

theenergycfo[®]



Financial Leadership for Early Stage Energy & Technology Companies

www.theenergycfo.com



Meet Paula Waggoner-Aguilar, MST CPA



Entrepreneur, award winning CFO, CPA, and accomplished senior finance executive.

- **Built her career taking on the toughest challenges and finding solutions.**
- Long history of working alongside hard driving entrepreneurs, executives, & boards.
- Paula started her career in the 1990's working her way up the audit and accounting ranks in Latin America for **Halliburton, Enron, and Duke Energy.**
- The next decade she moved into finance and continued working her way up the ranks while working in senior leadership roles for Fortune Global 500 companies including **GDF Suez, BHP Billiton, & Buckeye Partners.**
- One of the few women to have worked in the leadership teams of one of the billionaire frackers. **Lewis Energy Group** is one of the largest private independent producers in the nation and the first US company to drill/operate in Mexico.
- She is known for having strong strategic, business development, marketing, negotiation, risk management, planning and operating experience. She excels in chaos and growing early stage companies.
- Paula specializes in **helping private entrepreneurial businesses.** Over the past 20 years, she has held several senior leadership jobs: CFO, Interim CFO, Vice President & Business Controller, Corporate Controller, Finance Commissioner and Mexican Business Controller, Concurrent Director of Investor Relations & Financial Planning & Analysis among others.
- She was awarded **2014 BEST CFO** by the **San Antonio Business Journal** and also featured in the **2014-2015 and 2015-2016 Who's Who in Energy** Directory for 7 US Energy Cities.
- Paula was nominated for a 2015 South Texas Energy & Economic Roundtable (STEER) Community Impact Award for founding the **Women's Energy Network of South Texas** to empower women in the industry.

Agenda

- My Firm's Story
- Entrepreneurship Stats
- The Leap to Entrepreneurship
- Evolution of a Startup
- Coming Up with Business Ideas
- Business Model Tool & SAPA Example
- Early Stage Funding
 - Bootstrapping
 - Leveraging Outsourced Resources
 - CFO Example FT vs. Outsourced
- CFO vs. Controller – What is the Difference?
- Mistakes I see frequently
- Finance tools & concepts you need to start and run

How We Help Our Clients

The Energy CFO, LLC provides consulting, interim, and outsourced CFO leadership to private energy, technology, and manufacturing companies and startups. The Energy CFO® specializes in *entrepreneurial finance* and works for all sizes of entrepreneurs.

Startup Solutions

Improve Cash Flows
& Profitability

Helping Grow Businesses

Change & Crisis Leadership

CFO Coaching & Succession

Board Service

The Energy CFO, LLC is a 51% woman and 49% Hispanic owned organization.

Business Practice Areas

The Energy CFO® serves the following segments of the energy, technology, and industrial value chain:



Upstream Oil & Gas



Midstream



Downstream



Manufacturing & Technology



CleanTech



Port & Industrial Sector

Why Choose The Energy CFO®?

Entrepreneurial finance. Passion. Taking on tough challenges and finding solutions.

There are not many firms building a practice around helping private companies transition from early stage to mature stage business like us. We are proud of that. We enjoy seeing the men and women we serve succeed!

Our **MISSION** is to help owners grow strong main street businesses in our communities so they can create jobs, employ the hardworking men and women of this nation, contribute towards the local tax base, and keep that *innovative American spirit* alive for the next generation.



The Energy CFO is an independent firm that is **PASSIONATE** about helping entrepreneurs succeed and build strong private businesses. *We are CFOs to the risk takers who **DREAM BIG, CHALLENGE** the status quo, and **BOLDLY DISRUPT** markets.*

US Small Business / Main Street Stats

Of the 27 Million businesses in the United States:

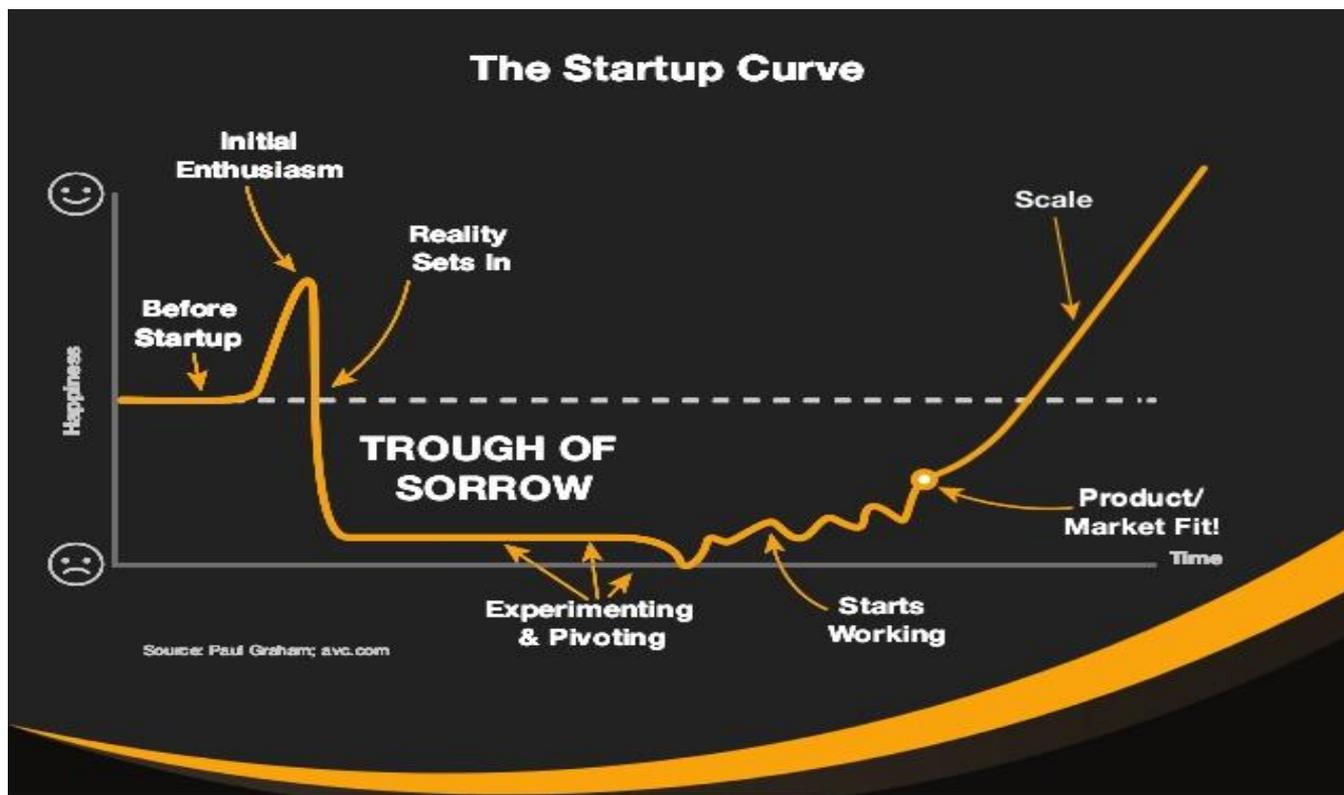
- 99% or 26.73 Million businesses are classified as **US Small Businesses**
 - 75% or 20.05 Million have zero employees
 - Represent 40% of all commercial sales
 - Represent 50% of the US Gross Domestic Product
 - Employ over 55% of the **NON GOVERNMENT** workforce in the US
 - Over the last 2 decades credited for creating 2 out of every 3 jobs
 - NAICS lists more than 46K firms involved in O&G (of 17.4M Biz)
- Truth told, US Small Business is **BIG BUSINESS**

Credits: Bankers Guide to New Small Business Finance Venture Deals, Crowdfunding, Private Equity, and Technology by Charles H. Green Page 3.

Amazing Stories of Inspiration

- Boone Pickens, BP Capital Management
- Charif Souki, Cheniere Energy (Founder & Former CEO)
- Donna Cole, Cole Chemical
- Harold Hamm, Continental Resources
- Dan L. Duncan (d 2010), Enterprise Product Partners
- Rod Lewis, Lewis Energy Group
- Jeffrey Hildebrand, Hilcorp Energy Company
- Kathy Lehnre, SunCoast Resources
- Richard Kinder, Kinder Morgan

STARTUP LIFE & RISKS



Source: Paul Graham's Startup Curve @ www.avc.com truly depicts the life of and risks of a startup.

Experimenting & Pivoting



Thomas A. Edison had a **powerful** perspective on failure. “I have not failed. I’ve just found 10,000 ways that won’t work.” By simply refocusing our perspective, we can inspire ourselves to continue on.

UTSA Fall 2013 CITE Competition
2nd Place – Precision Pigging
1st Energy Team from UTSA to Compete for \$100K

Ideation Opportunities

WALK WITH THE DREAMERS,
THE BELIEVERS, THE COURAGEOUS,
THE CHEERFUL, THE PLANNERS, THE
DOERS, THE SUCCESSFUL PEOPLE
WITH THEIR HEADS IN THE CLOUDS
AND THEIR FEET ON THE GROUND. LET
THEIR SPIRIT IGNITE A FIRE WITHIN
YOU TO LEAVE THIS WORLD BETTER
THAN WHEN YOU FOUND IT.

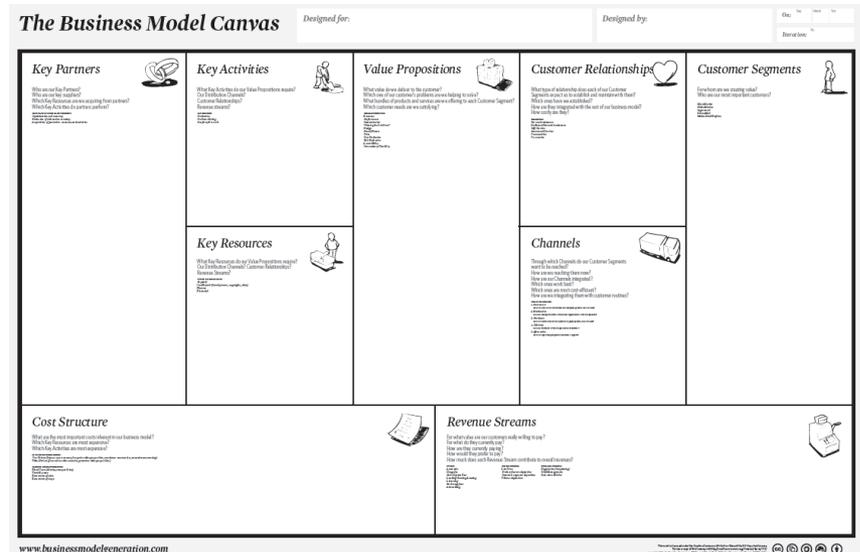
- Hang out with entrepreneurs -
- Business problems are revenue opportunities
- Negotiating IP and/or technology from former employers
- Existing technical companies

Business Ideas

- Solopreneur
- Independent Oil & Gas Operator
- Service/Digital Science based Company
- Pet Engineering Firm
- Digital Oilfield Tech Company
- Seismic Firm
- Oil Field Service Company
- Proppant Containers
- Highly Engineered Tools & Equipment
- Manufacturing
- Technical Consulting Practice
- Non-upstream?

Business Model Tool

1. We use the business model canvas for developing business models to exploring new revenue opportunities.
2. Very focused, flexible, and is the approach used by most entrepreneurs.
3. You can read the book in about an hour – available at library and on Amazon.
4. You can download a pdf of the model from the address on the right and/or buy a large wall size version for approx. \$40.



BUSINESS MODEL CANVAS –

http://www.businessmodelgeneration.com/downloads/business_model_canvas_poster.pdf

<h3>Key Partners</h3>  <p>Who are our Key Partners? Who are our key suppliers? Which Key Resources are we acquiring from partners? Which Key Activities do partners perform?</p> <ul style="list-style-type: none"> Steady stream of supply from E&P Operators Crude & Gas Marketing JV Partners Other Midstream Competitors 	<h3>Key Activities</h3>  <p>What Key Activities do our Value Propositions require? Our Distribution Channels? Customer Relationships? Revenue streams?</p> <p>Design, Build, Operate Network of Energy Transport & Storage Infrastructure</p>	<h3>Value Propositions</h3>  <p>What value do we deliver to the customer? Which one of our customer's problems are we helping to solve? What bundles of products and services are we offering to each Customer Segment? Which customer needs are we satisfying?</p> <p>Transport Energy Supply to Downstream Consumers</p> <ul style="list-style-type: none"> Oil Natural Gas Refined Products 	<h3>Customer Relationships</h3>  <p>What type of relationships does each of our Customer Segments expect to establish and maintain with them? Which relationships are most important? How are they integrated with the rest of our business model?</p> <p>Interstate Open Season Notice/Process</p> <ul style="list-style-type: none"> One on One Customer Relationships Customer Diversity 	<h3>Customer Segments</h3>  <p>For whom are we creating value? Who are our most important customers?</p> <p>Target New End Consumers</p> <ul style="list-style-type: none"> ✓ LDCs ✓ POCCA ✓ Power Generation ✓ Mexico ✓ Large C&I ✓ Airports ✓ Crude/LNG Exporters
<h3>Key Resources</h3>  <p>What Key Resources do our Value Propositions require? Our Distribution Channels? Customer Relationships?</p> <p>Cash Contracts Infrastructure LOCATION Downstream Connectivity Systems People</p>		<h3>Channels</h3>  <p>Through which Channels do our Customer Segments want to be reached? How are our Channels integrated? How are we integrating them with customer routines?</p> <p>Standard Contracts Marketing Teams Website</p> <ul style="list-style-type: none"> Notice of Open Season Bidding 		

Cost Structure



What are the most important costs inherent in our business model?
 Which Key Resources are most expensive?
 Which Key Activities are most expensive?

**PEOPLE
 Capex / DD&
 Cost of Capital
 Counterparty Risk
 OPEX
 G&A**

Revenue Streams



For what value are our customers really willing to pay?
 For what do they currently pay?
 How are they currently paying?
 How would they prefer to pay?
 How much does each Revenue Stream contribute to overall revenues?

Gathering, Processing, Storage, Transmission, and Sale of NG & Related Products

Margin Indicators: Capacity vs. Throughput

Early Stage Funding

- Friends, family, dipping into emergency savings or retirement
- Bootstrapping
- Competing in start-ups competitions for cash awards
- Small business loans & grants
- High Net Worth Individuals / Angels / Maybe VCs
- Convertible stock (loan to equity) or Preferred Stock
- Emerging regional funds & small niche PE players
- Private Equity behind experienced start-up Management Teams
- Farm-outs / earn-outs
- All forms traditional debt financing – ABO, Reserve, & Cash Flow Financing
- Fintech for working capital
- Groups of 10+ Banks (they can do some BIG Billion Plus Loans)
- Mezzaine
- Factoring
- Vendor credit & customer advances
- Typically will see IPOs > \$100M **BUT THERE ARE EXCEPTIONS**

BootStrappers Startup Guide™

- Domain Name www.godaddy.com (midnight specials)
- Google Business
 - Email, Storage, Google Apps
 - All for \$5/month per employee account
- Website www.wix.com
 - Its just so easy!!
 - Some free stock photos
- Logos & Graphic Design
 - www.99designs.com
 - www.fiverr.com
 - www.vistaprint.com for bcards
- StockPhotos
 - www.bigstockphoto.com
 - Get the \$35 or \$48 prepared special
- Phones
 - Google Voice (\$30 line) tagged to your mobile
 - Entrepreneur Designed Phone System
www.grasshopper.com
- Banking
 - Bank of America has a small business account –
MasterCard \$300/mth = No Account Fees
- Offices
 - Co-working Space \$100-\$200/month (Geekdom, Regus, StartHouston)
 - DIY Co-working Space w/ Established Company
- Business Resources
 - Score & SBA – Biz Plan & Basic Financial Model
 - Economic Development – Free Company Research
 - Coworking & Startup Organization Negotiated Special Rates w/ Service Providers
- Talent
 - Use of Stock Option Pool
 - Outsourced Professionals vs. Employees
- Financing
 - See if Customer will front money for discount
 - Patent & Technology License for Small Down Payment & Warrant
- Business Advisory Boards
 - Examples of Compensation Arrangements
 - A little PR goes a long way
 - Select Advisors for Leadership, Functional or Industry Expertise, AND NETWORKS

What Can You Outsource?

- Public Relations
 - Social Media
 - Advertising
- Marketing
- Safety
- Technology
 - OT
 - IT
 - Cloud Services
 - Website
 - Cybersecurity
- Legal
 - General Counsel
 - Intellectual Property
 - Transaction & Securities
- CFO Leadership
 - Finance
 - Risk Management
 - Insurance
 - Investor Relations
 - Accounting
 - Bookkeeping
 - Invoice Scanning
- Supply Chain
- Engineering & Other Professional Services
- Oil Field Services
- PEO
 - Human Resources
 - Benefits
 - Payroll Processing

CFO Example – FT vs Outsource

Full Time Options

- Link to Robert Half 2016 Salary Guide <http://bit.ly/29lfdYA>
- CFO Up to \$50M Revenue Company w/ a Controller direct report Range \$109K to \$158K
 - Base assumes Graduate and/or Professional Degrees
 - Base does not include Bonuses which are increasingly large portion of total compensation.
- Controller of Up to \$50 M Revenue Company Range \$83K to \$110K
 - not to be confused with Corporate Controller or Divisional Controller
 - Base assumes Graduate and/or Professional Degrees
 - Base does not include Bonuses which are increasingly large portion of total compensation.

Hybrid Outsource Option

- Fixed Price CFO Monthly Retainer
 - Finance as a Service
 - Value based pricing (not hourly)
 - Factors that go into pricing: Complexity, Touchpoints, Activities, Deliverables, Accounting Staffing & Setup, Opportunity Cost, & Face Time
- Leverage Client's Full Time Controller
 - We advocate investing your dollars in your internal controls, accounting personnel, and systems
 - Long Term Plan for ECFO to Coach Client's Controller for CFO slot
 - Base does not include Bonuses which are increasingly large portion of total compensation.
- Outsource HR, Benefits, Payroll to PEO Organization
 - PEO become employer of record
 - Domain Experts
 - Handles all compliance reporting
 - Administration Fee as a % of each payroll (straight payroll not taxes, bonuses, or benefits).
 - We see them range from 1% to 15%

Outsourcing Recommendations

- You are going to need a quarterback
 - Coordinate across hybrid teams
 - Insist on full disclosure regarding relationships
- Good talent is available on outsourced basis
 - “In between gigs” vs. dedicated outsource professionals
 - Value pricing vs. price per hour
 - Opportunity costs
 - Agreed deliverables
- Partnering Strategy
 - Seek partners who want to grow with your firm & can scale
- Turning Talent Management Upside Down
 - HR GAMEChangers – more than just FT talent
 - Innovative ways to reward performance
- DO NOT let non-employees touch your CASH (exception PEO Payment Processing)!

The Roles: CFO vs. Controller

Chief Financial Officer

- Drives the numbers – looking to where the company is going to vs. where it has been
- Responsible for the financial success of the organization
- The CEO's partner in driving sustainable profitable growth
- To execute those growth plans, they have to partner with sales & operations
- Translate how operations impact cash flow and profitability
- Identifying opportunities to improve cash flow & profits (several times their annual salary)
- Many CFOs are leading the digital transformation in private companies (stand at the intersection of finance, technology, & operations)

Controller

- Historical focus
- Head of Accounting Department (not to be confused with a bookkeeper)
- Reports the numbers
- Maintain and operate the books and records of the company, looking back on data already generated
- Establish and maintain internal controls (so they establish standard operating procedures for all accounting and bookkeeping functions).

The Responsibilities

Chief Financial Officer

- Strategic Planning
- Resource Management / Planning
- Purchasing, Warehouse & Supply Chain (some exceptions)
- Forecasting / Financial Planning & Analysis
- Investor Relations (if public)
- Treasury & Risk Management
 - Financing & Banking Relationships
 - Cash & Credit
- Decision Support
- Performance Management Systems (Monitoring KPIs)
- Operational Effectiveness
- Performance & Process Improvement
- Project Management
- **Accounting & Tax**
- Financial Reporting
- Administrative (HR, Benefits, & Payroll typically outsourced to a PEO)
- IT (in some large and often in private companies)

Controller

- Head of **Accounting**
- Transaction Processing
 - This is what most people refer to as Accounting & Bookkeeping
 - Accounts Receivable & Accounts Payable
 - Revenue Accounting
 - Cost Accounting
 - Fixed Asset Accounting
 - Payroll Processing (more common to see this outsourced)
 - Reconciling cash, bank accounts, general ledger, etc.
- Financial Statements
- Accounting Systems
- Internal Controls
 - Accounting Procedures
- **Tax (depends on the company & the Controller's qualifications)**

Mistakes

- Not diversifying business...
- Taking on too much debt
- Not hiring the right people or people with the right skill set
- Not empowering and trusting people hired or engaged
- Not knowing your economics
- Lack of accurate, timely and relevant business information
- Focusing on the wrong KPIs
- Not actively managing working capital
- Not pushing back on T&Cs, credit & payment terms
- Ignoring the front & back office
- Not exploring new technology or work arrangements



Twitter Source: @hedgeye #oil

- Not developing connections
- Making work more complicated than it needs to be
- Erecting Walls
- If its not broke, don't fix it

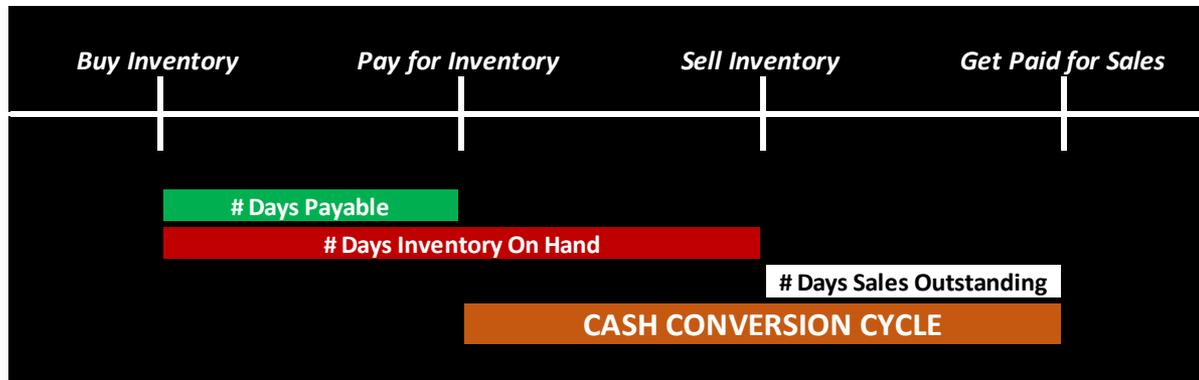
Know Your Economics

1. For every \$1 in sales, how much are putting in your pocket?
2. Access to accurate, timely & relevant business information
3. Ongoing validation business economics
 - a) Cash Report
 - b) 13 Week Cash Flow
 - c) Flash Report
 - a) Liquidity
 - b) Performance Key Drivers
 - c) Estimate Net Income
 - d) Cash Flow Forecast
 - a) Embrace the Rolling Forecast
 - b) Revisit Capital Budgets
 - e) Monthly Operations and Financial Review.



Driving blindly in a torrential downpour?
We know the feeling. How can you
navigate your business if you can't see
where you are going?

Squeeze that Cash Conversion Cycle



Cash Conversion Cycle: the period of time when a company starts spending cash on a project until you collect customer payments.

$$CCC = \text{Days Inv O/S} + \text{Days Sales O/S} - \text{Days Payables O/S}$$

Reducing the CCC

1. Offer incentives for early payment.
2. Factor the cost of capital into pricing for contracts with longer payment terms.
3. Charge interest for late payments
4. Adopt electronic payments and clearing

Actively Manage Working Capital

- Actively manage working capital.
- Stay on top of accounts receivable.
- Establish and manage customer credit limits.
- Review counterparty risk.
- Follow credit alerts.
- Make timely credit adjustments.
- Actively pursue collections.
- Tie sales team compensation to cash receipts.



Paula's Reading List

1. Business Model Generation: A Handbook for Visionaries, Game Changers, and Challengers by [Alexander Osterwalder](#) & [Yves Pigneur](#)
2. The Lean Startup: How Today's Entrepreneurs Use Continuous Innovation to Create Radically Successful Businesses by [Eric Ries](#)
3. Uncommon Sense, Common Nonsense: Why Some Organizations Consistently Outperform Others by [Jules Goddard](#)
4. Zero to One: Notes on Startups, or How to Build the Future by [Peter Thiel](#)
5. Bold: How to Go Big, Create Wealth and Impact the World by [Peter H. Diamandis](#)
6. Implementing Value Pricing: A Radical Business Model for Professional Firms by [Ronald J. Baker](#) (*see free Q&A articles in AICPA if Google him*)
7. Million Dollar Consulting by [Alan Weiss](#)
8. Bankers Guide to New Small Business Finance by [Charles H. Green](#) (*VC, Crowdfundings, PE & FinTech*)

Our Start-Up Services



Technology | Energy | Industrial
Lean Startup | Innovation Metrics
Traditional Hydrocarbon Business
Emerging Technology
Digital Oilfield | Clean Energy
Incubators | Angel | VC
Family Ventures | Private Equity

- Serve as Interim CFO
- Business Planning & Lean Start-ups
- Assist in selecting scalable back office systems to grow company
- Identify outsource service providers & help coordinate client efforts
- Develop innovation metrics to measure the progress of prototypes
- Sales and supply chain
- Operations, process, and system optimizations

- Negotiate and review license agreements.
- Pre-Pitch Modeling
- Managing cash flow and costs
- Working capital management
- Cash flow forecasting, capital budgeting, and rolling (dynamic) forecasts
- Monthly reporting package and comparisons
- Operational and financial key performance indicators
- Financial ratio, breakeven, cost & trend analysis

More from The Energy CFO®



An Eagle Ford Survival Guide

San Antonio Business Journal March 25, 2016 by Sergio Chapa

SABJ reporter Sergio Chapa hunts down the Eagle Ford's "creative and clever experts who persevere using financial and structural tactics to stay alive" amid prolonged low oil prices. Consultants like Paula Waggoner-Aguilar with The Energy CFO, which specializes in improving efficiency and financial operations, are also finding new work in the low price environment. The Energy CFO offers her five survival tips for helping give Eagle Ford companies a fighting chance.



Partnering Up in Business

Shale Oil & Gas Magazine November/December by Paula Waggoner-Aguilar

Partnering strategy is a topic that is critical to the success of energy technology startups and other entrepreneurial-type ventures. Yet too often, a thoughtful evaluation of the wants and needs of the firm and its partners are overlooked in the haste of trying to accomplish something under deadlines. Paula shares some examples she has seen over the years and her thoughts on planning for successful partnerships.



Weathering the Storm: Navigating Businesses in a Downpour

Shale Oil & Gas Magazine September/October by Paula Waggoner-Aguilar

"There are times when navigating our businesses in this industry can feel like you are driving blindly in a torrential downpour, says Paula." You see, our founder and Energy CFO knows a thing or two about entrepreneurs and running public and private companies in a downturn. She was raised by a family of entrepreneurs. She is also a serial entrepreneur in addition to being a veteran industry finance executive. Paula talks about four business planning tools that owners and executives can use right now to weather the storm: the Cash Report, the Flash Report, the Cash Flow Forecast, and the Monthly Operational and Financial Review. "Surviving in this industry starts with good blocking and tackling and flawless execution of the fundamentals," says Paula.

www.theenergycfo.com



♥ In The Oil Patch: Episode...
SHALE Magazine

<https://soundcloud.com/shale-magazine/in-the-oil-patch-episode-40>



http://www.tworldwide.com/events/pinkpetro/160301/globe_show/default_go_archive.cfm?gsid=2921&type=flv&test=0&live=0