

### what is financial modelling

The objective is to combine accounting, finance and business metrics to create an abstract representation of a company in Excel forecasted into the future.

### uses of financial modelling

- making business decisions at a company
- making investments in a private/public company
- pricing securities
- undergoing a corporate transaction such as M&A, divestiture, capital raise

### who builds

- investment banking analysts & associates
- equity research analysts & associates
- private equity analysts & associates
- credit analysts
- fp&a analysts & managers
- corporate development analysts & managers

### steps to build

**historical data** at least 3 years of input

**ratios and metrics** calculate ratios/metrics such as margins, growth rates, asset turnover, inventory changes

**assumptions** build ratios and metrics into the future by making assumptions about margins, growth rates, etc.

**forecast** forecast the three financial statements into the future using the assumptions

**valuation** value the company using the discounted cash flow (DCF) analysis method

**additional analysis** sensitivity scenarios, charts, graphs, dashboards

### what makes a good model

a good financial model is simple enough that anyone can comprehend it, yet detailed enough to handle complex situations.

### general best practices for building models in excel

1. well structured with a good layout
2. easy to follow and understand
3. drivers and assumptions clearly laid out
4. simplicity over complexity
5. accurate
6. focus on important issues (what are the main drivers of a model - there is usually only 5/6 key assumptions that make or break a business or transaction)
7. visual outputs (don't share the inner workings of any model)

*Earnings guidance - comments management gives about what it expects its company will do in the future. These comments are also known as "forward-looking statements" because they focus on sales or earnings expectations in light of industry and macroeconomic trends.*



By **echoecho**

[cheatography.com/echoecho/](https://cheatography.com/echoecho/)

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