

# **Practical Financial Modelling**

A Guide to Current Practice



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# **Practical Financial Modelling**

## **A Guide to Current Practice**

**Jonathan Swan**



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To Rebecca, Jack and Jeremy, who still don't understand  
what this book is about



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# Preface

Most of the books on financial modelling that I have come across tend to go long on the financial and short on the modelling. Most of them are full of genuinely useful financial calculations but they offer little insight into how to put them together in a robust and reliable model, in much the same way that a dictionary helps you with your spelling but does not help you to write good prose. To stay with this analogy for a moment, I would describe this book as a grammar that will provide you with a structural and conceptual basis for your financial modelling. I shall assume that you have a good working vocabulary, or the ability to refer to the appropriate dictionary, as required. This book sits between your Excel manual and your finance textbook.

I should state at the outset that there is no agreed 'best' practice in financial modelling – the methodology and techniques used are those which are best suited to the task at hand. In this book we will examine some of the common, generic, approaches you will encounter in financial models today, with a view to understanding the technical background and to appreciate that the same problem can often be solved in several ways, some of which appear better or more reliable than others, and some of which appear counter-intuitive and less satisfactory. The intention is to encourage you to reflect on your own practice in the light of these suggestions, and I am confident that you will be able to generate your own solutions to the problems and issues that follow. Even if you are not convinced by my arguments, by engaging with them you will have greater confidence in your own modelling abilities. You have picked this book from the shelf because at some point you have asked yourself the fundamental question – is this model right?

# About the Author

Jonathan Swan is a director of Operis TRG Limited, the training arm of Operis Group plc. He has extensive experience in teaching the use of spreadsheets as a financial analysis tool. Over the past decade he has developed and delivered financial modelling training programmes to many investment banks, international financial institutions, management consulting and accounting firms, in the City of London and throughout Europe.

Jonathan holds an MBA from the East London Business School (University of East London) and is a member of the Securities Institute.

## About Operis Group plc

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Operis is a London-based project finance advisory firm, well known for its financial modelling expertise and experience. We:

- develop financial models of large transactions for a range of clients which includes financial institutions and project promoters in a variety of sectors and countries;
- advise government clients, companies and consortia in the PPP sector on project definition, bid strategy, funding routes, benchmarking, refinancing and project management;
- provide both formal and informal assurance advice for sponsors and funders in connection with financial models and project documentation developed by other firms;
- have a department of accountants and tax advisors in-house to provide additional advice in connection with such projects.
- are the largest provider of training in financial modelling, to over two thousand individuals in the last three years;
- market software valuable in the development and auditing of large financial models, which has been adopted by three out of four of the world's largest accountancy practices; and
- are currently the only European firm specifically accredited to ISO 9001:2000 for its financial modelling build, model audit and training activities.

The firm was established in 1990 and now has a headcount of 42, making it one of the largest teams devoted to its particular discipline.