



VICTORIA ATHLETICS: FINANCIAL MODELING

As Amanda Lee, the founder and CEO of Victoria Athletics, walked into her kitchen, she instinctively reached for a coffee pod, placed it in her espresso machine, and closed the lid. The whirr and aroma of freshly brewed coffee did nothing to interrupt her train of thought. Lee was about to embark on her Series A fundraise and her mind was entirely focused on the financial forecast she still had to finish. She had worked into the early hours of the morning drafting the document—and knew there might be a few mistakes left for her to find.

The machine sputtered to a stop and Lee grabbed her mug. She walked over to her desk, logged back into her computer, and opened Excel. She was one thorough review away from deciding the size of her fundraise and sharing the forecast with prospective investors.

VICTORIA ATHLETICS, INC.

Lee graduated from the Stanford Graduate School of Business in June 2022. During her second year, she teamed up with Fiona Burt, an engineering student with a passion for apparel. Together they enrolled in Stanford's Startup Garage class with the idea of creating a software-enabled running shoe.

Lee and Burt were avid runners. They envisioned a pair of shoes that would accurately track their pace, stride, and gait. They would pair the shoes with a corresponding analytics application that could provide suggestions for improvements to their running form. Shortly after graduation, in August 2022, the pair incorporated Victoria Athletics and raised \$3 million of seed capital to pursue their idea (**Exhibit 1**).

Andrew Freiman, Professor Anne Beyer, and Lecturer Robert Siegel prepared this case solely as the basis for class discussion. This case study is based on fictional events; liberties have been taken with elements of the case such as names, characters, places, dates, and data to lay the foundation for a discussion of the issues chronicled in the case. Any resemblance to actual persons, living or dead, or companies is purely coincidental. Stanford GSB cases are not intended to serve as endorsements, sources of primary data, or illustrations of either effective or ineffective handling of an administrative situation. Funding for this case was provided by the Stanford Graduate School of Business.

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SERIES A FUNDRAISING

After five months of development, Lee and Burt were confident that Victoria Athletics' product was 30 days away from being production ready. The company had \$2 million of cash remaining and Lee was prepared to begin the Series A fundraising process. In advance of upcoming investment meetings, she had built a financial model to determine the target size for the financing and provide investors with projections.

Based on prior conversations with investors, Lee believed that the business would be materially de-risked once Victoria Athletics had sold 4,000 pairs of shoes and developed a base of 2,000 subscribers who were enrolled for at least three months. The 4,000 pairs of shoes sold would represent \$1.6 million of cumulative hardware revenue. And 2,000 subscribers would represent \$30,000 in monthly recurring subscription revenue. At that point, Lee was confident that Victoria Athletics could compete with the large brands that dominated the running shoe industry. She hoped to achieve these milestones with the capital from the Series A fundraise. The proceeds from the fundraise would be used to invest in inventory, hire salespeople, fund marketing, support research and development, and finance ongoing general and administrative expenses. Lee anticipated closing the round at the beginning of March 2023.

FINANCIAL MODEL

When she was building her financial model, Lee had made several key assumptions.

In partnership with Burt, Lee had decided to outsource production. They had contracted with two manufacturers—one that specialized in electronics and another that focused on shoes. The shoe manufacturer would incorporate the electronic components into the final sneaker assembly. Both factories had offered one production run per month. The electronics—which were specifically designed for Victoria Athletics to withstand the impact of running—would be purchased at a fixed price, one month ahead of each shoe production run. The shoe manufacturer offered volume-based pricing discounts. Depending on the number of pairs of shoes ordered per run, Victoria Athletics would pay a different price per pair produced (**Exhibit 2**). The total cost of each pair of shoes would be a combination of the cost of electronics and the production cost per pair.

Lee planned to hire a salesforce to sell the shoes to running clubs and teams. Given the high price point—\$400 per pair—the company planned to target serious runners who would benefit most from the new technology. Lee estimated that it would take three months to onboard and train each salesperson and that, once trained, each salesperson would sell 100 pairs of shoes per month. She planned to pay each salesperson \$150,000 per year (a salary she anticipated would increase by 3 percent annually) and a sales commission of \$40 per pair of shoes sold. Lee outlined her hiring plan in her financial model, including the expectation that salespeople would occasionally leave the company.

Upon purchasing a pair of running shoes, each customer would automatically be subscribed to Victoria Athletics' \$15 per month data analytics product. Lee's market research had led her to believe that 10 percent of their subscribers would cancel their subscription (churn) each month. Monthly subscriber churn would increase to 15 percent after the first two years as the new

customer profile shifted from innovators and early adopters to the early and late majority.¹ Burt had estimated that each subscription would cost the company approximately \$3 per month (including server costs, credit card transaction fees, and customer service costs).

To help with sales, Lee planned to spend \$100,000 marketing the product in March 2023, ahead of the product's debut launch in April. Post-launch, she had expected marketing spend to average 10 percent of sales.

Victoria Athletics had 10 engineers on staff. Each engineer was paid \$200,000 per year (growing at 3 percent annually). Lee had incorporated the company's engineering hiring plan in her financial model.

When building her model, Lee had assumed a corporate tax rate of 21 percent with the opportunity to carry forward any net operating losses and use them to offset up to 80 percent of operating profit in future years. For simplicity, Lee had assumed no depreciation, amortization, or capital expenditures (given Victoria Athletics' production partnerships), and no working capital other than inventory.

Lee had worked hard to craft a model that appropriately reflected Victoria Athletics' potential. She had one more chance to review it before meeting prospective investors to discuss her funding needs and the valuation Victoria Athletics' would receive in its Series A. She took a sip from her coffee mug and began looking for possible errors.

¹ According to Everett Rogers' *Diffusion of Innovation*, there are five adopter categories (in order of adoption)—innovators, early adopters, early majority, late majority, and laggards.

Exhibit 1
Seed Capitalization Table

	Shares	Ownership
Common Stock	8,600,000	66%
Option Pool	1,400,000	11%
Seed Preferred Stock	3,000,000	23%
Total	13,000,000	100%

Source: Prepared by case authors.

Exhibit 2
Production Cost per Pair of Shoes

Minimum Quantity	Price / Unit
-	\$200
500	\$150
1,000	\$125
2,000	\$100
5,000	\$75

Source: Prepared by case authors.

STUDY QUESTIONS

Answer the following questions by referring to the financial model provided (Excel file).

1. In 1-2 sentences, briefly summarize how the financial model arrives at
 - a. Revenues from hardware sales
 - b. Revenues from software subscriptions
 - c. Expenses
 - d. Free Cash Flow
2. Based on the financial model, what is your target size for Series A fundraising? Provide your reasoning.
3. Suppose the pre-money Series A valuation is \$30 million. Based on your answer to Question 2, what ownership percentage will Lee and Burt own after Series A?