

Kitty is a FinTech and Social Networking app making it a combination of two of the hottest verticals in app development today. They have a 4-5 year development and growth strategy where they feel like they can do an exit event of selling the app to the appropriate player. They are a C-Corp registered to do business in Texas; their Certificate of Incorporation is in Delaware.

Their app will provide users a place to form a group and collect money for an event (think a weekend in Vegas, a baby shower, a retirement gift etc.). The money can be transferred to the group's "Kitty" via credit card or bank transfer. Once fully funded the group's former utilizes Kitty's functionality to transfer the funds to the intended usage.

Kitty's primary cost of transactions are the merchant account and bank transfer fees. They charge the group contributions for these fees plus a little extra and that is where they make their money.

FINANCIAL PROJECTIONS

Kitty has provided financial projections of which I have reviewed in detail. Some of the key assumptions in their model include:

- Multiple merchant and bank fees being charged per transaction
- The average amount of deposit per person in a group is \$40
- 45% of the users use the app
- Users of the app will create 1 group every two(2) months
- They will have a 10% attrition rate over the prior quarter
- G&A expenses are their best estimates and appear reasonable upon review
- Labor costs assumptions are detailed below

Major revenue driver assumptions in the model:

	YE 2022	YE 2023	YE 2024	YE 2025
Users	73,000	212,000	507,000	962,000
Total Transactions	\$5mm	\$18mm	\$47mm	\$98mm

Since labor costs are a significant component of Kitty's financial expenses initially, I've documented the positions as they grow and increase their payroll expense. They start out with three positions assumed in 2021 when they get funded.

Developer #1

VP of Marketing

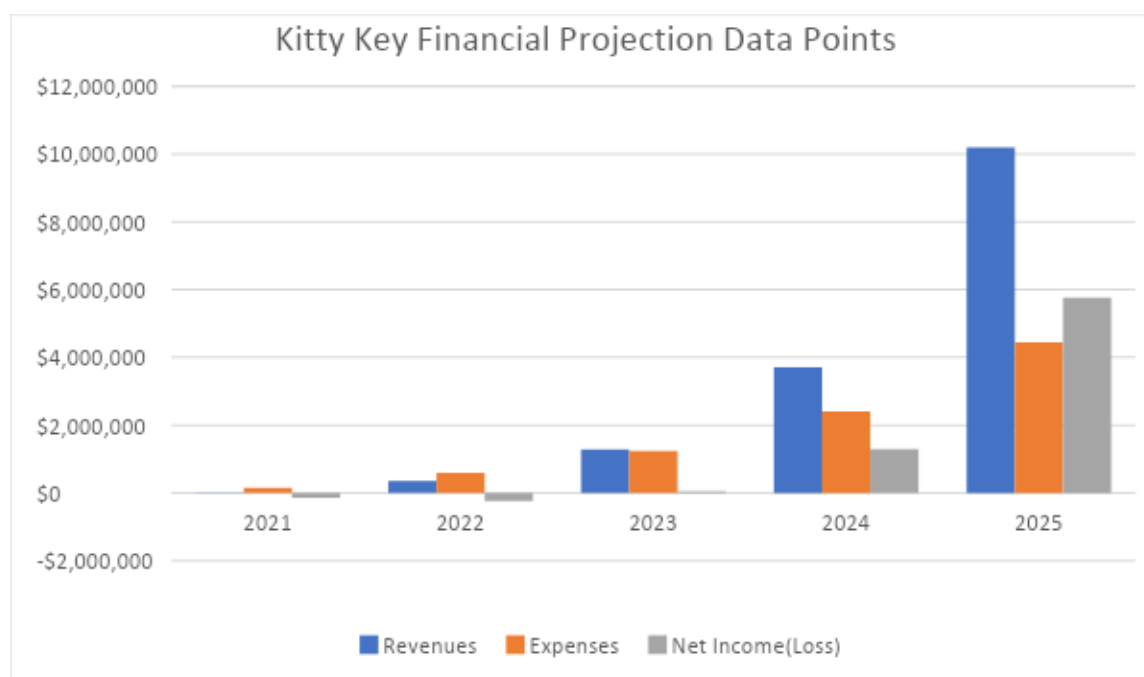
VP of Strategic Partnerships

Subsequently they add the following positions. My concern is a lack of sales related employees throughout their hiring program. This may be addressed more thoroughly in the Sales and Marketing sections of this report.

2022	2023	2024	2025
Customer Success Mgr	Developer #2	Developer #3	Developer #4
COO	Dir of Employee Success	Admin Staff	VP Finance
President of IT	Dir of Strategic Ptrshps	Customer Success Mgr	Social Media Dir
VP of Sales		Project Mgr	
End of Year FTEs			
7	10	14	17

Salaries and Wages			
\$195k	\$386k	\$712k	\$1,033k
Percent of Revenues			
55%	30%	19%	10%

A high-level view of financial projections can be see below:



CURRENT CAP TABLE

Member	Number of Shares
Kate Ertle	2,000
Wendy Foster	2,000
Amanda Larson	2,000
Corey Larson	<u>2,000</u>
Total	8,000

CURRENT FUNDING ROUND

Management is raising \$650,000 on a 3-year Convertible Notes at 8% interest and 20% discount. This is intended to be the first and only capital round (according to their financial projections) therefor the 20% discount won't probably come into play.

They are valuing the company at \$2mm pre-money valuation. Current investors will therefor receive approximately 24.5% of the company. The pre-money valuation may be a little high based upon their current stage of development.

According to their projections they need \$428,000 of cash prior to going cash flow positive in July of 2023 if all goes according to plan. I commend management on their decision to raise an extra \$222k for working capital and contingencies.

EXIT STRATEGY

Kitty's projections show them reaching approximately 1mm users by the end of 2025 or Q1 of 2026. According to management this area in fintech sees valuations at 16 times yearly revenue. Their estimated yearly revenue at 1mm users is \$10mm. At that point management believes they would be valued at approximately \$160mm ($16 \times \10mm). Once their user base reaches 1mm users they believe they can sell to PayPal, Amazon, Cash App or other similar company.

Caution: Apps are typically hard to value and the \$100mm estimate is a pretty soft number and may not be realized.

JR's Questions 10/25/21

✓ In your prior response to my question #1 about where in the model you are being conservative you replied:

"We were also very conservative with the number of groups that people will create at 1.5 per active user. We believe, once the app is really moving along, we will entice people to create more groups and events for many different things."

From the very beginning of this review the one thing I could wrap my head around is that active users would create 1.5 groups per month. That is 18 a year. I generally think people are too busy to deal with raising a pool of money 18 times a year. There aren't that many sporting events, charities, showers, trips that a typical person deals with in a year AND this is one of the two main drivers of the model. I did a mini survey (my 2 daughters, one 25 and one 27 which would be in your target market). The 25 year old said 5 times a year and the 27 year old said 6 times a year and they are both very social. Interestingly enough, I had decided to use .5 (or 6 times per year) rather than your 18 prior to talking with them.

I adjusted the model under the tab simply marked JR. Other things I changed were:

1. A 10% attrition rate of NEW users 3 months prior
2. I changed your growth rate beginning in 2023
3. I made some of your formulas more assumption dependent

These changes I feel make the model more realistic and you still have a 16xRevenues exit valuation of \$83mm which I also believe is more realistic.

FYI – I see a lot of these and have a pretty good feel for numbers. I'm currently working on a medical device deal where I found a human logic error in a formula in an extremely complex set of financials that took their revenues from \$20 billion down to a little over \$10 billion. I'd hate to think what investors would have done if they'd put money into a \$20billion dollar company to find out it was only going to half that.

✓ Please take a look at the JR tab and let me know what you think of the direction I went with it. AND let me know as soon as possible what you want to use as a final draft so that I can change all the numbers in my DD report to reflect the changes.

JR's Questions 10/25/21

✓ RU sure you linked me to the latest financial projections. Following that link I get all the same numbers I had before and can't find the 90% adjusting factor. Please advise. Thanks.

JR's Questions 10/22/21

✓ Run across line 2 from the beginning to the end. It flies all over the place from 1.5, 1.05, 1.23, 1.12, 1.075, etc. There is no rhyme or reason. I can see changing over time in one direction or another but changing monthly up and down is hard to get a grasp of and these numbers drive the entire model.

✓ The amount of money in the legal fees budget can handle routine legal stuff and a few trademarks but not any patents. If you believe there is something patentable here, and there may not be, you'll need to add more money into legal fees.

✓ Where have you introduced conservatism in the model? In other words, what revenue and user data is below what you think you can do and what expenses are over what you think you'll actually end up spending?

✓ Since this is the only raise you are showing what does a 20% discount mean? That is typically used based upon a future priced round. I don't understand.

✓ Still looking for those additional docs. Thanks.

✓ Can I get a current Cap Table?

✓ Are you an LLC, C-Corp, other?

✓ What state is Kitty domiciled in?

✓ You have a formula error in the spreadsheet. $BF2 \text{ s/b } =BE2$ and you don't 1mm until Jan 2026.

✓ While I know you've put in the assumptions that 45% of the users use the app, the users grow based on prior users. Many people will use the app for a onetime thing like a baby shower or a trip to Vegas etc. and never use it again but they are still being counted in the model in 2025 and beyond. Having said this the 45% of users using the app seems like it needs to decrease over time because original new users who will never use the app again will continue to grow in your numbers. That's a huge issue with how the model is currently set up.

I'd recommend at the end of each year eliminating 45% of the user pool and then multiplying it times a growth rate for the next 12 months you are comfortable with. And yes this will increase your time to profitability and in reaching 1mm users but I believe it is a closer approximation of reality. You'd also have to adjust your computation in row 3. Let me know your thoughts.

✓ RU sure you linked me to the latest financial projections. Following that link I get all the same numbers I had before and can't find the 90% adjusting factor. Please advise. Thanks.

✓ Can you schedule out the labor positions in your model. Especially in October and November of 2022 where you hire a \$150,000 and \$95,000 individuals. But I'd like to understand the whole labor positions added during the peroforma.

JR's Questions 10/21/21

✓ Great to meet you. I've got your deck. Please send me a copy of your business plan and financial projections WITH assumptions and I'll get right on the financial DD report. In the meantime, have an awesome weekend!

✓ Do you all have an active website yet?

✓ How much money have you raised to date and under what terms?

✓ Why does your user growth rate bounce around so much?

✓ What is privacy revenue and what is the .002 charge on the total transactions?

✓ What are KYC fees? Know Your Customer? If so seems more in line with a broker/dealer or investment bank. Who are you paying them to, how was the cost determined?

✓ Development costs appear low. Especially up front. Typicallyt on startups you see a major expense up front to get their MVP up and running and then a maintenance fee thereafter (plus of course enhancements) I don't believe \$5k per month is enough to get to an MVP nor is \$5k maintenance a month enough for major enhancements. Do you have a specific quote from a development team documenting that these amounts are adequate?

✓ Do your legal fees cover any IP? If so, what is being protected?

✓ Your labor costs appear to be computed without considering payroll taxes which s/b like 10%. That would be an additional expense throughout which would push profitability off until September of 2022. Please clarify. Thanks.

✓ What is your exit strategy?

✓ What valuation are you thinking (and how do you compute it).

✓ What compatibles exits are there out there in the fintech area?

✓ What pre-money valuation ore you putting on this raise?

✓ How was it determined?

✓ I'm assuming it is a priced round since it is the only raise in your business plan. What are the terms?

