money to get to a profitable place prior to committing on your plan?
- Did you incorporate cash contingencies to support unforeseen costs along with costs associated with time delays?
- Do you understand timeline required to raise money and obtain construction + regulatory permits?
- Do you have realistic timelines for the course of construction itself?
- When will the business have the ability to expand, re-invest, or diversify?

Creating a proforma is a critical exercise for you and your investors to complete prior to making financial commitments in a new business. Some of the information you will need in hand to build your proforma include projections for the following:

## Cash In

- Income streams
- Start-Up Investment

## Cash Out

- Start-up costs
- CAPEX – Capital (Equipment) Expenses
- COGS – Cost of Goods Sold
- Business Operating Expenses
- Personnel Expenses

For additional information about creating your proforma and how it relates to your business plan, see additional articles in the Plan section of the Library.



*Contributing Author*

**William Camacho**

**Principal, HRVST**

*William has established a solid reputation for consulting and designing production beverage facilities with HRVST, a process engineering/ start-up consulting firm, and CLTVT, a General Contracting firm; both companies he co-founded and operates.*