Excel | 25 Modeling & Valuation Best Practices:

1: Modeling is easier than you think and a lot of fun, if you remember 2 key items: 1: Most items you model are simply a % of revenue!

2: The second key item to remember is that modeling is all about looking for patterns and then projecting those patterns into the future.

3: Publicly traded companies are often quite large and, as a result, although growth is positive, growth is usually decelerating.

4: If growth is not decelerating for a large publicly traded company, then it might be because they made a sizeable acquisition.

5: When a big company sees a significant decrease in the rate of change of revenue growth, they usually focus on increasing margins.

6: Use your own common sense and build the model yourself before speaking with the company about your estimates (they can sell!).

7: If a company has a lot of cash, they either make acquisitions or they buy back shares. Look for patterns in the share count.

8: Forecasting taxes is tough. Find out from the 10-k or 10-q what the N.O.L.s are and after you exhaust them, ask IR for guidance.

9: Items that you hard code (meaning anything that is in your model that is not a calculation) should be in a blue font.

10: Cells that contain data from other tabs in your spreadsheet should be in a green font.

11: Always use at least 3 valuation methodologies to come up with your target price. Then take an average of all 3.

12: Create a sensitivity analysis to see how your target price changes with different growth and discount rate amounts.

13: Create bearish, neutral ("just right") and bullish scenarios too if you are highly unsure what the economic environment will be like.

14: If you work in teams (as you do often on the sell side or in investment banking), then please add many comments (with your initials).

15: If you feel overwhelmed with the complexity of a model, build it slowly and "group" items.
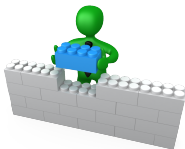
16: Modeling can often be as much of a science as an art. Accept the fact that your estimates will never be 100% correct.

17: Listen to earnings calls, read IR's press releases and all 10-q, 10-k, 8-k and S1 filings and reflect those calls/documents in your model.

18: Creating a model takes time. When I think I am done with my model, I sleep on it and do 1 final review the next morning.

19: Understand who your customer is. If it's a hedge fund, then they likely don't like DCF. If it's a value PM at a mutual fund, they do, etc.

20: Know what the size the Total Addressable Market (T.A.M.) is and use it as a sanity check to see if your estimates seem realistic.

21: Add all supplemental data provided by IR in your models (at the bottom of the model if you don't know where to put it).

22: Percent items should be *italicized*...in fact spend a lot of time "prettying up" your model. It makes sure your attention to detail is high.

23: Name your rows and columns so you can use natural language math like: "net income / revenue" instead of cell x3 / t8 (for example):

24: Feel comfortable with A1 to lock in cell references, $A1 row only references and A$1 column only references (huge time saver).

25: You have the same access to information for your models that the pros have! Have fun building it!!!!! :)