



# **Finance Association**

Corporate Finance DCF Presentation

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## Financial Modeling

### What is a Corporate Finance DCF?

- Used for budgeting decisions and the valuation of corporate projects.
- Incorporates financial analysis in order to determine the net present value (NPV) of a project.





## Financial Modeling

# Why do I need to learn how to make a corporate finance DCF?

- Builds the ability to comprehend and interpret data to be used in a financial model.
- These analytical skills are applicable across multiple fields of finance (investment banking, private equity, etc.)



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## Education Tutorial

**This tutorial is based on the “MSU FA Corporate Case Study”**

- Try to do the case yourself before looking at the answer key or this tutorial
- Look at the model answer key while you are following this tutorial for visual help



## Reading the Case

**Cases usually have a lot of information presented in paragraph format.**

- Note: not all the information is relevant to the case

**The first step in a case should be to read it and highlight all relevant information.**

- This includes the Drivers (The numbers given in the case that will be used to make the model).





## Organizing the Drivers

### Start by putting your drivers into Excel.

- I would recommend putting them in a new tab and organizing them.
- Organized drivers will make it easier to build the case or change them later.

View the Drivers tab in the Answer key for an example





## Building the Model

### **The best models are flexible and dynamic**

- This means if you change your drivers and the whole model will automatically adjust to the new numbers.

### **Better excel skills and formulas will lead to a better looking and more flexible model**

- Using advanced excel skills usually also means you can build the model faster.



## Building the Model

### Advanced vs Basic Model

- As you can see in the answer key there are two types of models
- Both models come out to the same answer and are technically correct
- The advanced model uses more advanced excel skills, is more flexible, was constructed faster, looks cleaner, and is much more preferred by employers



## Building the Model: Revenues and Costs

### Split out Revenue and Costs

- As you can see in the answer key, the revenue is driven by the sales of the apparel
- Use extra lines for more advanced cases for drivers such as “Amount of items sold”. This leads to cleaner sales and costs lines
- The cost in the case is made solely from the cost to buy the apparel and the cost to embroider





## Building the Model: Finishing Touches

- Sum all the revenue lines and the sales lines
- Have a final cash flow or EBIT line
- Use the NPV or XNPV formula to calculate your NPV
- XNPV is the preferred formula to calculate NPV but the model must have dates in order for it to be used
- IRR and XIRR are used in the same way to calculate IRR



## Tips and Hints

### Free shirts

- The first trick is that 6 shirts were given away for free, meaning that there are less available at the end for salvage

### Demand resets each Semester

- The demand for the shirts and hoodies by students resets and have to steadily decrease again starting in January

### Demand Changes in Spring

- People prefer hoodies more in spring than in fall so the model must adjust and change sales



## Tips and Hints

### Not enough Hoodies

- Notice: there are not enough hoodies to fulfill the full demand for the year
- The model must be adjusted to not sell more hoodies than are available

### Salvage

- There aren't enough Hoodies but there are extra T-Shirts
- The T-shirts need to be salvaged for 50% during the last month





## How to Deal with Alternative Answers

**As you can see there is an alternative answer in the model**

- Both come out to different NPVS but the answer to the overall case remains the same
- In this case it happened because of how you adjust for the decreasing sales. The case didn't specify this

**Most cases only have one set answer, but it doesn't mean your answer is necessarily wrong**

- If you get an answer that you know is right, justify it as much as possible in your executive summary. This way, when employers look over your model, they can tell why it is correct even if it might differ from theirs



# Questions?

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