FINANCIAL MODELING BEST PRACTICES

FMInstitute.com
November 5th, 2024

WELCOME

Today's Presenter

Ian Schnoor, CFA, CFM
Toronto, Canada

Executive Director, FMI
www.FMInstitute.com
Ian.Schnoor@FMInstitute.com

Founder, The Marquee Group
(acquired by TTS in March 2023)

Creator, Financial Modeling Practical Skills Module for CFA Institute

Finance Lecturer, Queen's University
Recipient of "Professor of the Year" Award

FINANCIALMODELING
INSTITUTE

FMI OVERVIEW

Financial Modeling Institute

Four public exams annually

•

Virtual

•

Excel-based

•

No multiple choice

•

Four hours

•

Proctored in a controlled environment

Rigorous financial modeling curriculum & exams

Three levels of accreditation; each recognized as its own designation

FMI
FINANCIAL MODELING INSTITUTE

Foundations Program

Designed for individuals who are looking to begin their financial modeling career

•

Multiple choice

•

1 hour Exam

•

Proctored in a controlled environment

Enables candidates to develop a strong ***knowledge*** of financial modeling…

…allowing them to pick up modeling ***skills*** more quickly in the future with the AFM accreditation.

FMI
FINANCIAL MODELING INSTITUTE

Virtual Exam Format

- Security and exam integrity through virtual proctoring platform
- Supervision of candidates throughout exam
- Onscreen activity recorded
- Unusual behavior automatically flagged (AI)
- AFM & CFM - 4 hours, closed book, no multiple choice

Candidates provide their own:

- MS Excel
- Computer
- Internet connectivity
- Webcam
- Quiet, distraction free space

Who is it for? Candidates

"Since studying for the AFM, I have become a superior modeler. The accreditation directly helped me land my next role."

Jiaming Li, AFM | Essen, Germany | PWC, BDO Global

"The AFM accreditation challenges your financial modeling while expanding all of your prior business, finance and Excel knowledge."

Gabriele Di Rossi, AFM |Tehran, SA | Saudi Aramco

"These certifications are a game changing event in the field of financial modeling. They are highly practical."

Roy Abbas, AFM | Toronto, Canada |RBC

Who is it for? Employers

Employers

Use a globally recognized benchmark to truly assess financial modeling capabilities

RISK MITIGATION
Hire professionals who have demonstrated financial modeling abilities at the highest standard

TALENT DEVELOPMENT
Use the FMI curriculum as a validated roadmap to guide training and development

LEADERSHIP
Be a diversity and thought leader by joining the global network of FMI professionals

> *Achievement of an FMI accreditation is a strong differentiator among our students.*
>
> *Recruiters can trust that students who have passed the FMI exam have a high competency in financial modeling.*

Marie-José Beaudin
Executive Director
Soutar Career Centre Desautels Faculty of Management, McGill University, Canada

FINANCIAL MODELING INSTITUTE

BEST PRACTICES

“Financial Modeling is a Discipline”

FINANCIALMODELING INSTITUTE

What is a Financial Model?

The integration of technical skills with business / academic skills to create user - friendly decision - making tools.

TECHNICAL SKILLS	BUSINESS SKILLS
Excel Functions	Accounting
Design	Finance
Logic	Engineering
Presentation	Statistics

FMI FINANCIALMODELING INSTITUTE

Modeling Discipline

- A good model needs to be a powerful communication tool so that it can be used to make effective decisions
- The following are important attributes of a strong financial model:
  - Dynamic
  - Flexible
  - Intuitive
  - Printable
  - Transparent
  - Transferable
- When a model achieves the criteria above, it creates tremendous credibility for the builder and inspires confidence with the reader.
- It is also much easier for someone to take ownership of a model that meets the criteria above.
- The one constant for financial models is that they will change over time.

"Simplicity is the ultimate sophistication"

Leonardo Da Vinci

FINANCIAL MODELING INSTITUTE

Modeling Basics

- Keep it simple
- NEVER HARDCODE!
  - Always enter inputs as a different colour than calculations
  - Never enter a formula that looks like:
    =A5 * .025 + 4.9
- Use the keyboard to increase speed
- Label everything properly (even excessively)
- Everything should be printable
- Master the basics
- Become an expert at formatting
- Practice

Modeling Best Practices

The following are some critical modeling best practices:

1. Plan and design a model
2. Ask the right questions
3. Keep the assumptions up front
4. Make data inputs blue – never hardcode data into formulas
5. Build a Scenarios page to avoid multiple versions
6. Use a manageable number of worksheets
7. Don't do any work on the financial statements
8. Do all calculations on schedules
9. Build very simple formulas on the schedules
10. Repeat the data, then use it in formulas

The Planning Process

- It is critical to properly plan and design a model before it can be built
- Whenever a model becomes an illegible error-prone mess, it is almost always because the modeler didn't properly devise a model plan
- To create a strong plan, follow these three steps:
    1. Identify the major issues
    2. Identify all assumptions that need to be made in the model
    3. Identify the required schedules and components (see next page)
- As part of the planning process, you should also be able to answer the following questions:
    - What is the purpose of the model?
    - Which assumptions should become scenarios?
    - How much detail is required?
    - Do I have enough historical detail to validate the amount of forecast detail that is required?
    - What is the important output that the client wants to know?
    - What metric is used to measure results?
    - How many time periods should be included in the forecast? Why?
    - What is the most logical order to present the data?

FMI
FINANCIAL MODELING INSTITUTE

Information Gathering

- Gathering the right information is one of the most difficult and important parts of the modeling process
- A good model can help to define the problem and the process
- Don't assume that the information provided is the right level of detail
- A good financial analyst:
  - asks the right questions and determines the right level of detail required to solve the problem
  - needs to be a critical thinker and realizes that a good financial model facilitates this
  - uses the model to facilitate the organization and flow of the analysis
  - keeps the key players engaged in the process through regular updates and by soliciting feedback
- The model is a means to an end, and not an end in itself
- A model needs to be a powerful communication tool to convey all of the information regarding a particular analysis

Components of a Financial Model

Every financial model is made up of worksheets and schedules that fall into the following three categories.

Not all models require every worksheet or schedule listed below, and some models will require other schedules.

INPUTS AND OUTPUTS

- Model Cover
- Summary Output Values
- Inputs / Assumptions
- Sources and Uses of Capital
- Scenarios
- Sensitivity Tables

FINANCIAL STATEMENTS

- Income Statement
- Cash Flow Statement
- Balance Sheet

SCHEDULES

- Revenue Schedule
- Costs Schedules
- CAPEX / Depreciation Schedule
- Fixed Asset Schedule
- Income Tax Schedule
- Working Capital Schedule
- Debt and Interest Schedule
- Shareholders' Equity Schedule
- Valuation Schedule
- WACC Schedule

Important Modeling Tips

The following are some important tips to adhere to when creating a financial model:

1. Use a manageable number of worksheets (5 to 10 if possible)
2. Keep all inputs and assumptions together, and make sure inputs are ALWAYS blue
3. Never enter the same input twice
4. The model should be flexible so that inputs and assumptions can easily be tested
5. If possible, put all financial statements and schedules on the same worksheet
6. Do not insert blank columns between years
7. Within each worksheet, each year MUST ALWAYS be in the same column when there are multiple schedules beneath one another
8. Include the model title and worksheet title prominently on every page
9. Label every row – have one column that's used just for row labels
10. Include the date and time, page numbers and the file path on every page
11. Incorporate a "live" scenario tag on every page
12. Never delete a cell, row or column until you have determined where it flows (Auditing)
13. Do not make multiple copies of the model with minor revisions – use scenarios
14. Think about how the model will be printed and make sure the data is in page-size units
15. ALWAYS review your model on paper before delivering it to your colleagues or the client
16. Format your model as you go – don't wait until the very end!

FINANCIALMODELING
INSTITUTE

THANK YOU

Follow us on social media for future webinars

FMInstitute.com