# How To Create Your Forecast

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- Your Input Assumptions page is where you will create your forecast assumptions
- These assumptions are critical to the outcome of your valuation so you need to give them some thought

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- There are four basic approaches you can take:
  - Top Down
  - Bottom Up
  - Regression Analysis
  - Year on Year Growth Rates

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- The Top Down approach starts with the Total Addressable market and works down from there
- Considers factors such as market share, customers, geography
- Not recommended for modelling in my view

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- Bottom Up uses the business drivers to build the forecast from the basic elements of the business
- Starts with products, unit prices, unit sales to create the revenue line in detail
- Easier to do if you have access to management accounts
- Impractical often for larger businesses
- Can you imagine trying to do this for Apple?

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- Regression Analysis uses the relationship between variables to forecast the value of a dependent variable
- Revenues may be a function of number of products, price, number of employees and marketing spend
- There is a forecast function in Excel to facilitate this approach

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- The simplest approach is to make assumptions about year on year growth rates for revenues and make other dependent variables such as cost of sales a function of the growth in revenues but keeping the same gross margin
- These growth assumptions can be changed in the input sheet to test different scenarios of future growth

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