



Session 2

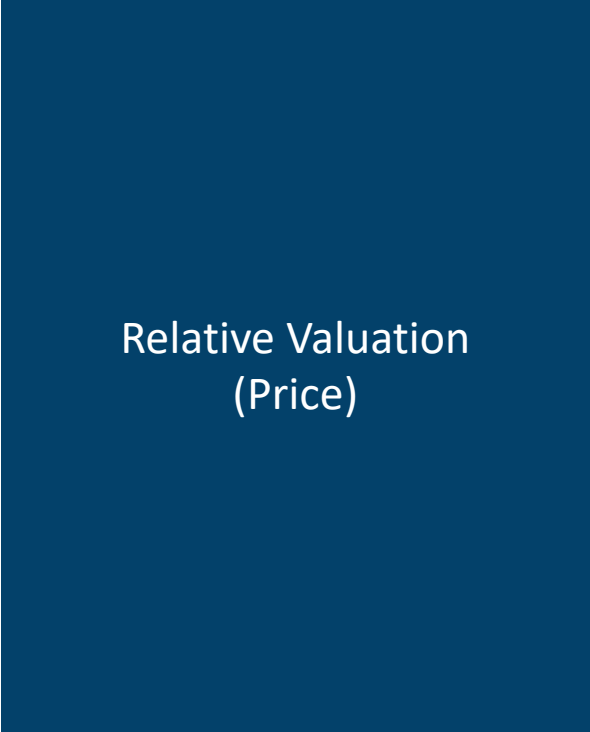
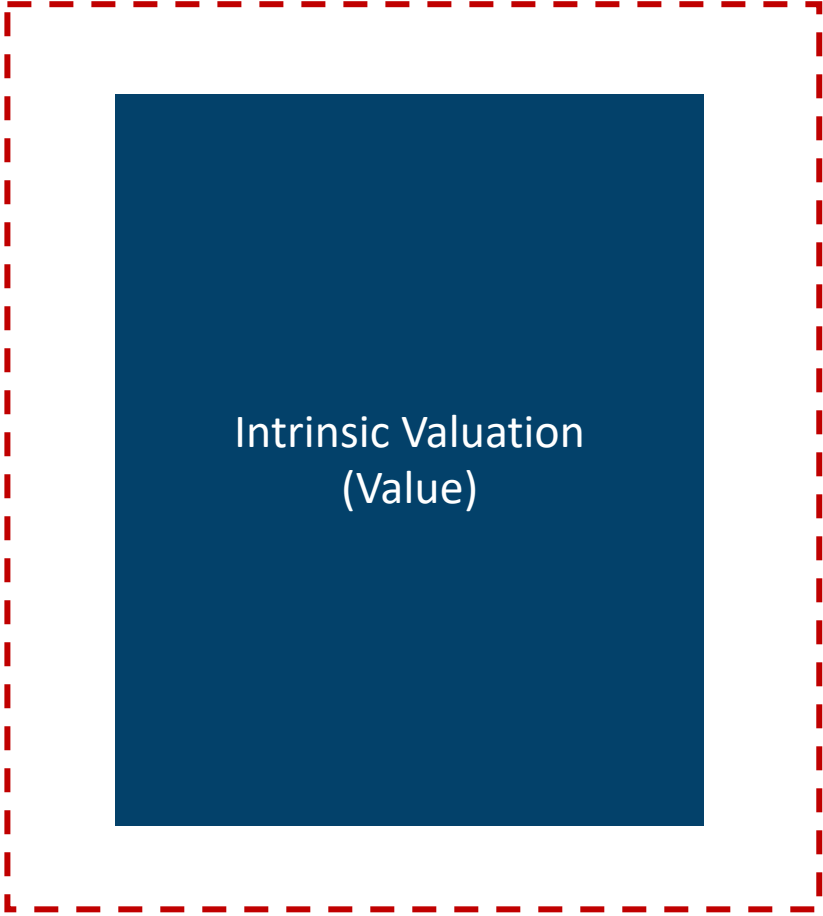
Introduction to Financial Modelling

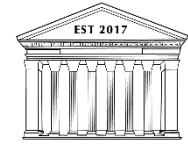


Lesson Outline

1. Finance Fundamentals
2. Introduction to Excel
3. Formatting for Financial Modelling
4. Excel Shortcuts
5. Common Functions & Formulas for Financial Modelling
6. Structure of a Financial Model

Valuation Methods





NPV & Terminal Value

$$FV = PV (1+R)^t$$

Sum of the present value of all future CF:

$$NPV = \sum R_t (1+i)^{-t}$$

Terminal Value:

1. Growing Perpetuity Method

$$FCF \times (1+\text{growth}) / (\text{WACC} - \text{growth})$$

2. Exit multiple formula

$$\text{Financial Metric} \times \text{Multiple}$$

Valuation Methods - DCF

What is DCF?

Present Value of all your future cashflows

$$\text{DCF} = \frac{CF_1}{(1+r)^1} + \frac{CF_2}{(1+r)^2} + \dots + \frac{CF_n}{(1+r)^n}$$

Terminal Value

CF = Cash Flow
r = Discount Rate (WACC)

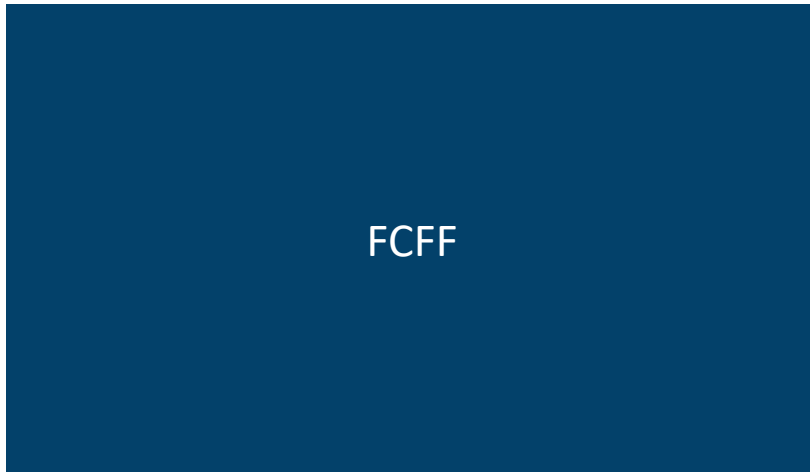
DCF - Discount Rate

What is discount rate?

The expected return for the undertaking risk in the investment

WACC

Weightage of Debt X Cost of Debt X (1 – Tax Rate) + Weightage of Equity X Cost of Equity





DCF- Terminal Value

Perpetual Growth Method

$$[\text{FCF}_n \times (1+g)] / (r-g)$$

↓
GDP
Growth/
Inflation
Rate

↓
Discount Rate

Exit Multiple

EV/EBITDA
EV/Sales

Discount Rate – Cost of Equity

$$\text{Cost of Equity} = R_f + B (R_m - R_f)$$

R_f

Sovereign/Govt Bond

B

1. Regression Beta
2. Bottom – Up Beta

$$\beta_l = \beta_u \left(1 + (1 - t) \left(\frac{D}{E} \right) \right)$$

β_l = levered beta

β_u = unlevered beta

t = tax rate

D = debt

E = equity

$R_m - R_f$

1. Damodaran



Introduction to Excel

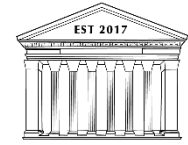
The screenshot shows the Microsoft Excel interface with several components highlighted by red boxes and labeled with red text and arrows:

- Tabs:** The ribbon tabs (File, Home, Insert, Page Layout, Formulas, Data, Review, View, Developer, Help, S&P Capital IQ, Power Pivot) are highlighted.
- Group:** A group of ribbon options including Font, Alignment, Number, Styles, Cells, Editing, Analysis, and Sensitivity is highlighted.
- Quick Access Toolbar:** The top-left toolbar with Undo, Paste, and Copy icons is highlighted.
- Formula Bar:** The bar containing the active cell address (D3) and the formula bar is highlighted.
- Cell Reference:** The active cell address 'D3' is highlighted.
- Column Reference:** The column header 'E' is highlighted.
- Current Cell Selection:** The active cell 'D3' is highlighted with a green border.
- Worksheets (Sheets):** The sheet tabs 'Sheet1', 'Sheet2', and 'Sheet3' are highlighted.
- Zoom In/Out:** The zoom slider at the bottom right is highlighted.
- Ribbon:** The entire ribbon area is labeled as the 'Ribbon'.



Formatting for Financial Modelling

1. Colour Coding
 - a) Black – Text and Formulas
 - b) Blue – Constants i.e., Hardcodes
 - i. Pale Yellow Background may be used for certain key input cells
 - c) Green – Links to Other Sheets
 - d) Red – Links to External Sources



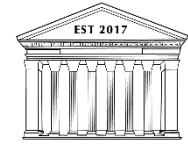
Excel Shortcuts

Differs across Windows and Mac

<https://support.microsoft.com/en-us/office/keyboard-shortcuts-in-excel-1798d9d5-842a-42b8-9c99-9b7213f0040f>

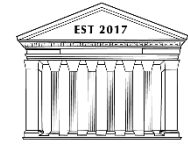
1. Arrow Keys for Navigation
2. Shift + Ctrl (for mass selection)
3. Fill Right (Ctrl+R)
4. Fill Down (Ctrl+D)
5. Fill / Font Colour (Alt+H+H / Alt+H+FC)
6. Cell Width (Alt+H+O+W (specified width), Alt+H+O+I (autofit))
7. Paste Special (Alt+E+S)
8. Borders (Alt+H+B)
9. Alignment (Alt+H+AL/AC/AR)
10. Select entire Row / Column (Shift+Spacebar / Ctrl+Spacebar)
11. Navigate across Sheets (Ctrl+PgUp/PgDn)

Include the commonly used commands (especially those with more keystrokes)
in your Quick Access Toolbar for speedier formatting



Common Functions & Formulas for Financial Modelling

1. =SUM (Shortcut: Alt+=)
2. =AVERAGE
3. =MEDIAN
4. =MIN and =MAX
5. =PERCENTILE
6. =IF and Nested =IF
7. =PV (For DCF)
8. =RRI (For CAGR)
9. =DATE (Including Nested =DAY, =MONTH, =YEAR, =YEARFRAC)



Structure of a Financial Model

Arrange your content in a logical order (Left-Right, Top-Bottom)

Sheets:

1. Home Page (optional)
2. 3FS
3. Income Statement Forecast (Revenue Build)
4. Supporting Schedules
5. DCF
6. Comparable Companies Analysis (Comps / Relative Valuation)
7. Football Field
8. Financial Analysis



SUSS
INVESTMENT
GROUP

**Thank You
&
God Bless!**