## Tjia, John S. – Building Financial Models

*McGraw-Hill, 2009, [Equity Investing]* Grade 

Forecasting is hard. Skilled financial forecasting with inadequate tools is even harder. This book supplies the tools; that is, it supplies the structure of the Excel-designs used to try to model a company's financial future and the DCF used to assess its intrinsic value. John Tjia for a very long time used helped constructing the excel-models used by JP Morgan's analysts before launching a consulting firm aiding clients within corporate finance. The intent of the book is to show the reader how he himself can develop a properly functioning model. Pointing out that a model is an estimator, not a predictor, Tjia notes that its main utility is to provide a way of testing what needs to happen for a certain financial future to emerge.

A special point is made out of the fact that the author presents an *integrated* financial statement projection model, meaning an Excel-model where the income statement, balance sheet and cash flow statement are interlinked. So called "plugs" are used to make sure the fundamental accounting relationships are upheld. In this way future estimates will follow the same accounting logic that was used historically by the company. *Building Financial Models* has four main parts. The first is a crash course in Excel (plus a little accounting, and a step-by-step sneak peak on financial modeling), i.e. preparations ahead of building a model; then follows three quite heavy chapters (11 - 13) on building an integrated financial model. They really should be read sitting by the computer while testing out the functionality in Excel; then there is a section with mixed add-ons to the basic model like financial ratios, a guide to building a DCF-model etc. In the end - almost like an appendix - Tjia throws in a primer on Visual Basic. Clearly, this is a great tool and I certainly wish I had better VBA-skills, but these chapters aren't that clearly tied to the rest of the material in the book.

Mats Larsson, December 14, 2014

This is rather a book for the financially literate person who needs extra Excel skills. The first part of the text that spans over about half the book contains plenty of useful Excel-functions, commands and practices that will make the every day life of a financial analyst easier. Throughout the book the logic and formulas of the models are exemplary displayed in "screen shots" of Excel sheets. However, I first tried to go through chapters 11 – 13 while commuting but no matter how pedagogic the author is, without the ability to tinker with Excel while reading at the same time the value of these chapters will not be the same. The book is supplemented by a website with downloadable Excel-files. Contrary to for example older versions of McKinsey's book *Valuation* there is no full workable model among the downloadable files but instead many of the building blocks and examples shown in the book. To benefit fully from the book I would almost recommend not downloading the Excel-files and instead building a model according to the instructions in the book. In this way the reader will get a better feel for the logic.

Considering the author's vast experience one might have wished for some excursions outside of just building a model for forecasting future accounting statements. Yes, there is a chapter on DCF:s but it is quite rudimentary and why not add chapters on EVA-modeling, LBO-models and models consolidating merging companies? Further, a chapter on banks and other financial companies would be highly valuable. That said, most of those add-on's build on the normal income statement, the balance sheet and the cash flow statement.

Excel rules the financial world when it comes to forecasting companies. This book will provide the reader with skills to start modeling himself.