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Financial Modellers

PREPARE. PREDICT. PROSPER.

Developing smart and effective financial models that deliver results.

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FINANCAL MODELLING ESSENTIALS

Developing smart and effective financial models that deliver results.

PREPARATION

Typical steps in the model preparation phase:

Step 1 Client briefing, identification of issues, specifying objectives

Step 2 Research products, marketplace, competition, technical issues, understanding the business case

Step 3 Defining the model requirements and specifications

PREDICTION

Financial Models facilitate:

- Informed decision making
- Evaluation of strategy
- What- if Analysis scenarios
- VUCA World
- Foresight and insight
- Managing changing
- Flexibility and agility

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PROSPER

Optimise shareholder returns - manage for results

What business components optimise shareholder value?

What is the dividend capability based on net cash flows?

What are the key drivers of RONA / ROCE / ROE?

What annual compound growth rates are achievable?

Effect of growth rates on working capital, cash flows and RONA / ROE?

What is sustainable growth rate without raising more debt or capital?

How will gearing (leverage) effect shareholder returns (ROE)?

Is the business outperforming the WACC?

WHAT IS A FINANCIAL MODEL?

An abstract representation (a model) of a financial decision making situation

A mathematical model designed to represent the performance of a business, a project, or investment

Source: Wikipedia

HIGH LEVEL

Financial modelling is the assembly of all relevant components of a business case - in a logical and structured manner - into a predictive tool for the evaluation of financial performance.

10 CORE PRINCIPLES OF FINANCIAL MODELS

1. Understanding the business case
2. Create the model specification
3. Defining the time series - sheet consistency
4. Model structure - anatomy of a model
5. FAST standards - modelling essentials
6. Input assumptions - determine model logic
7. Integrated income statement, cash flow and balance sheet
8. Balancing the balance sheet - cardinal sins
9. Analysing the model - ratios, sensitivity, scenarios
10. Finalising and protecting your model

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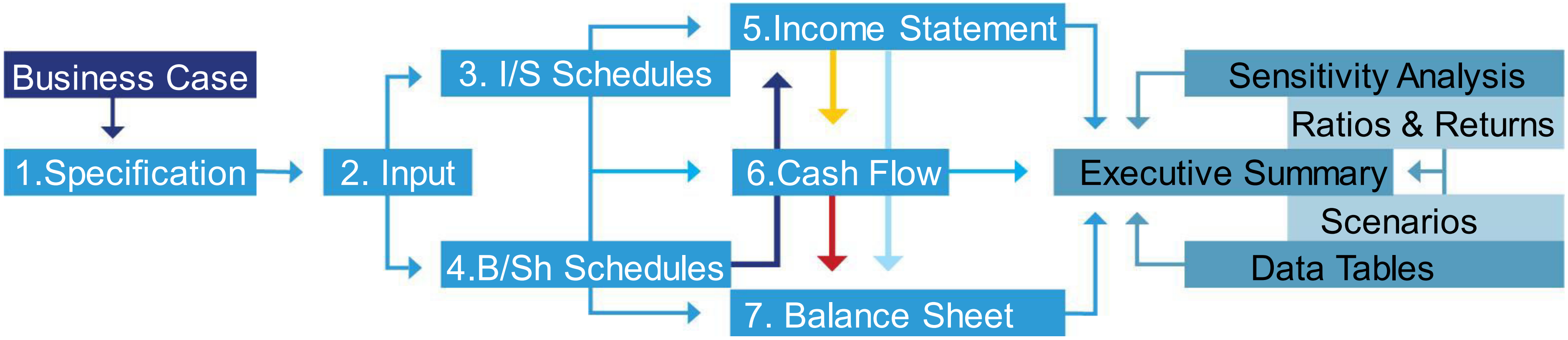
ANATOMY OF A MODEL



INTERNATIONAL MODELLING STANDARDS

Goalfix methodology is based on FAST modelling standard

Essential attributes of effective financial models:

F = Flexible - a fundamental modelling requirement

A = Appropriate (Applicable) - to meet the purpose

S = Structured - logical and sequential

T = Transparent - easy to use- easy to understand - easy to validate

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DETERMINING INPUT

Critical in model building

Defines the logic

Identify assumptions - determine values

Input assumptions relationships

Never mix input and output

Practical and measurable

Period specific input

Global input

Avoid input clutter

Document - verify integrity

THE BOTTOM LINE

Financial models are the most effective forecasting tools

- Forecasts are predictive - subject to a margin of error
- Forecasts as good as the primary assumptions
- Forecasts - the rate of change - must be flexible
- Budgets are static - out of date
- Rolling forecasts have integrity concerns
- Financial models - flexible, structured
- Financial models - "what-if analysis"
- Financial models integrate financial statements
- Methodology proves the accounting validity of the model

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THANK YOU

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