

FINANCIAL MODELLING MINOR PROJECT

Project Summary :-Real-life companies use various types of financial models to analyze their financial health, make strategic decisions, and plan for the future.

The different types of Financial Models are categorized as under :

1. Three-Statement Model:

- Links the income statement, balance sheet, and cash flow statement.
- Provides a comprehensive view of a company's financial performance.

2. Discounted Cash Flow (DCF) Model:

- Estimates the value of a company based on the present value of its expected future cash flows.
- Commonly used for valuation purposes.

3. Comparable Company Analysis (CCA)/Multiples Valuation

- Values a company by comparing it to similar companies using valuation multiples like P/E ratio, EV/EBITDA, etc.
- Useful for relative valuation.

4. Precedent Transaction Analysis (PTA):

- Values a company based on prices paid for similar companies in past transactions.
- Often used in M&A scenarios.

5. Leveraged Buyout (LBO) Model:

- Evaluates the potential acquisition of a company using a significant amount of borrowed money (leverage).
- Focuses on the return on investment and debt repayment.

6. Mergers and Acquisitions (M&A) Model:

- Assesses the financial impact of mergers and acquisitions, including synergies and integration costs.
- Combines multiple companies' financial statements.

7. Budgeting and Forecasting Model:

- Plans future financial performance by estimating revenues, expenses, and cash flows.

- Helps in resource allocation and strategic planning.

8. **Sum of the Parts (SOTP) Model:**

- Values a company by summing the value of its individual business units or segments.
- Often used for conglomerates with diverse business units.

9. **Consolidation Model:**

- Combines the financial statements of multiple entities into a single consolidated statement.
- Used by parent companies to report the financials of subsidiaries.

10. **Option Pricing Model:**

- Values financial derivatives like options using mathematical formulas such as the Black-Scholes model.
- Helps in risk management and financial decision-making.

Each model serves a specific purpose and is used in different contexts based on the needs of the business or financial analysis being conducted.

Required :- Name few real life companies who follow these types of the financial models given above along with the purpose for which these models are being used by the companies. The companies and purpose need to be mentioned for each type of Financial Model.

Present the project in word/pdf file format.

Here are some examples of companies and the financial models they commonly use:

1. **Apple Inc.:** Uses the **Discounted Cash Flow (DCF) Model** for valuation purposes, especially when assessing potential investments and acquisitions.
2. **Amazon.com, Inc.:** Employs the **Three-Statement Model** to link their income statement, balance sheet, and cash flow statement, providing a comprehensive view of their financial performance.
3. **Tesla, Inc.:** Utilizes the **Comparable Company Analysis (CCA)** model to value the company by comparing it to similar companies in the electric vehicle and clean energy sectors.
4. **Berkshire Hathaway Inc.:** Often uses the **Sum of the Parts (SOTP) Model** to value its diverse portfolio of businesses by summing the value of each individual business unit.

5. **Blackstone Group Inc.:** Uses the **Leveraged Buyout (LBO) Model** to evaluate potential acquisitions using significant amounts of borrowed money.
6. **Microsoft Corporation:** Employs the **Budgeting and Forecasting Model** to plan future financial performance and allocate resources effectively.
7. **Goldman Sachs Group, Inc.:** Utilizes the **Mergers and Acquisitions (M&A) Model** to assess the financial impact of mergers and acquisitions, including synergies and integration costs.
8. **Netflix, Inc.:** Uses the **Option Pricing Model** to value financial derivatives and manage risk associated with their content licensing and production.

These examples illustrate how different companies apply various financial models to suit their specific needs and strategic goals.

Solution (example)

<u>Name of Financial Model Type</u>	<u>Name of the Company</u>	<u>Purpose of Financial Model used</u>
1. <u>Three Statement Model</u>	<u>Apple</u>	<u>Finding future positioning of their business</u>
2. <u>Budgeting & Forecasting Model</u>		