Harnessing Your Inner Financial Modeller

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Financial Modelling in Excel – Virtual Meetup

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What we will cover:

- My Story
- What is Financial Modelling?
- Common Issues with Financial Models
- Best Practice Principles You Can Start Applying Today
- Accreditation Options
- Resources to Explore Further

My Story

- Career Experience: Telstra, Virgin Australia, Sarina Russo Group, Brisbane City Council
- Search for best practice
- Accreditation: Financial Modelling Institute
- Financial modelling community

What is Financial Modelling?

- It is more than just spreadsheeting!
- Common Elements of a Financial Model:
    1. Dynamic
    2. Assumptions
    3. Future time period
- Examples: budgets, project forecasts, financial projections for business cases, pricing scenarios for new products, business valuations

What is Financial Modelling?

- POLL: What is your experience with financial modelling?
- CHAT BOX: What types of models do you work with?

What is Financial Modelling?

- **Why is it helpful to improve your skills?**
  - Save time
  - Improve business decisions
  - Increase your influence
  - Open up career opportunities

Common Issues with Financial Models

- Errors

#REF!

#DIV/0!

#N/A

#VALUE!

Common Issues with Financial Models

- Hard to understand and use
  - Poor structure, layout and formatting

Fabric	Amount Used for Rin2D (yds.)	Fabric Price/ Yd.	Total Price Paid
RK Kona Cotton Artichoke	1.4	3.99	5.59
RK Kona Cotton Cactus	1.2	3.99	4.79
RK Kona Cotton Celery	1.65	3.99	6.58
RK Kona Cotton Grass Green	1.7	3.99	6.78
RK Kona Cotton Lime	1.65	3.99	6.58
RK Kona Cotton Olive	1.8	3.99	7.18
RK Fusions 5573 Leaf	0.17	7.4	1.26
Andover Dimples P0260-1867-G27 Light Green	0.17	7.02	1.19
Blank Textiles Tribeca BTR4783 Moss	0.17	7.4	1.26
RK Kona Cotton Jade	8	4.19	33.52
Aurifil Thread for piecing	2 bobbins		
Melodee Wade - quilting service (includes batting)			200.00
Labor (hours) - TOTAL	24.25		485.00
wash & iron fabric	2		
assembling top	11.75		
trim threads/final press	0.75		
assembling back & cutting	1.25		
making and attaching binding	4.5		
hand sewing binding to back	4		
TOTAL COSTS			759.74

@ $20/hr

Source: library.stanford.edu

Vs

	A	B	C	D	E	F	G	H	I	J	K	L	M	N
1	© Corporate Finance Institute. All rights reserved.			Historical Results					Forecast Period					
2	Online Company Inc Model			2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
43														
44	LIVE SCENARIO													
45	Revenue Growth (% Change)								10.0%	10.0%	10.0%	9.0%	8.0%	7.0%
46	Cost of Goods Sold (% of Revenue)								42.0%	43.0%	44.0%	45.0%	46.0%	46.0%
47	Marketing, Advertising & Promotion (% of Revenue)								17.0%	17.0%	17.0%	17.0%	17.0%	17.0%
48	General & Administrative ($000's)								15,000	15,000	15,000	15,000	15,000	15,000
49	Depreciation & Amortization (% of PP&E)								20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
50	Interest (% of Debt)								10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
51	Tax Rate (% of Earnings Before Tax)								28.0%	28.0%	28.0%	28.0%	28.0%	28.0%
52	Accounts Receivable (Days)								18	18	18	18	18	18
53	Inventory (Days)								80	90	100	100	100	100
54	Accounts Payable (Days)								37	37	37	37	37	37
55	Capital Expenditures ($000's)								15,000	15,000	15,000	15,000	15,000	15,000
56	Debt Issuance (Repayment) ($000's)								-	-	(20,000)	-	-	-
57	Equity Issued (Repaid) ($000's)								-	-	-	-	-	-
58	Payment of Dividends								-	-	-	-	200	200
59														
60														
61	Income Statement													
62														
63	**Revenue**			102,007	118,086	131,345	142,341	150,772	165,849	=I63*((1+J45))	200,678	218,739	236,238	252,774
64	Cost of Goods Sold (COGS)			39,023	48,004	49,123	52,654	56,710	69,657	78,447	88,298	98,432	108,669	116,276
65	**Gross Profit**			62,984	70,082	82,222	89,687	94,062	96,193	103,987	112,379	120,306	127,568	136,498
66	**Expenses**													
67	Marketing, Advertising & Promotion			26,427	22,658	23,872	23,002	25,245	28,194	31,014	34,115	37,186	40,160	42,972
68	General & Administrative			10,963	10,125	10,087	11,020	11,412	15,000	15,000	15,000	15,000	15,000	15,000
69	Depreciation & Amortization			19,500	18,150	17,205	16,544	16,080	7,504	9,003	10,203	11,162	11,930	12,544
70	Interest			2,500	2,500	1,500	1,500	1,500	3,000	3,000	1,000	1,000	1,000	1,000
71	**Total Expenses**			59,390	53,433	52,664	52,066	54,237	53,699	58,017	60,318	64,348	68,090	71,515
72	**Earnings Before Tax**			3,594	16,649	29,558	37,622	39,825	42,494	45,970	52,062	55,958	59,478	64,983
73														
74	Taxes			1,120	4,858	8,483	10,908	11,598	11,898	12,872	14,577	15,668	16,654	18,195
75	**Net Earnings**			2,474	11,791	21,075	26,713	28,227	30,596	33,099	37,484	40,290	42,824	46,788
76														

Source: corporatefinanceinstitute.com

Common Issues with Financial Models

- Hard to understand and use
  - Difficult to handover to another user
  - Macros
  - Overly complicated formulas

Example

=IF(A1=A5,B5,IF(A1=A6,B6,IF(A1=A7,B7,IF(A1=A8,B8,IF(A1=A9,B9,IF(A1=A10,B10,IF(A1=A11,B11,B12)))))))

Could be changed to:

=SUMIF(A5:A12,A1,B5:B12)

Common Issues with Financial Models

- Assumptions without enough rigour
  - A model is only as good as its assumptions (garbage in = garbage out)
  - People often accept the output of the model as fact
  - Only one set of assumptions (i.e. no scenarios/sensitivities)

- CHAT BOX: What issues have you had?

10 Best Practice Principles

BUILDING BLOCKS

1. Plan model
2. Invest time in assumptions

10 Best Practice Principles

LAYOUT, FORMAT, & FORMULAS

3. Clearly separate inputs, calculations and outputs
4. Build top to bottom, left to right
5. Keep formulas consistent across rows
6. Break down calculations into simple, logical steps
7. Use clear labelling

10 Best Practice Principles

ENSURING A QUALITY OUTPUT

8. Include scenarios and/or sensitivities
9. Build in error checks
10. Test it!

10 Best Practice Principles

Start Today!

BUILDING BLOCKS	1. Plan model 2. Invest time in assumptions
LAYOUT, FORMAT, & FORMULAS	3. Clearly separate inputs, calculations & output 4. Build top to bottom, left to right 5. Keep formulas consistent across rows 6. Break down calculations into simple, logical steps 7. Use clear labelling
ENSURING A QUALITY OUTPUT	8. Include scenarios and/or sensitivities 9. Build in error checks 10. Test it!

ACCREDITATION OPTIONS

	Financial Modeling Institute (FMI)	Corporate Finance Institute (CFI)
Mode of Study	Self-directed or through an approved training provider	Online course
Exam Format	Online 4-hour practical exam	Online throughout course
Cost	$480-$600 USD	$497-$847 USD
Best for	Demonstrating proficiency in financial modelling	Learning financial modelling

Further Resources

Websites

Books

Financial Modeling World Cup

The Financial Modelling Podcast

LinkedIn Group – Financial Modelling in Excel

Meetup Groups

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QUESTIONS

THANK YOU