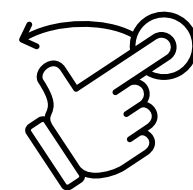# FINANCIAL MODELING RESOURCE GUIDE

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<u>Financial Modeling</u>

Financial Modeling Skills

- Understanding of accounting

- Strong Excel/spreadsheet skills

- Ability to read financial statements

- Understanding of how to link 3-financial statements

- Attention to detail

- Presentation skills

- Analytical skills

- Problem-solving

- Forecasting

- Ability to simplify complex things (Formulas, models, assumptions)

Financial Modeling Design Principles

- **Plan** and **design** your model upfront.

- Include an **assumptions tab** - ask the right questions.

- **Limit file size** by using best practices.

- **Never hardcode** data into your formulas.

- **Structure the file** (inputs, calculation, outputs).

- Include a **cover page, executive summary**, and **table of contents.**

- **Use schedules** (Working Capital, Debt, etc.).

- Build a **scenario section** for your model.

- Use **color-coding** to distinguish (inputs, links, calculations).

- Keep formulas **simple**.

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Common Types of Financial Models

Financial models can be used for many different purposes but some of the most common types of financial models include:

- Integrated 3- Statement Model

- Discounted Cash Flow

- Merger & Acquisiton Model (M&A)

- Budget/Forecasting Model

- Consolidation Model

- Options Pricing Model

- Company Comparables Model

- Project Model

Profit & Loss Statement

Revenue — **- COGS** — **- Expenses** — **= Profit**

Revenue: Money generated from your product(s).

Cost of Goods Sold (COGS): Direct costs necessary to produce your product.

Gross Profit: Profit after subtracting the Cost of Goods Sold (COGS).

Operating Expenses: Expenses incurred in the normal operation of the business.

- **R&D:** Expenses related to research & Development of product
- **G&A:** General & Administrative expense such as finance, legal, management team
- **S&M:** Expenses related to selling & marketing of product, such as sales commissions

Operating Income: Income after subtracting out cost of gods sold and all operating expenses

Net Income - Income after all expenses

Profit Frog

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Scenario Planning

1 **Brainstorm** - Start by coming up with multiple different scenarios that you believe could happen for your business.

2 **Choose Scenarios** - After discussing various scenarios choose which scenarios to model. This can start with ranking scenarios based on which ones you believe will be most valuable to model.

3 **Develop Model** - Build the model or models that allow you to compare each scenario against each other. Focus on key drivers for each scenario.

4 **Evaluate Scenarios & Develop Game Plan**- Review each scenario that you modeled in step 3 and ensure you have a game plan for the different scenarios.

5 **Implement Game Plan** - Implement game plan for scenario selected and continually monitor the business and adjust plan or implement new scenario when necessary.

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A Financial Model

- **<u>Fed Reserve Definition (SR11-7)</u> -** A Quantitative method, system or approach that applies statistical, economic, financial or mathematical theories, techniques, and assumptions to process input data into quantitative estimates."

- **<u>Investopedia Definition</u> -** Financial Modeling is the process of creating a summary of a company's expenses and earnings in the form of a spreadsheet that can be used to calculate the impact of a future event or decision.

- **<u>Danielle Stein Fairhurst Definition</u>** - A complex spreadsheet - As long as a spreadsheet has financial inputs and outputs, and is dynamic and flexible, I'm happy to call it a financial model!

- **<u>Profit Frog Definition</u>** - A spreadsheet or application that helps us develop forecasts for business decisions so we can make the decision that optimizes our profits.
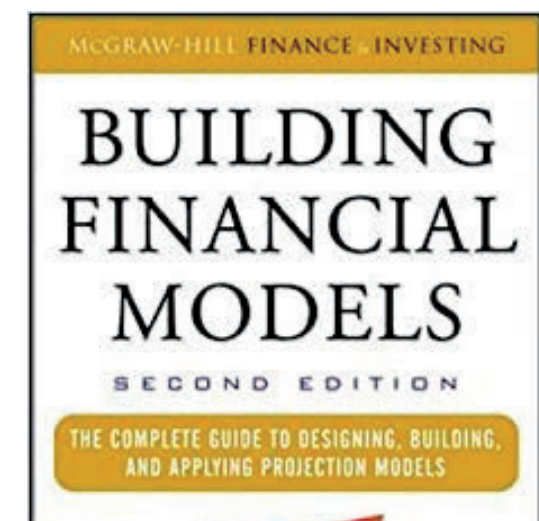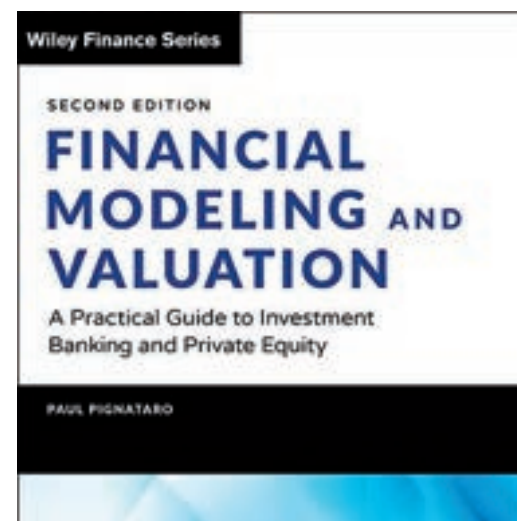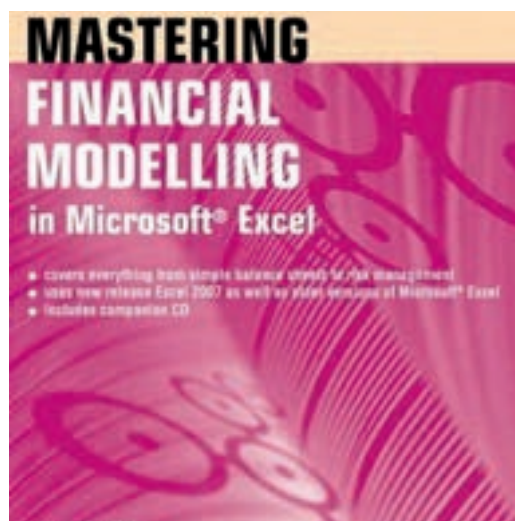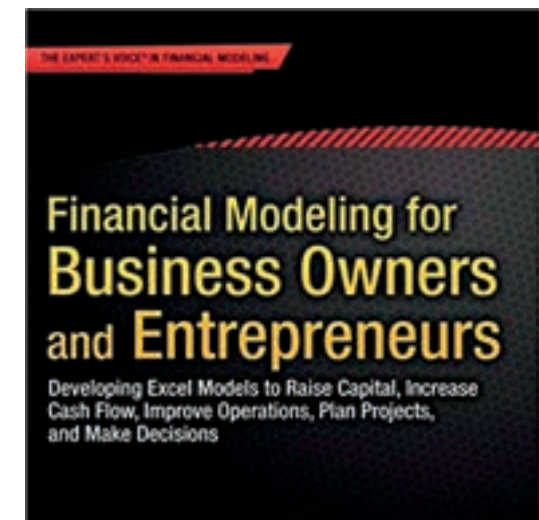
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- <u>What is Profit & Loss (P&L) and How to Use It Effectively in your Business</u>
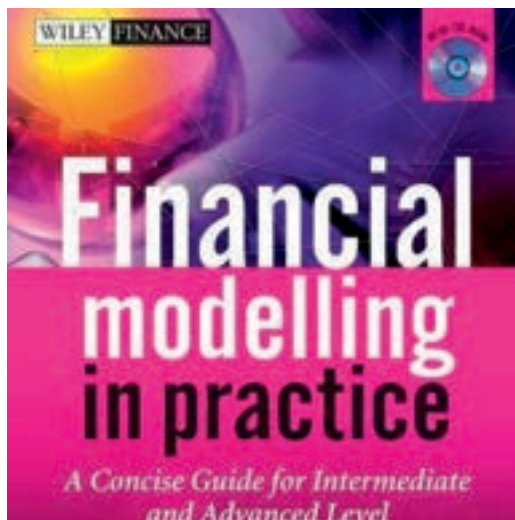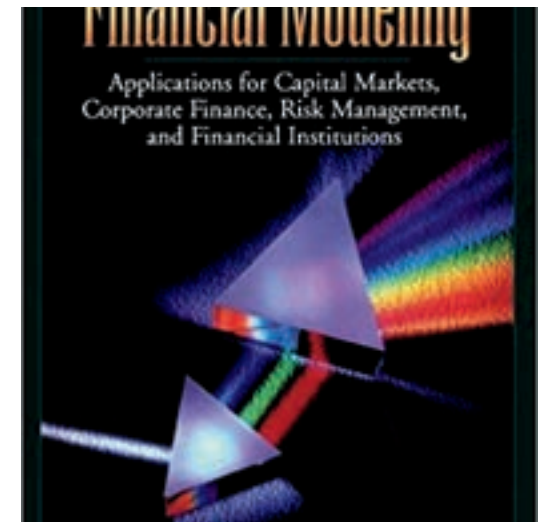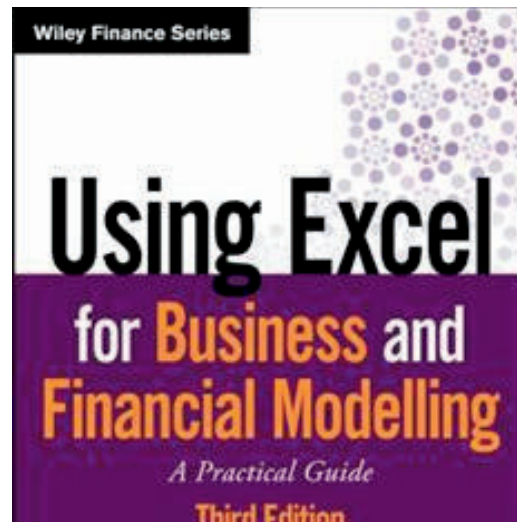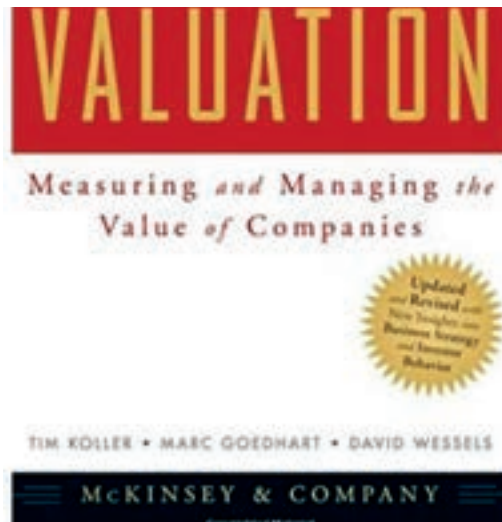
- <u>What is a Financial Model? A Guide to Financial Modeling</u>

- <u>What is a Scenario Planning Template and How Can I use it?</u>

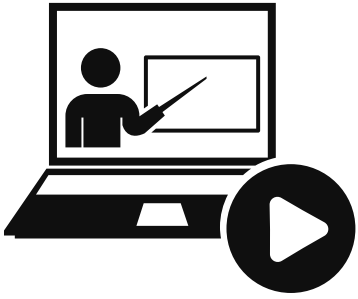- <u>Learn more at ProfitFrog.com</u>

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MODELS

SECOND EDITION

THE COMPLETE GUIDE TO DESIGNING, BUILDING,
AND APPLYING PROJECTION MODELS

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Finacial Modeling Online Resources

- Full Stack Modeler - "Promises to transform your modelling skill set"

- Plum Solutions - https://plumsolutions.com.au

- Corporate Finance Institute (CFI) - Corporate Finance Institute | FMVA® | CBCA™ | CMSA®

- Wall Street Mojo - Investment Banking, Financial Modeling & Excel Blog (wallstreetmojo.com)

- Financial Modeling Courses & Investment Banking Courses (wallstreetprep.com)

- WSO Courses | Wall Street Oasis

- Financial Modeling Certification | Financial Modeling Institute (fminstitute.com)

Financial Modeling Standards

- **FAST** - (Flexible, Appropriate, Structured, Transparent) - The FAST standard is structured design rules for financial modeling. (https://www.fast-standard.org/wp-content/uploads/2019/10/FAST-Standard-02c-July-2019.pdf)

- **SMART** - The Smart methodology provides 10 guiding principles that help ensure your model is following best practice modeling standards. (http://info.corality.com/download-10-smart-guidelines-for-financial-modelling)

- **BPMS** - The Best Practice Modeling Standards is a modeling standard produced by the Spreadsheet Standards Review Board. (http://www.ssrb.org/download)

Financial Modeling Follows

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Chris Reilly
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Giles Male
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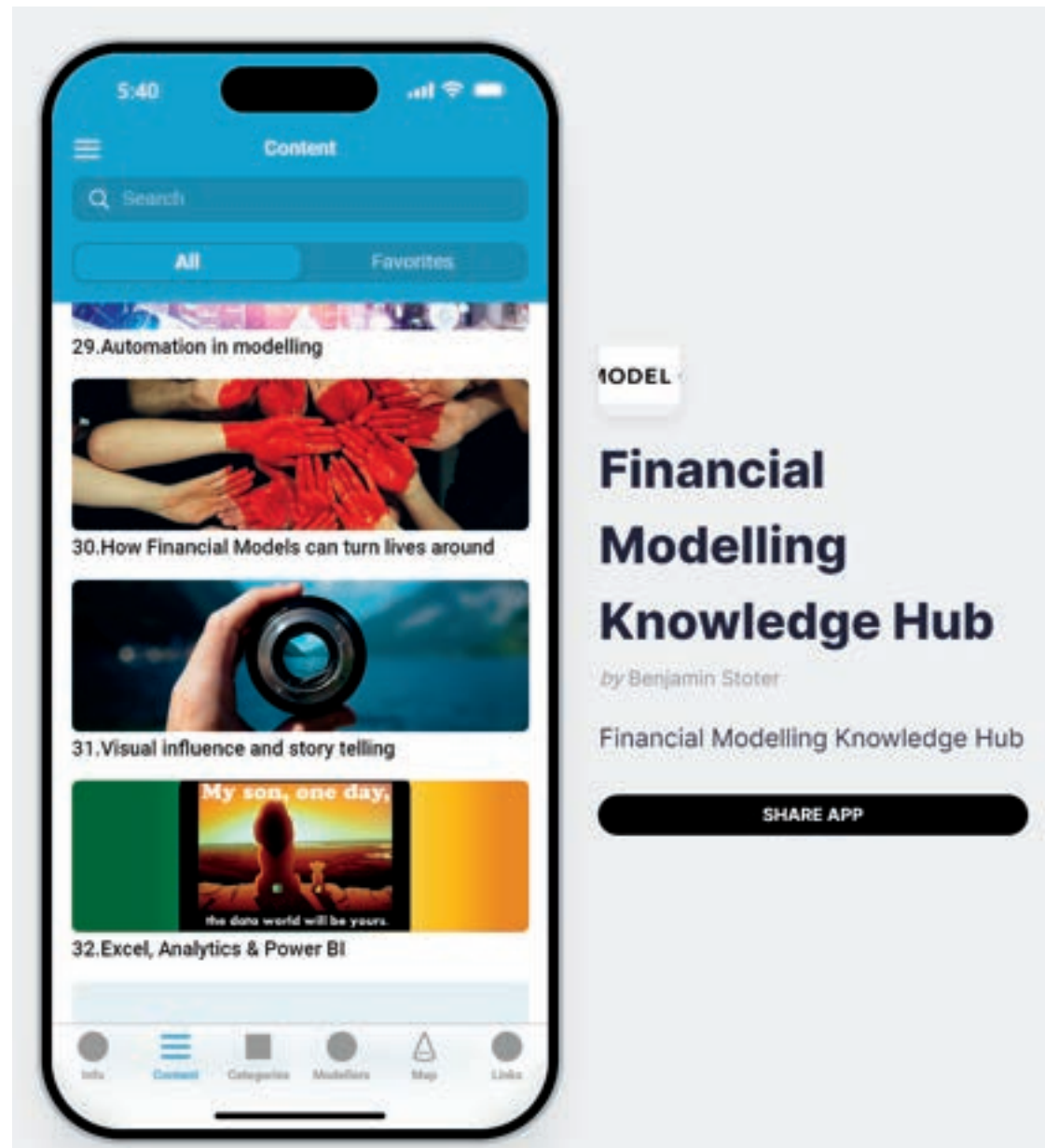
Financial Modelling Knowledge Hub
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https://fmwiki.glideapp.io/dl/da19fa

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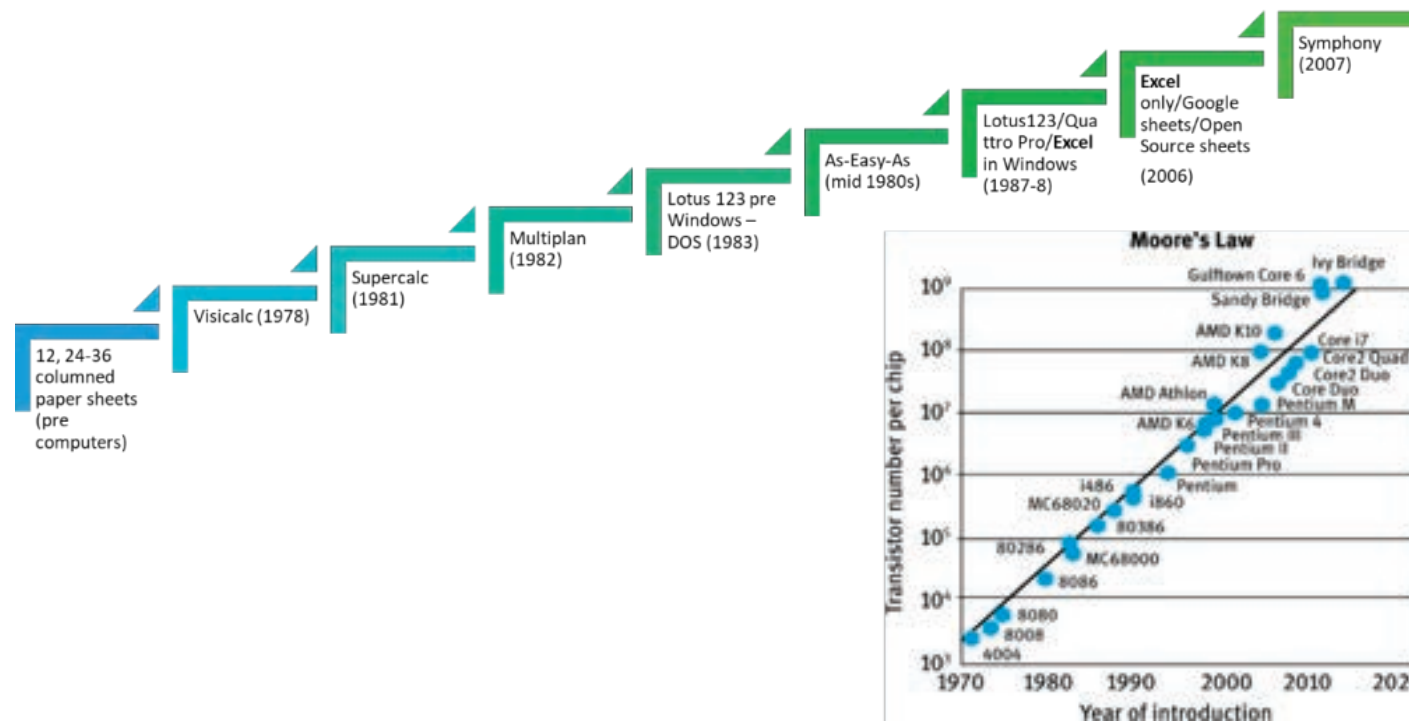
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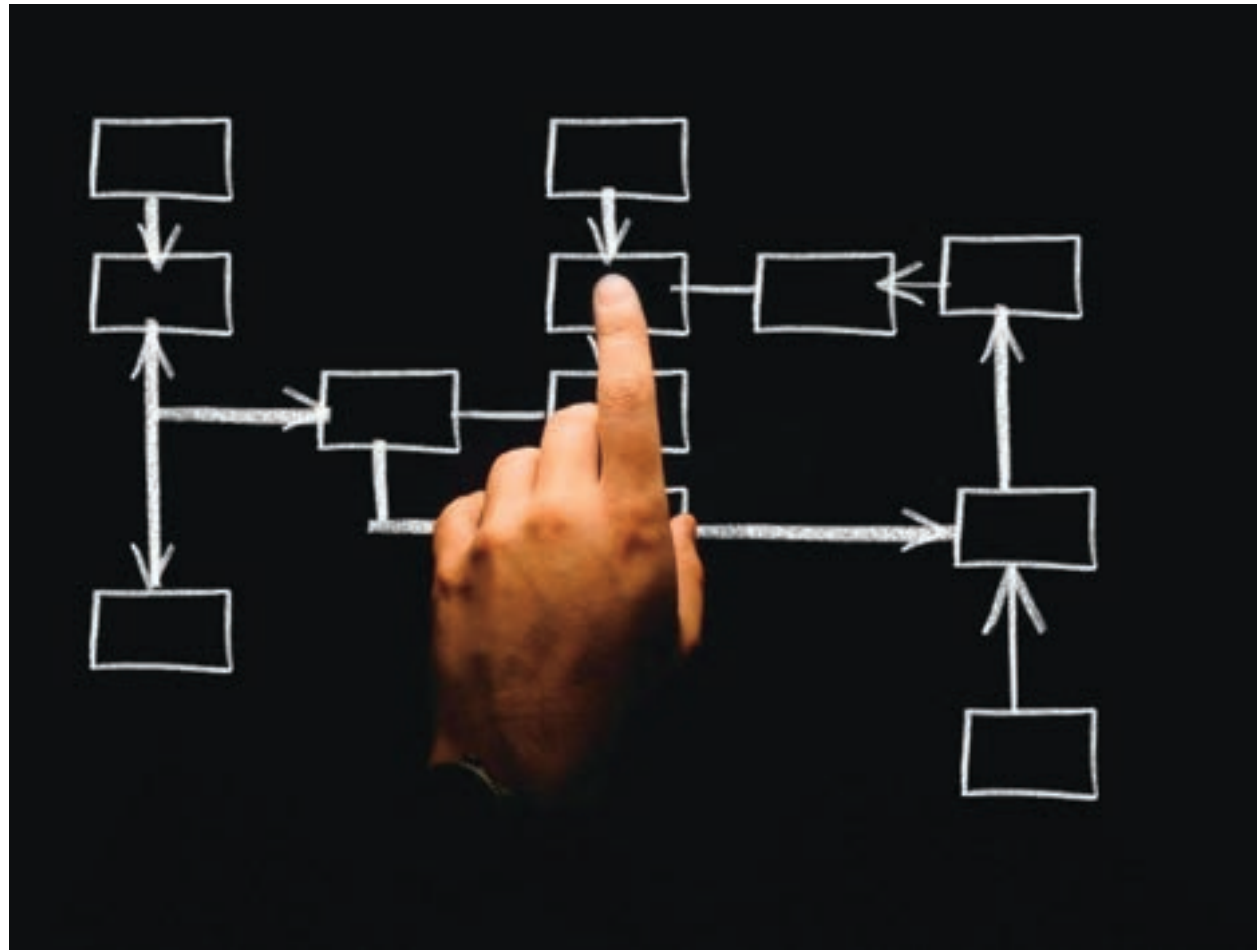
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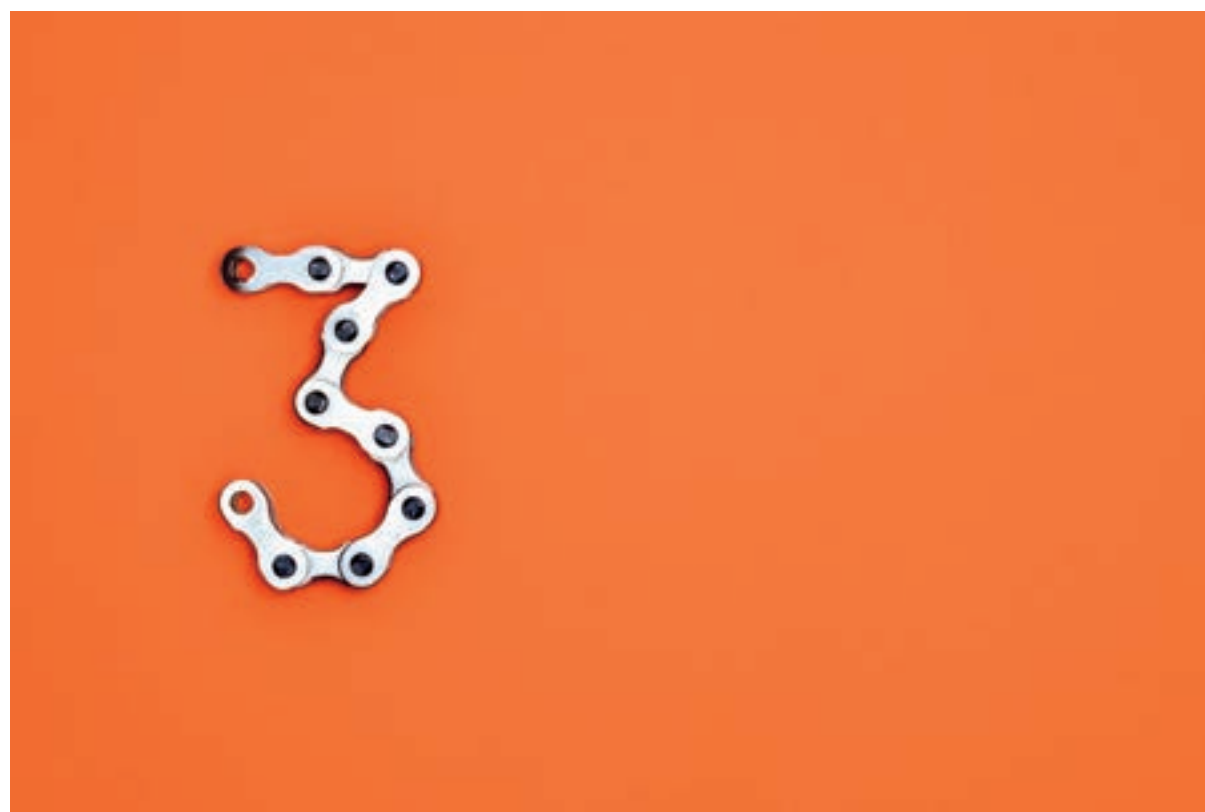
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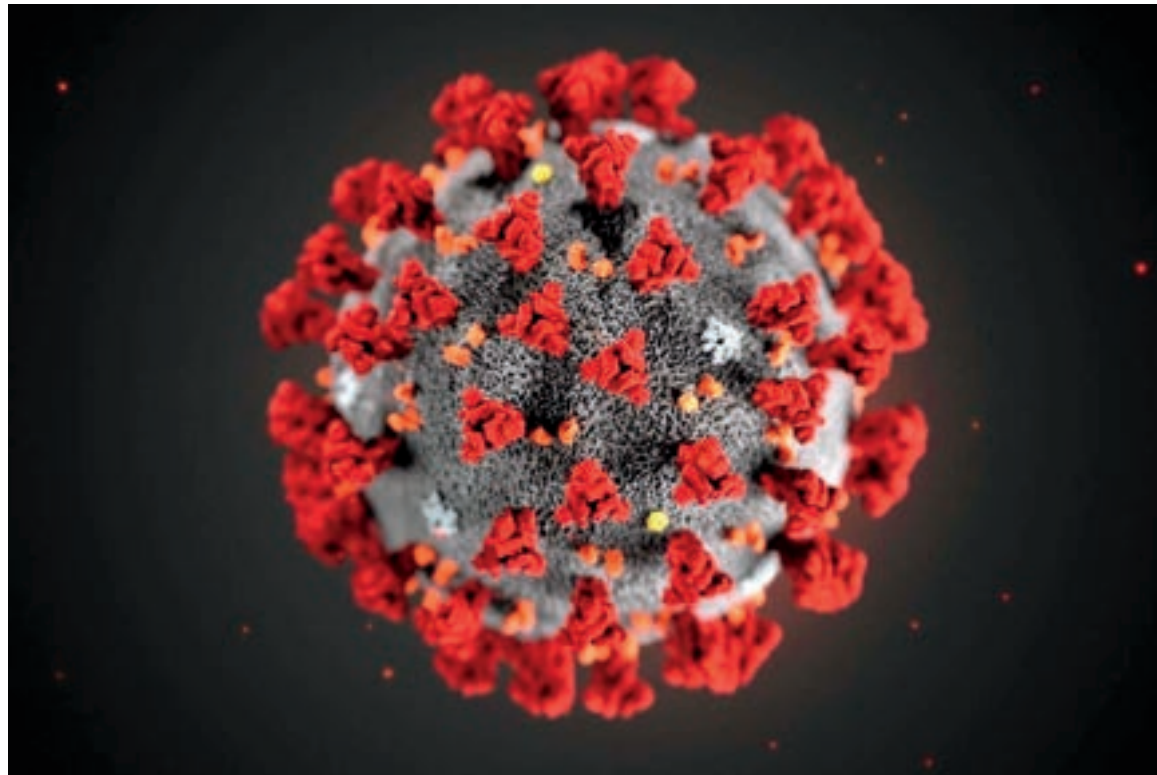
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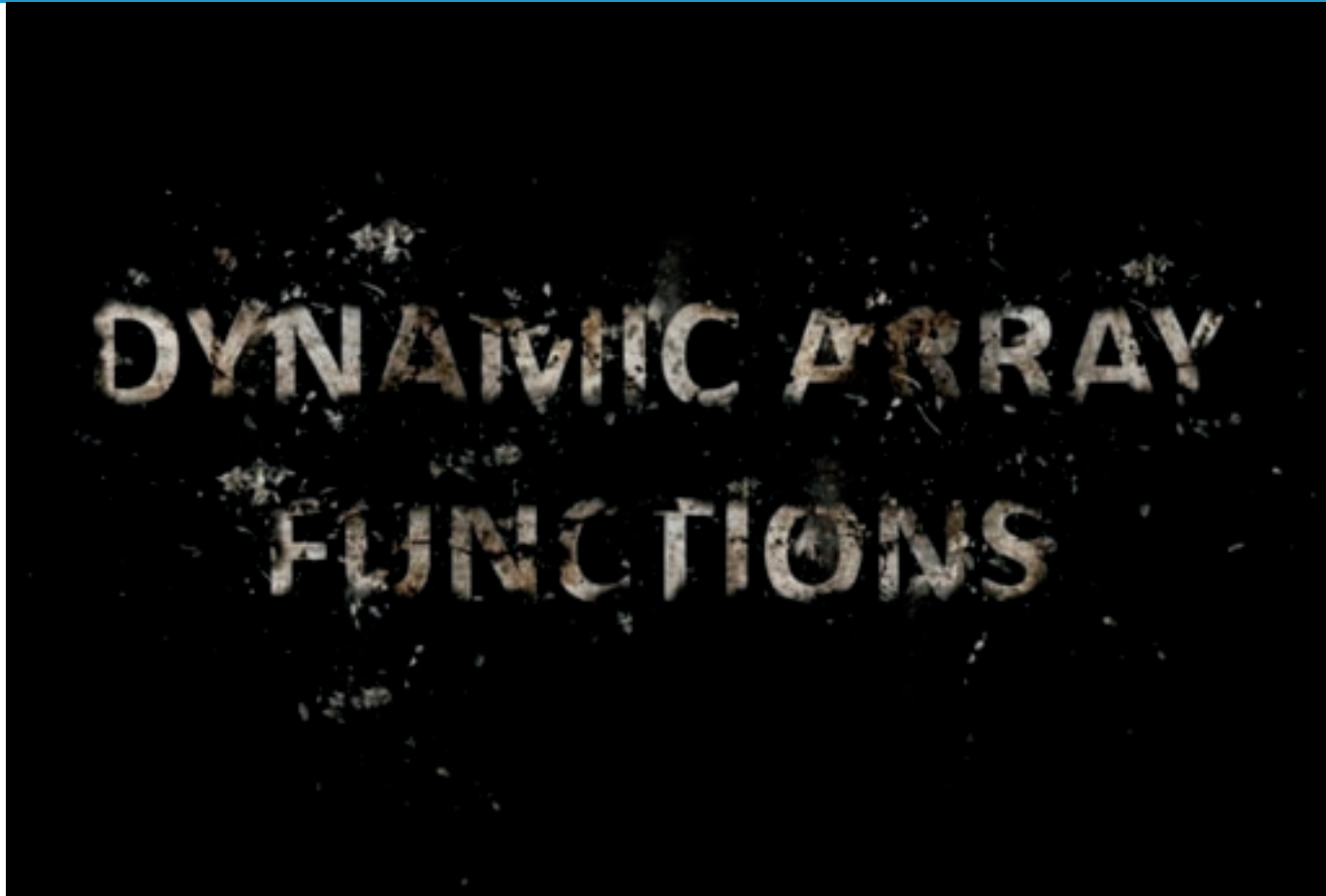
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My son, one day, the data world will be yours.

Excel, Analytics, & Power BI

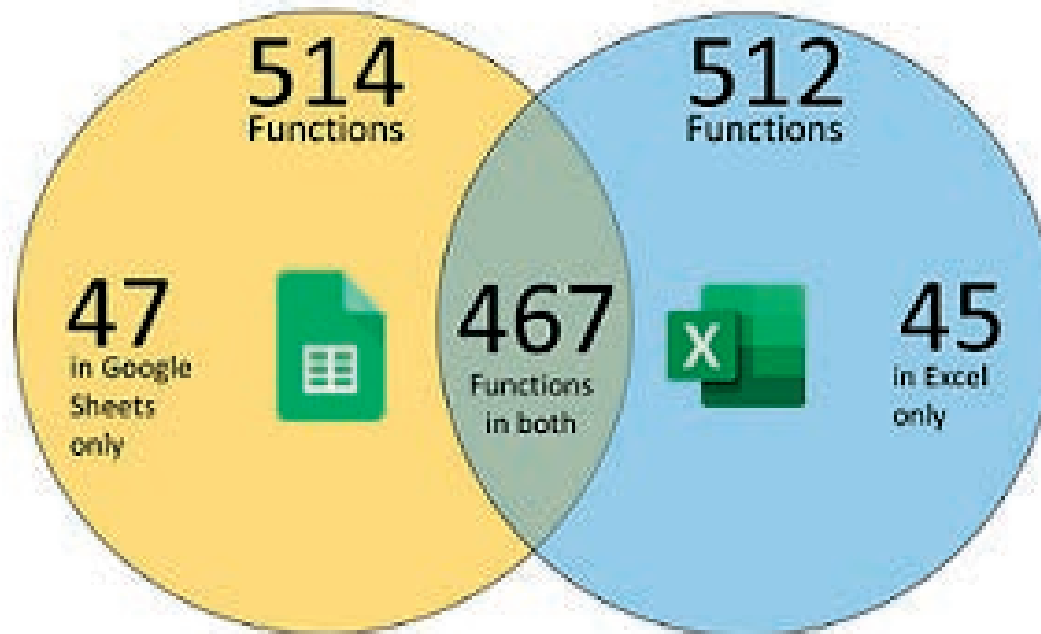

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