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# Fundamentals of Financial Modelling in Excel (Online Version)

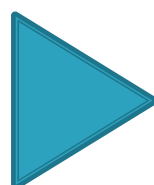
# What is a financial modelling?

- ▶ building an abstract representation of a financial decision making situation. **(Wikipedia)**
- ▶ complex analytical procedure of key input variables from which values of other accounts can be calculated. **(Google)**
- ▶ the process of creating a theoretical construct in a spreadsheet that represents numerical processes by a set of variables and a set of logical and quantitative relationships between them **(SSRB)**

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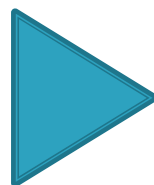
# Building a Financial Model

Purpose



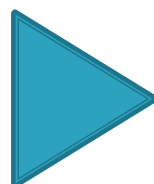
Why

Audience



Who

Industry  
dynamics

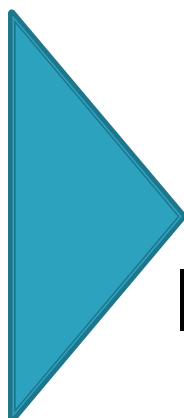


What

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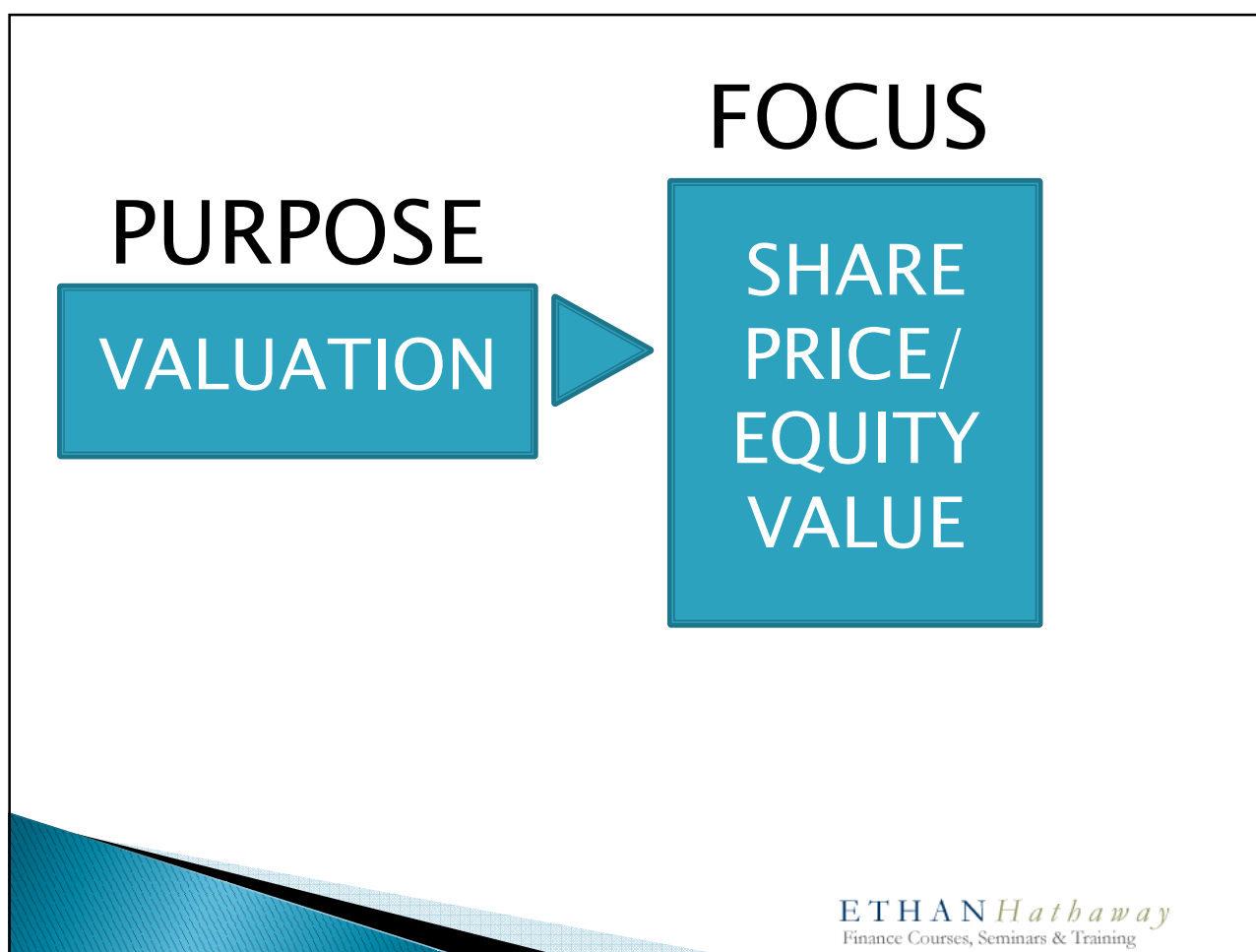
## Purpose: Why are you building

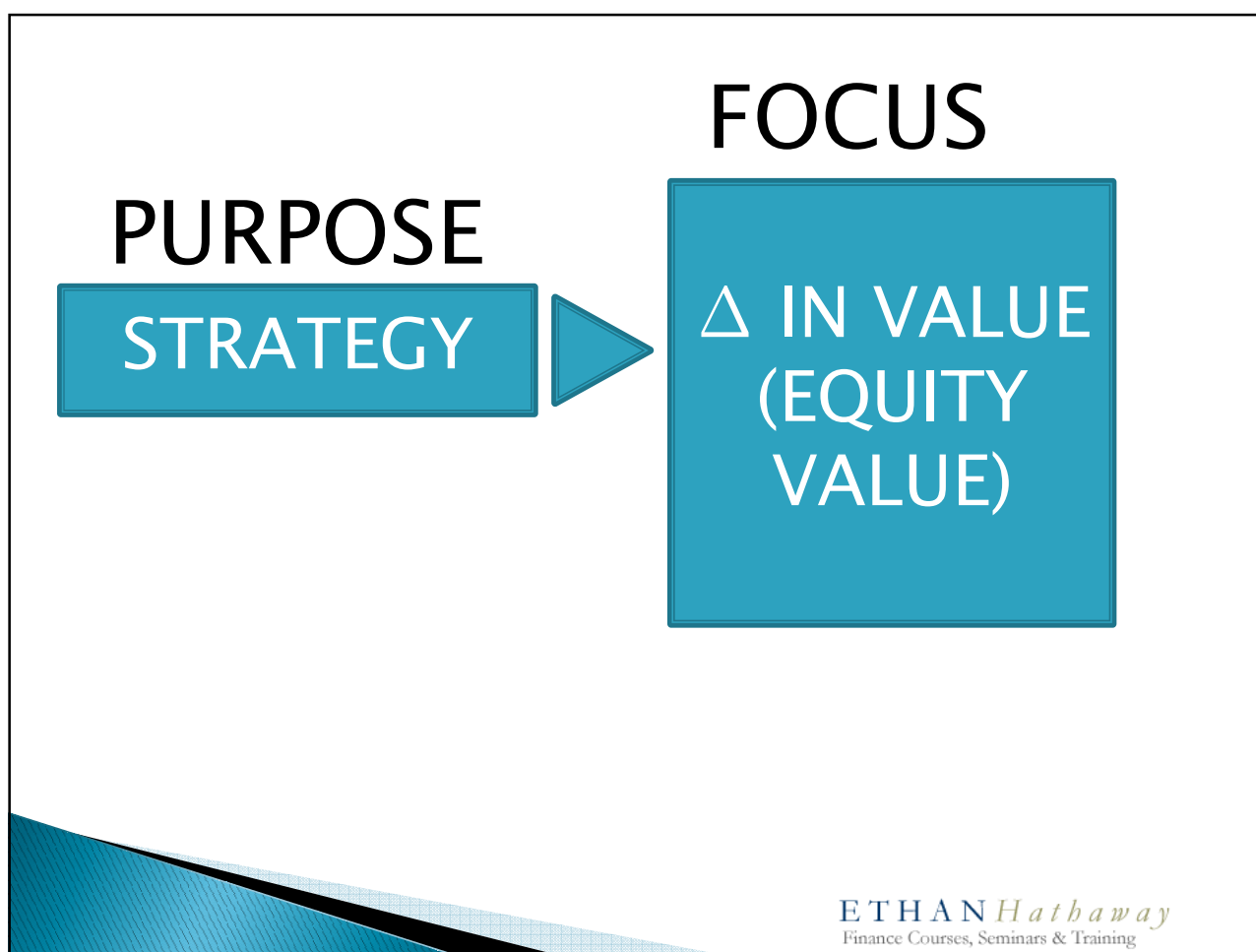
- Valuation
- Credit
- Budgeting
- Pricing
- Strategy



**FOCUS ON  
WHAT IS  
IMPORTANT!**

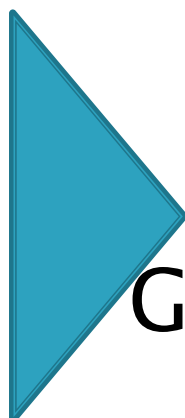
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## Audience: Who depends on your model

- BOD/Owners
- C-level staff
- Directors
- Managers
- Fund Managers



# DETERMINE LEVEL OF GRANULARITY!

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## Dynamics: What drives the industry

- Revenue Generation
- Cost Structure



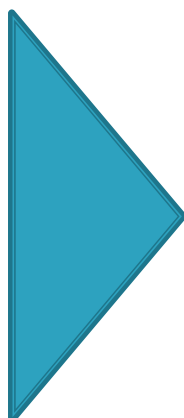
Drivers  
Assumptions

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## Dynamics: Telecom Sector

- Revenue Generation
- Cost Structure



- Capital Expenditures
- Subscribers
- ARPU (Average Revenue per Unit)
- Cost per Unit
- Debt-to-Equity Ratio
- Dividend Ratio

*Tip: If possible, limit your drivers to at most 10. Assumptions can be as many as you can.*

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# Drivers vs Assumptions

## ASSUMPTIONS

NECESSARY TO COMPLETE THE MODEL

## DRIVERS

MOST IMPORTANT ASSUMPTIONS. KEY SUCCESS FACTORS OF BUSINESS. TYPICALLY INCLUDED IN A DASHBOARD FOR WHAT-IF ANALYSIS



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# Building a Financial Model

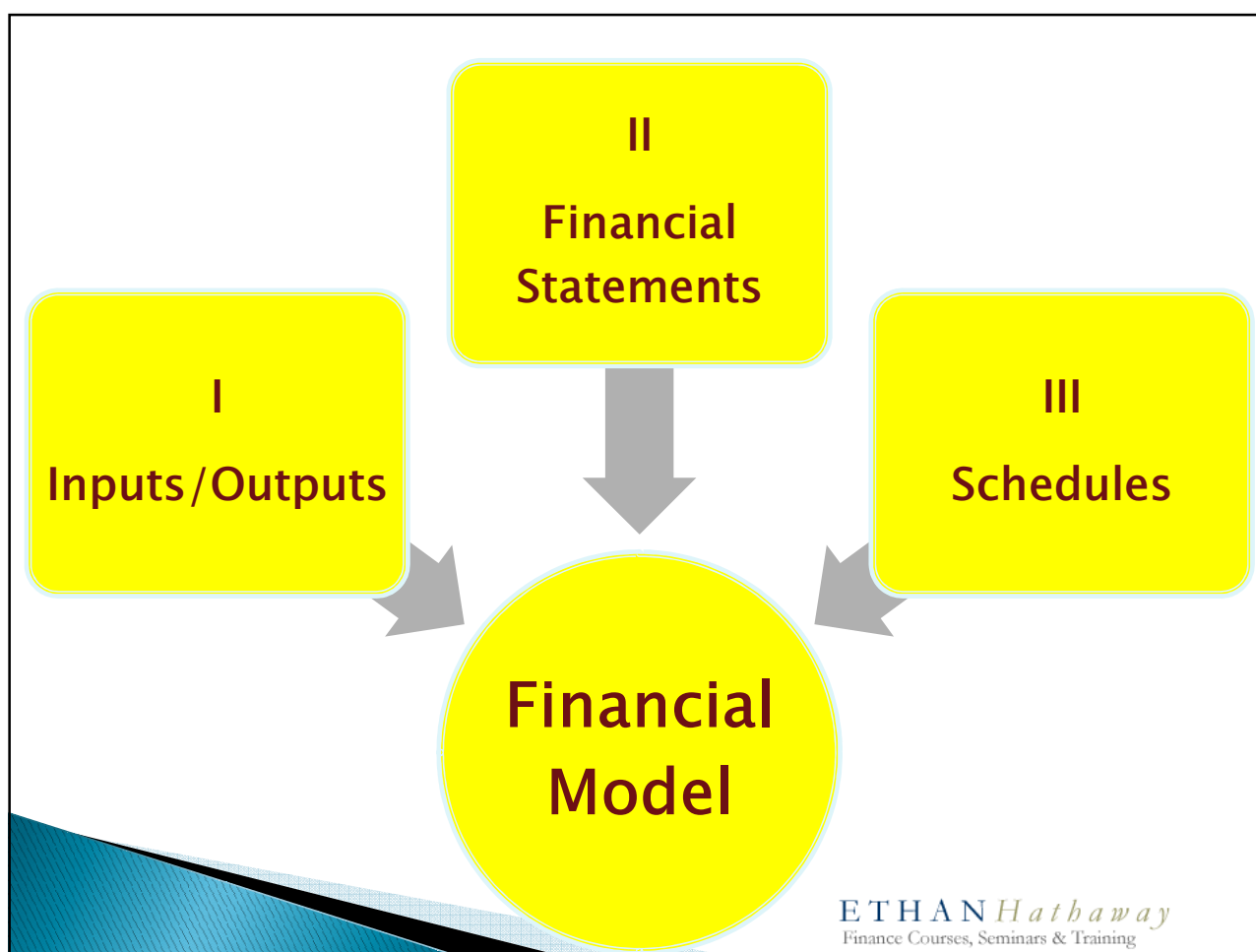
Understand  
the  
Purpose

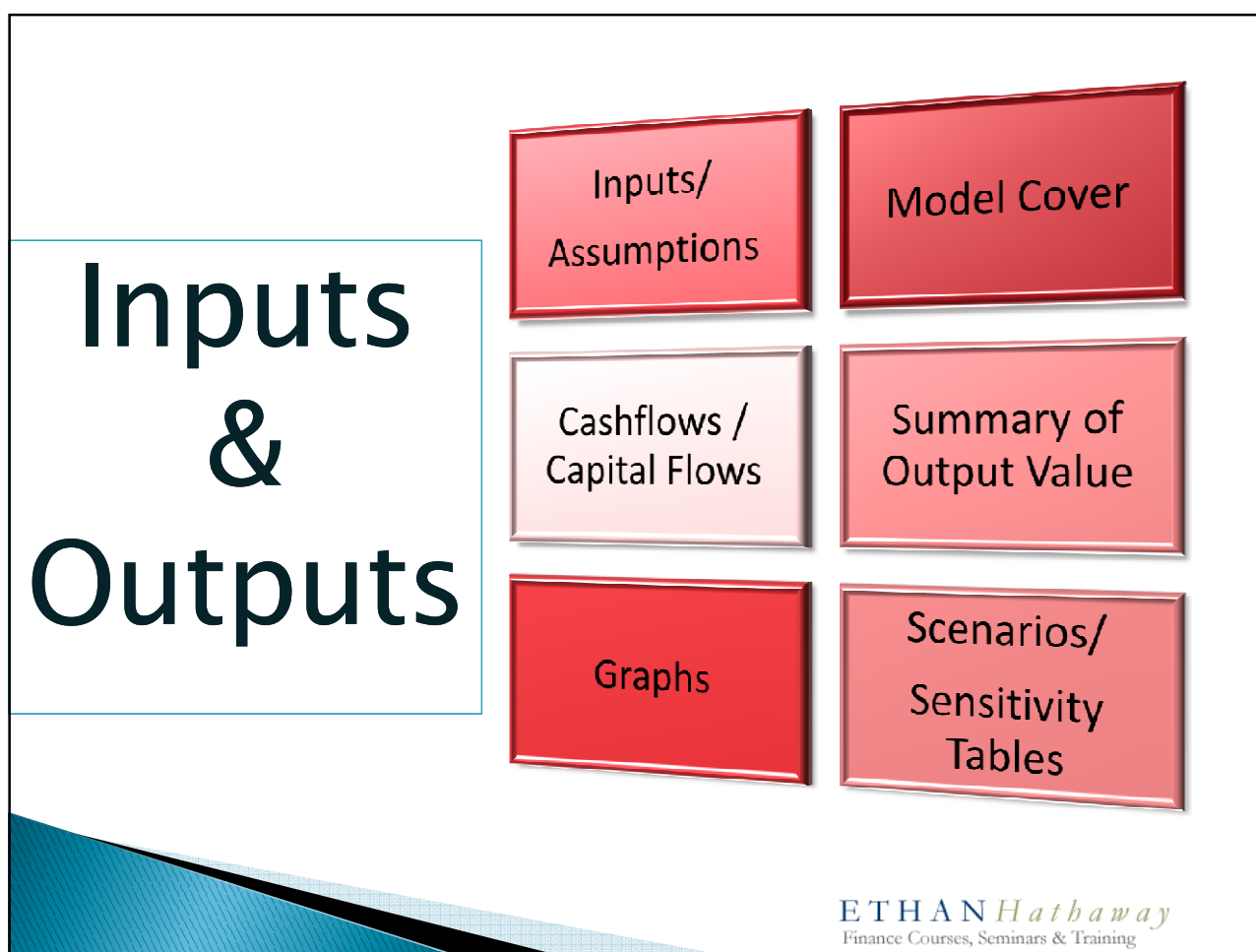
Know Your  
Audience

Industry  
dynamics

Designing  
the Model

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# Financial Statements



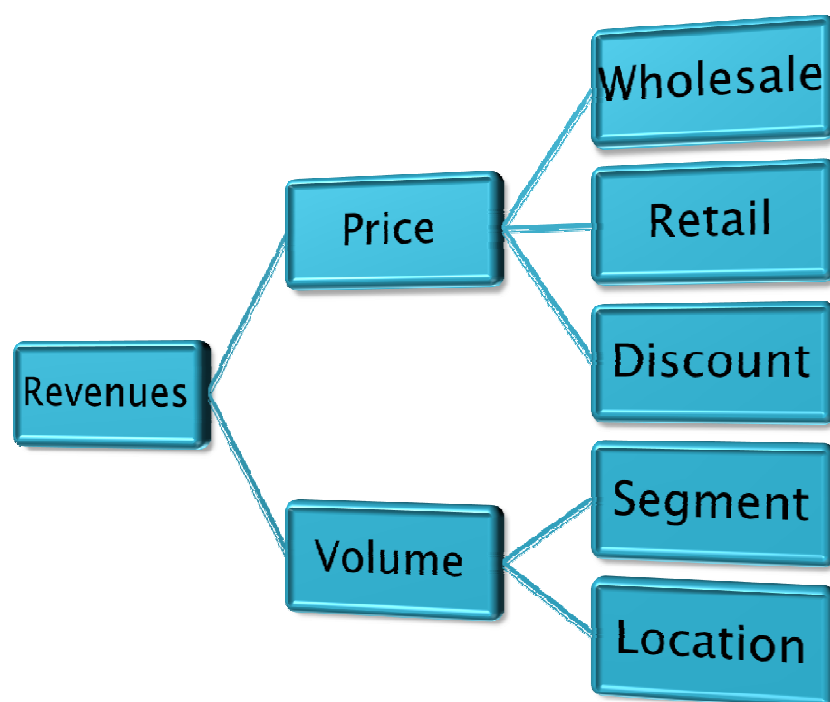
- Income Statement
- Balance Sheet
- Cashflow Statement

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# Use Influence Diagrams when creating supporting schedules



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Capture logic through *influence diagrams* for each schedule

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# Common Schedules

- ▶ Revenues
- ▶ Costs
- ▶ Capex, Fixed Asset and Depreciation
- ▶ Income Tax
- ▶ Working Capital
- ▶ Debt and Interest
- ▶ Valuation
- ▶ WACC



Each schedule follows its own logic!

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# Financial Modelling Flow

Revenue

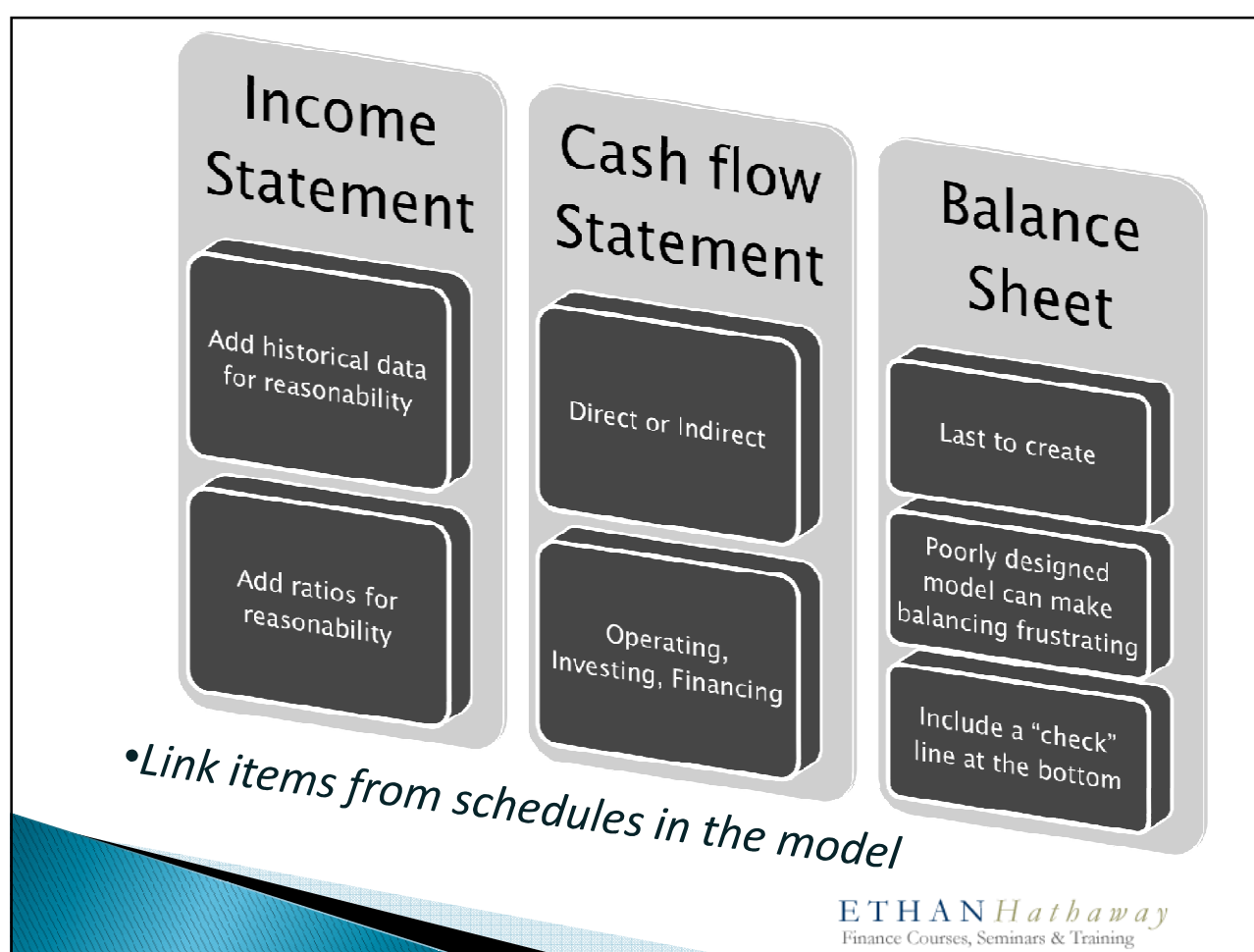
Expenses

Financing

Balance Sheet

Cashflows

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# Financial Modelling Tips

1. Keep it simple
2. Never hardcode (unless they are assumptions)
3. Use keyboard to increase speed
4. Label everything properly (even excessively)
5. Scatter and summarize alert or flag checks
6. Create dashboard
7. Limit external linking to 1 worksheet

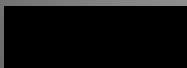


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## Purpose-based formatting

Font  Assumption (Constant)

Font  Assumption (Constant + Formula)

Font  Formula

Fill  In-progress

Fill  Alert

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