STICKARS

Interactive Augmented Reality Stickers

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STICKARS

EXECUTIVE SUMMARY

Overview

We at the STICKAR company intend on using interactive Augmented Reality (AR) in combination with creative, originally designed stickers, to give users a view of a whole new digital world.

- Regular stickers? Leave them in this decade.
- In 2020, STICKARS will bring new fun, eye-catching experiences to the convenience of a sticker. Own a laptop, smartphone, or water bottle? These are all perfect spots to place your STICKAR.

The Problem

Today, people are looking for new, creative ways to show personal expression. For decades, stickers have been a way kids, adolescents, and even adults have shown what is meaningful to them through a simple design, logo, or picture stuck in a place where others can see it. In a time where technology has taken over, two dimensional stickers are an old tool used for expressing individuality.

The Solution

1. QR codes are now used to translate information from a transitory media and bring it to life on your smartphone with a few simple clicks. With the use of the technology that surrounds us, our team has come up with a solution to bring the information represented on stickers to life through Interactive Augmented Reality.

Keys to Success

1. Scale down in person sales as company grows
2. $20,000 initial investment for 20% equity in the company
3. Begin spending $4,000 of investment on online marketing efforts for each month in our first fiscal year – Emphasis on online sales
4. $1,000 increase in online marketing per month for subsequent years

Financial Highlights: 3-Year Projections

1. 260% Return on Initial Investment
2. Revenue: $239,000, Gross Margin 79.4%, Net Income $92,616
3. $360,000 Post-money valuation – 4x EBIT
4. Assuming liquidation, Expect 55% IRR after year 3

MARKET OPPORTUNITY

The current problem that exists in the sticker industry is a lack of personal expression and integration of technology. Many stickers on the surface level are empirically the same, and do not provide an interactive experience for consumers. Our solution to this problem is to introduce Augmented Reality Interactive stickers in a variety of designs. Currently, on both Redbubble and Etsy, no web-hosted, AR enabled, stickers are available for purchase. Although some AR enabled stickers and greeting cards exist on Etsy's online store, all of these products require the user to download a third-party app in order to experience the product's animation. STICKARS streamlines this user experience by hosting the AR animations on our website. Each STICKAR product comes with a QR code to direct the use to our website, and a marker to activate the animation (Figure 1). This allows for a seamless process that doesn't involve the user to download another application on their smart phone.

The trends that have helped create this opportunity include the introduction of user-sourced e-commerce giants such as Etsy and RedBubble. Independent artists have also entered the custom-sticker market. It is evident, through secondary research, that the sticker industry is expanding rapidly, with an "average annual growth that has consistently topped seven percent, while some businesses have experienced growth rates of twenty to thirty percent or more" (Thomas). Our main target market will consist of college-aged students who are looking for a unique experience that they can share with friends. As we plan to initially sell STICKARS to the approximately 10,000 undergraduate students on campus, we will be focusing on the primary target of 18-23-year-old individuals as well as faculty of the University of St. Thomas. As our sales shift to primarily online (see entry strategy below), our primary target market will also transition.

STICKARS has been presented with three unique market opportunities; seasonal trends in sticker design, preference of personal expression among the target market, and providing consumers with a unique experience. These three opportunities together will provide STICKARS with a competitive advantage over alternative sticker designs offered by competitors.

The first market opportunity presented to STICKARS pertains to seasonal trends and holidays. For each new season and holiday, the potential will exist for new sticker designs to be rolled out in a timely fashion. Not only does this provide the opportunity to build consumer loyalty, but it also allows for a consistent stream of revenue throughout the entire year.

According to UK Essays, "People are always trying to make their beliefs and values known", which is why they believe the industry has grown so much in the last decade (Essays). The second market opportunity STICKARS has been presented with involves the desire among our target market to express themselves. The increase in sticker popularity has prompted small new businesses to enter the market, many of which cater to different tastes and markets. Our business is planning to embark on an online-based marketing campaign (involving social media and online advertisements) to reach our target market of college students and faculty.

The third, and arguably greatest, opportunity STICKARS has been presented with is a result of the uniqueness of our product in comparison to competitors.

Figure 1: STICKAR with QR code and marker

ENTRY STRATEGY

Year 1:

We plan to begin with a defined, specific target market of college students and faculty (specifically professors) at The University of St. Thomas. As a team, we feel as though it is important to place emphasis on new students on campus (first year & transfer students) as our initial target market and focus on expansion to every student on campus as we grow. Just by targeting first year students who live on campus, we would see a potential of over 2,500 customers in the first year of selling solely in person at The University of St. Thomas. This will in turn create long lasting customer relationships, and word of mouth will spread quickly as the students get familiar with our Augmented Reality STICKARS. As we scale down in-person sales for the first year, we plan on dumping money into marketing and advertising efforts to build a large online presence. Of the $20,000 we are seeking for initial investment; we plan to put $4,000 of that into advertising each month for year one.

Year 2:

With brand familiarity expanding as we head into our second year of operation; we will look to test the market at other four-year institutions located in the Twin Cities. In year two, our market will expand to include students and business professionals at The University of Minnesota, Augsburg, and Hamline. These markets will be easily accessible to advertise STICKARS to. We plan on hiring 1-2 brand ambassadors at each school, to begin driving product knowledge, which will in turn create sales via word of mouth. 15,000 potential customers from these Universities is only factoring in first year students. If we are successful in our marketing efforts, we project that these core customer bases will be enough to ramp up our online sales. By the end of our second fiscal year, we project to have accumulated over 10,100 units sold via online sales from approximately 1,630 customers. We assume an average rate of 6.2 STICKARS purchased per customer during our first two fiscal years. The bundle package which will consist of 10 STICKARS for the price of $20 will be our main attraction and will be exclusive to online purchasing. This pack will drive average STICKAR/customer numbers. Double pack sales will keep us afloat in the first two years as we expand our online presence. Projections suggest we can expect a 28% increase in customers from year one to year two. Average STICKARS per customer will rise from a 4.40 to 6.2 STICKARS, a 40.2% increase.

Year 3:

By year three, our efforts will be 100% focused on selling STICKARS online to college students and faculty on campuses nationwide. After two full years of production and selling, our transactional model projects us to continue selling nearly 5,000 STICKARS online for the first quarter, and increasing units sold by about 19% per quarter thereafter. We project year 3 sales will account for over 56% of our total 3-year unit sales. Number of customers will increase by 86% from year two to three. By year three, our reliance on word of mouth sales will be low, as brand familiarity online continues to increase. Introducing seasonal packs for during Easter, summer months, and the holidays for year three will account for our steep increase in steep customers.

FINANCIAL PLAN AND DEAL

Capital Requirements

In order to achieve our projections for year 1 we are seeking $20,000 in investor capital. This will be used for two main things. First, we will need to use $900 to purchase our first order of inventory. After this we will continue to burn cash until about September. At this time, we are projected to have a positive net income and stop losing money. The second thing we will be spending this money on is online advertising. During our first year of operations we will be spending $4,000 per month on this. These are both crucial expenses for establishing our business and determining our long-term success. We are going big on online advertising up front in order to build our online sales and customer base.

We are looking to raise the $20,000 exclusively through equity capital. The reason for this is because the capital needed to start STICKARS is relatively minimal and could easily be raised through family and friends. The risk is higher, and it will take some time to turn STICKARS into a profitable business. Thus, we think giving away equity will be a good incentive for raising the required capital.

Proposed Equity Deals

The deal we are proposing is $20,000 for a 20% equity stake in STICKARS. This gives STICKARS a post-money valuation of $100,000. We feel this is a fair valuation because, using a EBIT multiplier of four, this leaves STICKARS at a valuation of $360,000 by the end of year three. This would give an ROI of 260% assuming we can structure an exit strategy for the end of year three. This would most likely be a cash buy out of the investor at their 20% equity stake, equating to $72,000 return for the investor. The original incentive for 20% ownership of the company came from a desire to provide the investor with a competitive IRR of 55% over a three-year period. This is an excellent return for our investors, and we believe having a three-year exit strategy is a win for both parties. We plan on building STICKARS using its own cash after this, so reclaiming control of the company and its assets will help us do just that.

Capitalization Table

	Pre-Financing		Post-Financing	
	# Shares	% Own	# Share	% Own
Founders	100	100%	100	80%
Investors	-	-	25	20%
Total	100	100	125	100%
Price per Share	NA		$800	
Pre-Money Value	NA		$80,000	
Post-Money Value	NA		$100,000	

FINANCIAL ASSESMENT

Breakeven and Operating Leverage

At this stage in our development, we are considering advertising expense to be a fixed cost. We can obtain a breakeven statistic for revenue and for the number of units of STICKAR that will need to be sold using the formula of fixed cost over contribution margin. Based on our year one proforma financial projections, breakeven will be 31,060 units or $68,582 of revenue. This is only slightly more than the projected revenue for year one. Our operating leverage can be found from fixed costs over total costs, which resulted in 75%, a very good statistic. Our high operating leverage percentage means that in order to achieve a large percentage increase in net income, only a small percentage increase in sales is required.

Return on Equity

Return on equity can be found by taking Net Income over the Investor's Owner Equity. At the end of the three-year investment period, the return on equity (ROE) will be 71%. This is a much higher figure than the year one ROE of -29% and the year two ROE of 58%.

Return on Asset Investment and Cost of Debt

Return on Asset Investment (ROAI) is calculate from EBIT over the sum of Interest-Bearing Debt and Owners Equity. Although we do not have any interest-bearing debt, the breakdown of ROAI for each year is as follows and is the same as ROE.

	Year One	Year Two	Year Three
EBIT	-$4,503	$21,809	$92,616
Owners' Equity	$15,497	$37,306	$129,921
ROAI	-29%	58%	71%

In terms of Cost of Debt (COD), given by taking Interest Expense over Interest Bearding Debt, this figure is not applicable to our business because we are not taking on any debt.

Net Balance Position and Cash Conversion Cycle

Net Balance Position (NBP) can be found from Working Capital Available less Working Capital Required. With Working Capital Available (the initial investment), and Working Capital Required (5 days of sales, accounts receivable, inventory, and accounts payable), NBP can be calculated for each year.

	Year One	Year Two	Year Three
Working Capital Available	$15,497	$37,306	$129,921
Working Capital Required	$9,168	$15,624	$31,124
NBP	$6,328	$21,681	$98,797

With a month over month increase in sales of 6%, we are not worried after generating sufficient revenue to satisfy the working capital required. Although our NBP (cash required for operation) continues to increase, based on our cash flow statement, we will have sufficient cash in each period to continue with operation.

In terms of Cash Conversion Cycle (CCC), this statistic is equal to Age of Inventory plus Collection Period minus Payment Deferral Period (PDP).

	Year One	Year Two	Year Three
Avg Age of Inv (Days)	48	9	7
Collection Period (Days)	39	41	41
PDP (Days)	0	0	0
CCC (Days)	87	50	48

Initially, our Cash Collection cycle will take roughly three months to complete. Because we do not have a payment deferral period (STICKARS has no liabilities), our CCC is the entirety of the age of inventory plus the collection period. Our CCC decreases over the years, mainly due to our age of inventory decreasing (because we are overturning STICKARS in our inventory faster). As STICKARS represents a non-perishable good, even our longest CCC of year one will fall within our seasonal promotion plans and no inventory will be wasted.

Key Performance Metrics

Website content and keep-up will be a notable *Customer Acquisition Cost* (CAC), but for now we are focusing on getting *STICKARS* in the hands of customers via word of mouth. While we sell in person on campus, CAC's will be relatively low, as it will merely cost us only personal time. As we shift our transactional model to focus on online sales, our CAC will be considerably higher as profit margins on single and double sale STICKARS will initially be low.

Our *Average Revenue per STICKAR* will be calculated taking total revenue incurred from our STICKARS divided by the number of customers. Since we have a solid gross margin, and use a transactional revenue model, we can expect an average revenue per customer to be anywhere from $2-2.50 depending on the style and art on the STICKAR.

Regarding *Company Overhead*, we will incur a monthly expense for website use and advertising online. We are not focused on taking management salaries in the short run. The actual stickers will cost us a flat rate of $0.25 - $0.50 per sticker, or a wholesale rate of $900 per 2000 STICKARS. Advertising will be our main fixed cost as we initially surge to get our product into the hands of customers. Quarterly Advertising expense will be $12,000 in year 1 and raised to

$15,000 per quarter for year 2. Variable expenses that we will have to account for will include cost of bandwidth cost to host which will depend on our monthly active users, and shipping expenses that will vary with STICKAR sales.

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APPENDIX

The following pages reflect the three-year proforma financial projections for the STICKAR company.

Assumptions for 2020	
Online Monthly Growth	6%
Op Exp Increase per Month	6%

Product	Revenue	Shipping Exp
Single Sticker	$3.00	-
Bundle (Two)	$5.00	$0.55
Bundle (10)	$20.00	$0.55

COGS per STICKAR	$0.45

Income Statement	**Jan-20**	**Feb-20**	**Mar-20**	**Apr-20**	**May-20**	**Jun-20**	**Jul-20**	**Aug-20**	**Sep-20**	**Oct-20**	**Nov-20**	**Dec-20**	**Total-20**
In Person-Sales (Single)	30	40	30	20	10	0	0	0	70	60	50	40	350
In Person-Sales (Double)	35	45	55	45	35	0	0	0	80	70	60	50	475
Online Sales (Bundle/10)	100	106	112	119	126	134	142	150	159	169	179	190	1687
Online Sales (Double)	300	318	337	357	379	401	426	451	478	507	537	569	5061
Revenue from Sales	$3,765	$4,055	$4,298	$4,454	$4,624	$4,684	$4,965	$5,263	$6,188	$6,443	$6,718	$7,014	$62,470
COGS	$765	$822	$872	$907	$945	$964	$1,021	$1,083	$1,251	$1,306	$1,366	$1,430	$12,731
Gross Profit	$3,000	$3,233	$3,426	$3,547	$3,679	$3,720	$3,943	$4,180	$4,937	$5,137	$5,352	$5,584	$49,738
Shipping Expense	$220	$233	$247	$262	$278	$294	$312	$331	$351	$372	$394	$418	$3,711
Advertising Expense	$4,000	$4,000	$4,000	$4,000	$4,000	$4,000	$4,000	$4,000	$4,000	$4,000	$4,000	$4,000	$48,000
Op Expenses	$150	$159	$169	$179	$189	$201	$213	$226	$239	$253	$269	$285	$2,530
Depreciation	0	0	0	0	0	0	0	0	0	0	0	0	0
EBIT	-$1,370	-$1,159	-$990	-$894	-$788	-$775	-$581	-$376	$348	$512	$689	$882	-$4,503
Interest Expense	0	0	0	0	0	0	0	0	0	0	0	0	0
Income Tax	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Income	-$1,370	-$1,159	-$990	-$894	-$788	-$775	-$581	-$376	$348	$512	$689	$882	-$4,503

Income Statement (Continued)	**Q1-21**	**Q2-21**	**Q3-21**	**Q4-21**	**Total-21**	**Q2-22**	**Q2-22**	**Q3-22**	**Q4-22**	**Total-22**
In Person-Sales (Single)	0	0	0	0	0	0	0	0	0	0
In Person-Sales (Double)	0	0	0	0	0	0	0	0	0	0
Online Sales (Bundle/10)	641	763	909	1082	3395	1289	1535	1828	2178	6831
Online Sales (Double)	1922	2289	2726	3247	10184	3867	4606	5485	6533	20492
Revenue from Sales	$22,421	$26,704	$31,805	$37,880	$118,810	$45,116	$53,733	$63,997	$76,222	$239,069
COGS	$4,612	$5,493	$6,543	$7,792	$24,441	$9,281	$11,054	$13,165	$15,680	$49,180
Gross Profit	$17,809	$21,211	$25,262	$30,088	$94,369	$35,835	$42,680	$50,832	$60,542	$189,889
Shipping Expense	$1,409	$1,679	$1,999	$2,381	$7,468	$2,836	$3,378	$4,023	$4,791	$15,027
Advertising Expense	$15,000	$15,000	$15,000	$15,000	$60,000	$18,000	$18,000	$18,000	$18,000	$72,000
Op Expenses	$961	$1,144	$1,363	$1,623	$5,092	$1,934	$2,303	$2,743	$3,267	$10,246
Depreciation	0	0	0	0	0	0	0	0	0	0
EBIT	$439	$3,388	$6,900	$11,083	$21,809	$13,065	$18,999	$26,067	$34,484	$92,616
Interest Expense	0	0	0	0	0	0	0	0	0	0
Income Tax	0	0	0	0	0	0	0	0	0	0
Net Income	$439	$3,388	$6,900	$11,083	$21,809	$13,065	$18,999	$26,067	$34,484	$92,616

Assumptions for 2020	
Initial Paid-In Cap	$20,000
2,000 Sticker Purchase COGS	$900

Assets	Dec-20	Dec-21	Dec-22
Current Assets:			
Cash	$7,184	$23,309	$102,072
Accts Rec	$6,644	$13,369	$26,901
Inventory	$1,669	$628	$948
Total Current	$15,497	$37,306	$129,921
Total Assets	$15,497	$37,306	$129,921

Liab & OE	Dec-20	Dec-21	Dec-22
Owner's Equity			
Paid-in Cap	$20,000	$20,000	$20,000
Ret Earnings	-$4,503	$17,306	$109,921
Total OE	$15,497	$37,306	$129,921
Total Liab & OE	$15,497	$37,306	$129,921

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Cash Flow Statement		Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20
Net Income		-$1,370	-$1,159	-$990	-$894	-$788	-$775	-$581	-$376	$348	$512	$689	$882
Changes in Current Accts:													
Accounts Rec	Less	-$3,500.00	-$210.00	-$222.60	-$235.96	-$250.11	-$265.12	-$281.03	-$297.89	-$315.76	-$334.71	-$354.79	-$376.08
Inventory	Less	-$135.00	-$78.30	-$28.01	$7.03	$44.98	$63.52	$121.33	$182.61	-$548.93	-$493.58	$465.91	-$370.23
Accounts Pay	Add	0	0	0	0	0	0	0	0	0	0	0	0
Total Cash From Operations		-$5,005.00	-$1,447.20	-$1,240.73	-$1,123.08	-$993.56	-$976.47	-$741.06	-$491.53	-$517.02	-$316.64	$800.56	$135.60
Net Cash		-$5,005.00	-$1,447.20	-$1,240.73	-$1,123.08	-$993.56	-$976.47	-$741.06	-$491.53	-$517.02	-$316.64	$800.56	$135.60
Beginning Cash		$19,100.00	$14,095.00	$12,647.80	$11,407.07	$10,283.99	$9,290.43	$8,313.96	$7,572.89	$7,081.37	$6,564.35	$6,247.71	$7,048.27
Ending Cash		$14,095.00	$12,647.80	$11,407.07	$10,283.99	$9,290.43	$8,313.96	$7,572.89	$7,081.37	$6,564.35	$6,247.71	$7,048.27	$7,183.87

Cash Flow Statement (Continued)		Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
Net Income		$449	$1,490	$2,729	$4,206	$4,964	$7,058	$9,553	$12,523
Changes in Current Accts:									
Accounts Rec	Less	-$447.91	-$533.47	-$635.38	-$756.74	-$901.29	-$1,073.45	-$1,278.50	-$1,522.72
Inventory	Less	-$172.15	$138.80	-$390.86	$50.22	-$324.44	$301.24	-$1,653.56	$133.98
Accounts Pay	Add	0	0	0	0	0	0	0	0
Total Cash From Operations		-$171.29	$1,094.90	$1,702.96	$3,499.07	$3,738.28	$6,286.10	$6,620.60	$11,134.74
Net Cash		-$171.29	$1,094.90	$1,702.96	$3,499.07	$3,738.28	$6,286.10	$6,620.60	$11,134.74
Beginning Cash		$7,536.91	$8,240.08	$12,074.30	$19,809.56	$29,462.93	$42,226.67	$64,001.65	$90,937.27
Ending Cash		$7,365.62	$9,334.99	$13,777.26	$23,308.63	$33,201.21	$48,512.77	$70,622.25	$102,072.01