KARTHIK NAGARAJ

What are the Types of Financial Models?

Three-Statement Model

- The three-statement model is a basic financial model that links the income statement, balance sheet, and cash flow statement.

- It helps analyze the financial health of a company and understand how changes in assumptions impact the entire model.

Discounted Cash Flow (DCF) Model

- The DCF model values a company based on the net present value of its future cash flows.

- It uses the XNPV function in Excel to discount cash flows back to today at the company's weighted average cost of capital (WACC).

Merger Model(M&A)

- The M&A model evaluates the impact of a merger or acquisition.
- It combines the financials of two companies to create a pro forma balance sheet and assesses the accretion/dilution and expected impact on valuation.

Initial Public Offering (IPO) Model

- Investment bankers and corporate development professionals use IPO models to value a company before going public.

- These models consider comparable company analysis and determine the IPO discount to ensure a successful secondary market trading.

Leveraged Buyout (LBO) Model

- An LBO model is used in private equity or investment banking for complex debt schedules and cash flow waterfalls.

- It focuses on the company's capital structure and leverage to enhance equity returns.

Sum of the Parts Model

- The sum of the parts model combines multiple DCF models and adds other components to value a business.

- It calculates the net asset value by summing up the value of different business units, investments, and subtracting liabilities.

Consolidation Model

- A consolidation model combines multiple business units into a single model.
- Each business unit has its own tab, and a consolidation tab sums up the financials of all units.

Budget Model

- A budget model helps financial planning and analysis professionals create budgets for the coming year(s).
- It focuses on the income statement and is typically based on monthly or quarterly figures.

Forecasting Model

- A forecasting model compares the actual performance to the budget and helps in financial planning and analysis.
- It can be a separate model or combined with the budget model.

Option Pricing Model

- Option pricing models, such as the binomial tree and Black-Scholes, calculate the value of options.

- These models use mathematical formulas to determine option prices and are often built into Excel.