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Introduction to Financial Modeling

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Contents

- Excel set up
- Productivity tools
- Modeling and forecasting overview
- Model structure and design choices
- IS and BS construction
- IS, BS and CFS integration
- Back up calculations

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Excel Set Up

Recommended for larger models

Formulas

ALT F T

File — **Options**

Advanced

Calculation options
Workbook Calculation ⓘ
- ( ) Automatic
- ( ) Automatic except for data tables
- ( ) Manual
  - ☑ Recalculate workbook before saving

☐ Enable iterative calculation
Maximum Iterations: 100
Maximum Change: 0.001

Working with formulas
- ☐ R1C1 reference style ⓘ
- ☑ Formula AutoComplete ⓘ
- ☑ Use table names in formulas
- ☑ Use GetPivotData functions for PivotTable references

Turn this OFF

Error Checking
- ☑ Enable background error checking
- Indicate errors using this color: ▣ ▾   [Reset Ignored Errors]
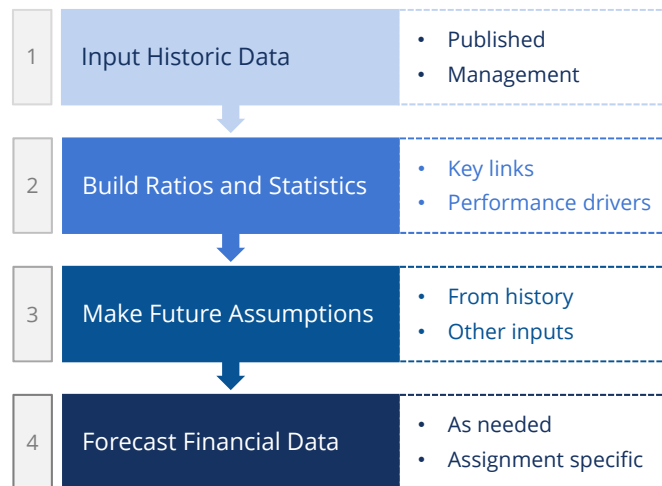
Editing options
- ☐ After pressing Enter, move selection
  - Direction: Down ▾
- ☐ Automatically insert a decimal point
  - Places: 2
- ☑ Enable fill handle and cell drag-and-drop
  - ☑ Alert before overwriting cells
- ☐ Allow editing directly in cells

Best to be in control

Editing will happen in the formula bar

Productivity Tools and Shortcuts

Move Around	• Arrow keys	–	move cell by cell
	• CTRL + arrow keys	–	speed move
	• CTRL + pg up / pg dn	–	move sheet to sheet *option + left/right*
	• ALT	–	access menu bars

| Select | • Shift + arrow keys | – | select cell by cell |
| | • Shift + CTRL + arrow keys | – | speed select |

Copy and Paste	• CTRL + C	–	copy
	• Enter	–	paste
	• CTRL + V	–	multiple paste
	• CTRL + R or D	–	fill right or down

| Edit | • F2 | – | formula bar / worksheet toggle |

1	Input Historic Data	• Published • Management
2	Build Ratios and Statistics	• Key links • Performance drivers
3	Make Future Assumptions	• From history • Other inputs
4	Forecast Financial Data	• As needed • Assignment specific

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Model Structure – Design Choices

Forward Assumptions: Blocked		
Revenue growth	3.0%	3.0%
Operating costs % revenues	95.0%	95.0%
Taxes % of profit before tax	10.0%	10.0%

Forward Assumptions: Throughout		
Revenue growth	3.0%	3.0%
Revenues	404.1	416.2
Operating costs % revenues	95.0%	95.0%
Operating costs	383.9	395.4
Operating profits	20.2	20.8
Taxes % of profit before tax	10.0%	10.0%
Tax expense	2.0	2.1
Net income	18.2	18.7

Blocked assumptions more user friendly

Blocked assumptions important in big models

Assumptions throughout means output and driver visible together

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Model Structure – Design Choices

Positive or negative presentation?		
Revenues	404.1	416.2
Operating costs	383.9	395.4
Operating profits	20.2	20.8
Tax expense	2.0	2.1
Net income	18.2	18.7
Net income	18.2	18.7
Change in operating assets	(0.4)	(2.4)
Change in operating liabilities	2.8	3.5
Operating cash flow	20.5	19.8

Negative presentation easier to sense check especially when printed

Sum function works more

Sign must be "flipped" on many formulas

Model Structure – Design Choices

One Tab Model

Income Statement

Balance Sheet

Cash Flow

Useful for smaller models

Importing links to new file easier

DCF models for example
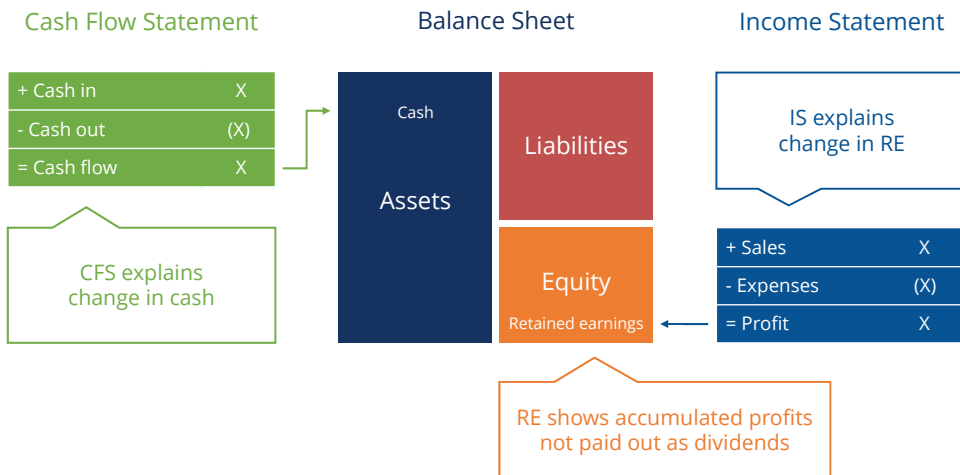
Multi Tab Model

Income Statement

Balance Sheet

Cash Flow

Works for bigger models
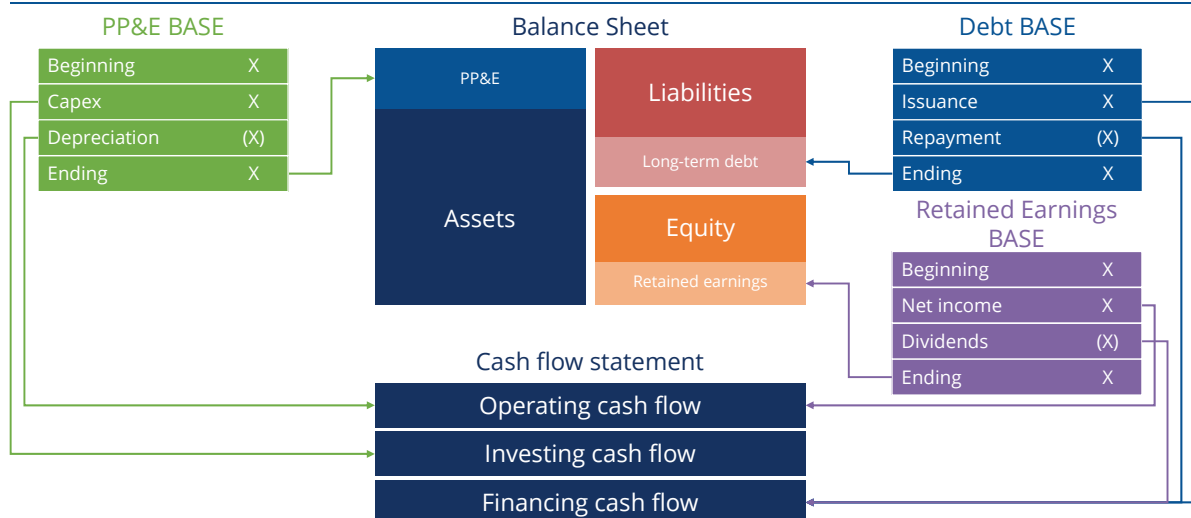
Cross sheet links use more memory

Lev Fin models for example

IS, BS and CFS Integration

Cash Flow Statement

+ Cash in	X
- Cash out	(X)
= Cash flow	X

CFS explains
change in cash

Balance Sheet

Cash

Assets

Liabilities

Equity

Retained earnings

RE shows accumulated profits
not paid out as dividends

Income Statement

IS explains
change in RE

+ Sales	X
- Expenses	(X)
= Profit	X

Back Up Calculations

PP&E BASE

Beginning	X
Capex	X
Depreciation	(X)
Ending	X

Balance Sheet

PP&E

Assets

Liabilities

Long-term debt

Equity

Retained earnings

Debt BASE

Beginning	X
Issuance	X
Repayment	(X)
Ending	X

Retained Earnings BASE

Beginning	X
Net income	X
Dividends	(X)
Ending	X

Cash flow statement

Operating cash flow

Investing cash flow

Financing cash flow

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