

An aerial photograph of a city skyline at sunset. The sky is filled with soft, golden light and scattered clouds. The city buildings are silhouetted against the bright light, with the tallest skyscrapers standing out prominently. In the foreground, a dense urban area with various buildings and parking lots is visible. The overall mood is warm and serene.

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Disclaimer

The following information is presented exclusively for the use of student case study. It has been provided to Acadia University for use in-class or in its Casenet program.

The information contained herein is loosely based on the experience of SurfEasy Inc. as an independent technology start-up. Data and information has been changed to protect confidential company information. This information should in no way be considered reporting or historically accurate data about SurfEasy or its parent company, investors, management or affiliates.

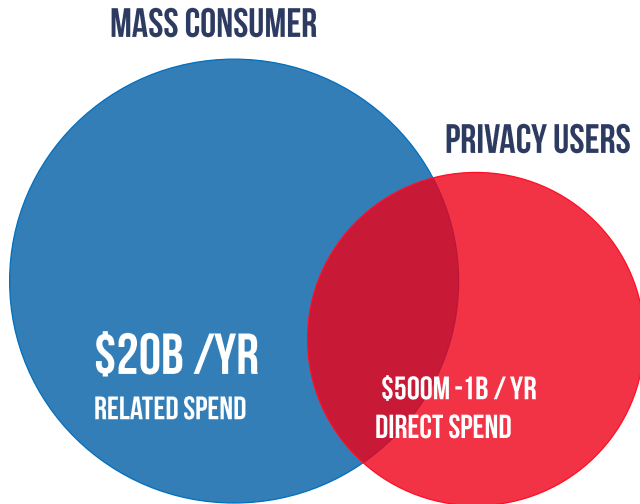
SurfEasy

Q2 2013 Board Presentation

Case study for Acadia University



About SurfEasy – Privacy to the Masses



- 90% of US consumers worried about online privacy
- Less than 10% know how to address the problem
- Existing solutions target smaller niche tech market.

Bring Privacy to the Mass Market

- Make it easy to use
- Work with mass market channel partners
- Drive awareness through self funding mass Direct Respond marketing channels.

SurfEasy provides easy to use consumer focused solutions that help you take back control over your online privacy.

Venture backed company.

Normal Browsing



Computer

- Cookies, history and other data stored on computer
- Accessible by company, friends, family, tech support and others.

Local Network

- Traffic routed through local area network (e.g. Wi-Fi hotspot or company network)
- All traffic is readable and accessible to the network admin
- Firewalls can prevent access to websites.



SurfEasy Browsing



Computer

- All browser related data is stored on SurfEasy key
- When SurfEasy is removed from the computer – so is all your data

Local Network

- Traffic is tunneled through an encrypted pipe between SurfEasy and our private network.
- Nothing is recorded anywhere about your browsing usage.
- Local network has no visibility to where you're browsing or what info you're sending
- Bypasses firewalls blocking access to websites



SurfEasy USB Private Browser

SurfEasy is your personal web browser and virtual private internet connection that you carry in your wallet.

Kickstarter launch Q4 2012. Top 10 tech product.

Commercial launch strategy

- Take privacy to the mass market
- Launch with TV Shopping (QVC) partners to efficiently blend awareness creation and distribution. (Q1/2013)
- With TV success expand to DRTV to smooth out irregular sales. (Q2/2013)
- Expand to retail with DRTV air-cover for mass sales growth. (Q2/2013)
- Further marketing investment (channel and mass) required to grow sales velocity.



Click image for DRTV Video

Landed Costs	\$	15.00
Avg Life Time Cost to Serve	\$	5.00
Total Per Unit Cost	\$	20.00
Avg Wholesale		\$42

SurfEasy VPN

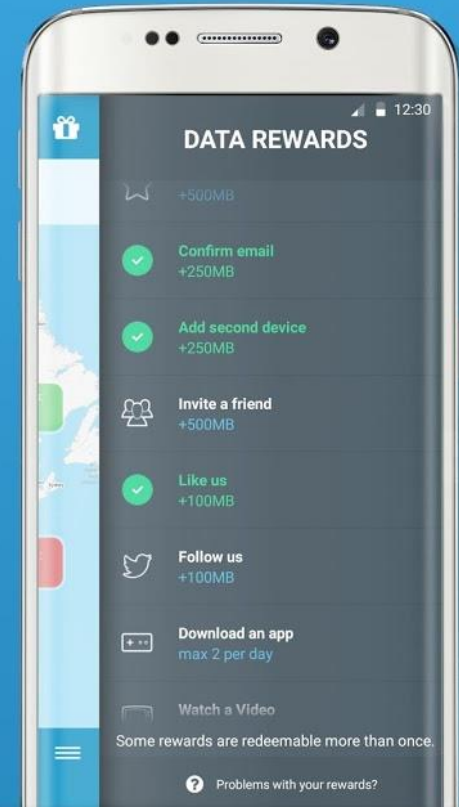
Launched late April 2013 (3 months in market)

Direct to Consumer focus

- Primary distribution iOS and Android AppStores
- Website sign ups slow – but growing.
- Freemium model – users start with 500mb a month and earn more by referring friends, adding devices
- Funnel management key to success
- Growing based on organic freemium funnel / growth hacking
- Little to no marketing investment.

		April	May	June
New Fermium Trial Customers		7,500	15,000	50,000
Conversions to Paid	3.5%	263	525	1,750
Churn	2%		5.25	15.65
Paying Base		263	782	2,517
Average Revenue Per User		\$ 4.00	\$ 4.00	\$ 4.00
		\$ 1,050	\$ 3,129	\$ 10,066

Get more free data and stay protected with SurfEasy rewards



Issue Summary

Our first product – the USB Private Browser has been in market for 2 quarters. We've had some success with select partners – but the sales are difficult to predict and revenue is below plan.

We've made investments in inventory, distribution and marketing to support the USB – but resulting cash conversion cycle is not aligned with our available capital. In addition, further investments in marketing are required to achieve business case productivity levels.

Latest product (SurfEasy VPN) has been in market for 3 months. Early results are encouraging. Through a good freemium model and some growth hacking we're seeing downloads and conversions to paid ahead of plan. But revenues are still low and results are early.

Cash burn is over plan and we're entering a cash crunch.



P&L

	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June
Revenues									
USB Sales									
Retail	\$ 9,876	\$ 11,357	\$ 13,061	\$ 15,020	\$ 17,273	\$ 19,864	\$ 22,844	\$ 34,500	\$ 36,000
TV Shopping	\$ -	\$ 35,000	\$ -	\$ -	\$ 75,000	\$ -	\$ 65,000	\$ -	
Web	\$ 3,500	\$ 3,534	\$ 3,570	\$ 3,606	\$ 3,642	\$ 3,678	\$ 3,715	\$ 3,752	\$ 3,789
Total USB Sales	\$ 13,376	\$ 49,892	\$ 16,631	\$ 18,626	\$ 95,915	\$ 23,542	\$ 91,559	\$ 38,252	\$ 39,789
VPN Sales							\$ 1,050	\$ 3,129	\$ 10,066
Total Gross Revenues	\$ 13,376	\$ 49,892	\$ 16,631	\$ 18,626	\$ 95,915	\$ 23,542	\$ 92,609	\$ 41,381	\$ 49,856
Cost of Good Sold									
USB	\$ 5,938	\$ 22,968	\$ 7,551	\$ 8,540	\$ 44,561	\$ 10,983	\$ 42,716	\$ 18,322	\$ 19,083
VPN	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 378	\$ 1,126	\$ 3,624
Total COGS	\$ 5,938	\$ 22,968	\$ 7,551	\$ 8,540	\$ 44,561	\$ 10,983	\$ 43,094	\$ 19,449	\$ 22,707
Gross Profit	\$ 7,438	\$ 26,924	\$ 9,080	\$ 10,085	\$ 51,354	\$ 12,559	\$ 49,515	\$ 21,932	\$ 27,149
Expenses									
Salaries (<i>FTE</i>)	10	10	10	14	14	14	14	16	16
Development	\$ 35,000	\$ 35,000	\$ 35,000	\$ 45,000	\$ 45,000	\$ 45,000	\$ 45,000	\$ 45,000	\$ 45,000
Sales and Marketing	\$ 18,000	\$ 18,000	\$ 18,000	\$ 32,000	\$ 32,000	\$ 32,000	\$ 32,000	\$ 45,000	\$ 45,000
Customer Support	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000
Total Salaries	\$ 58,000	\$ 58,000	\$ 58,000	\$ 82,000	\$ 82,000	\$ 82,000	\$ 82,000	\$ 95,000	\$ 95,000
Overhead	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000
Marketing (Retail)	\$ 2,469	\$ 2,839	\$ 3,265	\$ 3,755	\$ 4,318	\$ 4,966	\$ 5,711	\$ 8,625	\$ 9,000
Network Expenses	\$ 5,589	\$ 7,466	\$ 4,622	\$ 3,304	\$ 1,463	\$ 1,602	\$ 1,716	\$ 2,015	\$ 2,654
Total Expenses	\$ 71,058	\$ 73,305	\$ 70,887	\$ 94,059	\$ 92,781	\$ 93,568	\$ 94,427	\$ 110,640	\$ 111,654
EBITDA	\$ (63,621)	\$ (46,381)	\$ (61,807)	\$ (83,974)	\$ (41,427)	\$ (81,009)	\$ (44,913)	\$ (88,708)	\$ (84,505)

Cash Flow

	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June
Cash Beginning Balance	\$ 187,567.00	\$ 106,389.35	\$ 98,736.72	\$ 1,215.50	\$ (39,626.93)	\$ 262,920.88	\$ 104,330.60	\$ 228,256.66	\$ 120,418.00
EBITDA	\$ (63,620.65)	\$ (46,380.95)	\$ (61,806.66)	\$ (83,973.75)	\$ (41,427.23)	\$ (81,009.09)	\$ (44,912.63)	\$ (88,707.64)	\$ (84,504.89)
Investment / Financing Activities									
Government Grants / Credits				\$ 18,000	\$ 18,000	\$ 18,000	\$ 150,000	\$ 18,000	\$ 18,000
Debt Facility Draw					\$ 250,000				
Debt Facility Repayment							\$ (50,000)		
Issuance of Common Shares									
Total Financing	\$ -	\$ -	\$ -	\$ 18,000	\$ 268,000	\$ 18,000	\$ 100,000	\$ 18,000	\$ 18,000
Working Capital									
Change in A/R	\$ (20,097.00)	\$ 36,481.40	\$ (33,296.39)	\$ 1,959.15	\$ 77,253.02	\$ (72,409.02)	\$ 67,979.62	\$ (53,343.79)	\$ 1,500.00
Change in A/P	\$ 2,540.00	\$ 2,246.92	\$ (2,418.17)	\$ 23,172.17	\$ (1,277.98)	\$ (23,172.17)	\$ 859.06	\$ 16,212.77	\$ 1,014.00
Net Working Capital Change	\$ (17,557.00)	\$ 38,728.32	\$ (35,714.56)	\$ 25,131.32	\$ 75,975.04	\$ (95,581.19)	\$ 68,838.69	\$ (37,131.02)	\$ 2,514.00
Cash Ending Balance	\$ 106,389.35	\$ 98,736.72	\$ 1,215.50	\$ (39,626.93)	\$ 262,920.88	\$ 104,330.60	\$ 228,256.66	\$ 120,418.00	\$ 56,427.11

EOP Balance Sheet

Assets	
Cash	\$ 56,427
Accounts Recievable	\$ 12,545
Inventory	\$ 7,564
Total Assets	\$ 76,536
Liabilities	
Accounts Payable	\$ 219,176.60
Total Liabilities	\$ 219,177
Shareholder Equity	\$ (142,640)

Other Points to Consider

- We've had several recent funding discussions with US based VC's to raise a large Series A. Response was not encouraging.
- The discussion around personal privacy is starting to go mainstream thanks to the revelations of NSA spying by Edward Snowden
- Because of our focus on Privacy issues we've garnered a lot of government support through grants and other funding.
- Existing investors are capable of further investment – however raising at this point would likely be a down round which signals a big problem to future investors.
- We've made a significant investment in retail distribution and supporting marketing. The original expectation was a much higher productivity and sell through rate. Additionally most retails are only willing to accept new products like ours on consignment or with full return rights.

You're the Management Now

What do you recommend we do?

Consider

- Cash flow management
- Product strategy
- Channel and sales strategy.
- Ultimate goal of a VC sponsored company is generally to be acquired.

