

Introduction to Financial Modelling Services

An offer of the GET.invest Finance Catalyst

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Structure of this presentation

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Financial Models – the benefits

A financial model is a tool to forecast future financial performance and see the likely financial results of an operation's parameters and financing terms under different economic scenarios. These results are commonly used to estimate the outcome of a specific financial decision before the company commits any funds or efforts toward it.

Why crucial?

- To translate and test financials of a Finance Catalyst (FC)-client in order to confidently inform the fundraising process.
- To avoid misrepresentation of business plans: numbers match words.
- To reconcile the language of financiers and developers.
- To avoid stranding of fundraising efforts during final financing negotiations.

Financial Models – why and when?

Why needed?

- To confirm the financial feasibility of business plans before engaging with financiers.
- To support negotiations with multiple financiers reflecting multiple financing term-sheets.
 - For companies; to underpin the business plan and detail the financial situation and projections.
 - For projects; to allow structuring the capital and conditions provided by multiple financiers.

But only makes sense once:

- The write-up is done and confirmed by the FC-advisor.
- The operational assumptions are known by the developer / entrepreneur.
- A simple financial model (provided by FC) has been completed by the client.
- A basic financing structure can be identified.

Financial Models put into context

For successful fundraising, financiers generally require 3 standard pieces of information, namely:

- **A Business plan**
 - A text document explaining the business and its operations, expansion plan, market overview, risks, the team, financial information etc.
- **A Financial model**
 - Covering the financials aspects of the business, usually created in Excel.
 - It details the operations, explains the drivers behind the business and the expected returns that an investor can expect, and is a document that should follow, back up and inform the Business plan.
- **An investor presentation**
 - This is the business sales pitch, usually in the form of a presentation. It is circulated widely and is normally the first piece of information put together by the clients we assist (though it should rather be the last document created, since it is a summary of the two documents above).

Note that all these are living documents, and new versions are created as needed.

Financial Modelling Services (FMS) by the GET.invest Finance Catalyst



Why the Finance Catalyst can offer this service to businesses and projects:

- Specialised hands-on financing experience and targeted financial modelling skills.
- Using the team's in-depth knowledge of the clean energy sector in emerging markets.
- Provided as independent broker and trusted advisor.
- Many clients do not have these skills in-house:
 - Under EUR 60 million of project financing.
 - Under EUR 10 million of SME financing.

Outcome:

- Structuring of financing for our clients with an optimal group of financiers.
- Building financial modelling capacity amongst the various actors.
- Model-templates for multiple use across the portfolio of business models and modified for use by third parties, as a self-standing tool without engagement of FC-advisors.

FMS as an integral part of the Finance Catalyst portfolio of services



FMS is part of the support provided to mobilise finance and investment:

- **Investment strategy**
 - Geared at applicants at a relatively early stage, but with concrete financing prospects, and providing guidance on the necessary steps of project and business development in order to ensure completeness and quality.
- **Structuring support**
 - Advising on essential aspects of business case and financing models and supporting developers towards structuring their propositions in a way that corresponds to the needs and expectations of financiers.
- **Access to finance support**
 - To identify appropriate financing options and to align documentation with the specific requirements of financing and support instruments.
- **Transaction support**
 - To provide assistance in the contractual negotiations during project preparation and business development, for instance covering aspects of the financing transaction, term sheets, contractual agreements with specialised advisory, or the fulfilment of conditions precedent.

FMS in practice

- **With the developer/company (step 1): test the business proposition on financial feasibility**
 - Requires deep dive.
 - Analyse the business plan.
 - Ensure that assumptions and drivers in the business make sense.
 - Recommend changes in the operational and financial parameters.
- **With financiers (step 2): vet Financial Model against Term Sheet of the financier(s)**
 - Provide feedback and re-negotiate Term Sheet.
 - In multiple iterations.
 - For each financier joining.

Existing Financial Models in practice

- As a rule, the FC does not fix or audit existing developer models, for two key reasons:
 - Risk & Responsibility; When making amendments in someone else’s model, the lines of authorship become blurred.
 - Time; To “fix” a model generally takes more time than to rebuild it.
- We can consider offering Shadow Modelling, where a full-fledged financial model is provided by the developer.
 - Shadow Modelling means using a second and independent proven model and copy the inputs from an existing Developer Model into it. A Shadow Model then fully reconciles all the model logic to verify the outcomes of the existing Developer Model. Any differences between the two models would need to be resolved and explained in multiple iterations between the modeler and the developer.

Examples of businesses modelled

FIGURE 1. Business Modelling

IPP	
Hydro	✓
Wind	✓
Solar	✓
Biomass	✓
Biogas	✓
Waste to Energy	✓
Landfill extraction	✓

Mini-grid	
One project	✓
Portfolio model	✓

C&I	
One project	✓
Portfolio model	✓
Multi-country	✓

SHS	
One project	✓
Multi-country	✓

Cook stoves	
Cook stoves	✓
Cook stoves pellets	✓

Other	
Valuations	✓
Short term CF forecast	✓

How to structure a Financial Model

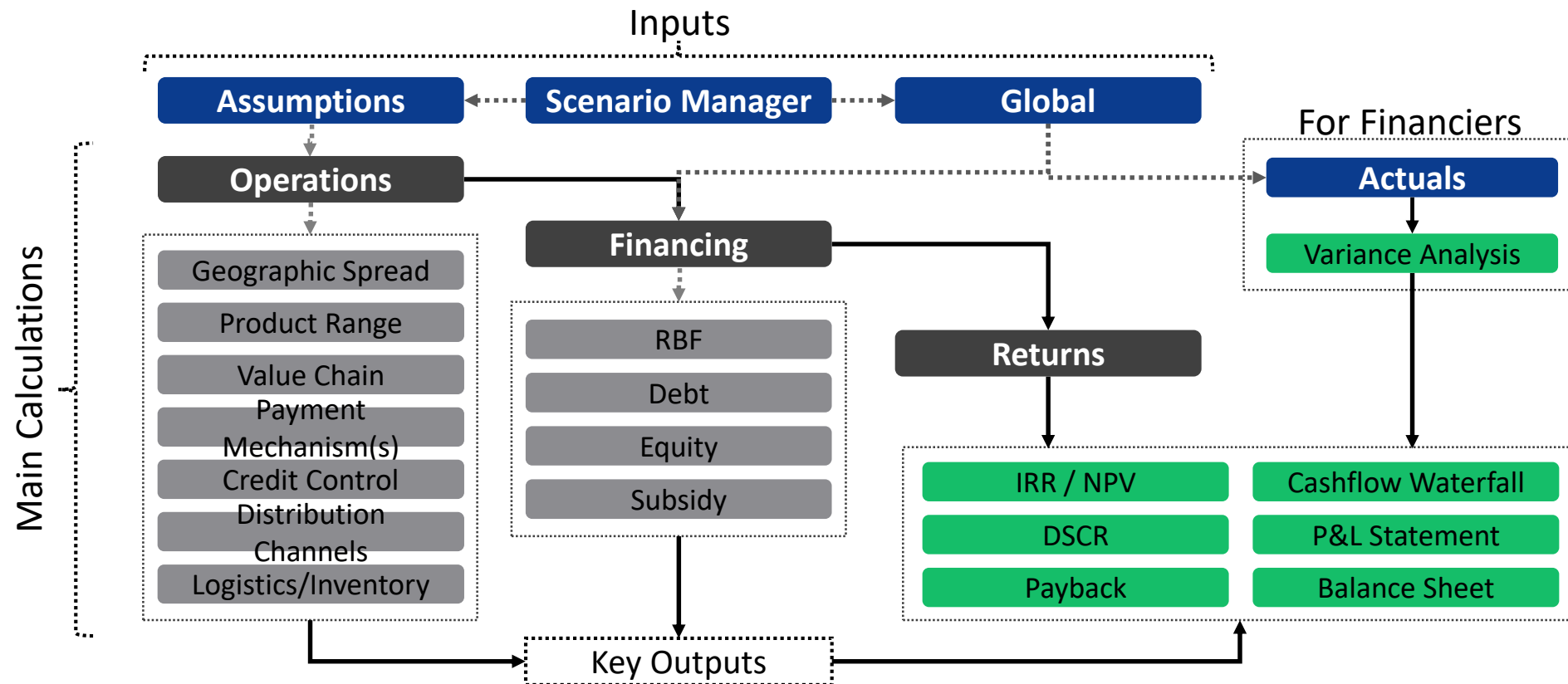
- Model should be divided into:
 - Inputs: Assumptions are clearly laid out and realistic.
 - Calculations: Calculations should be easy to follow and understand.
 - Outputs: Outputs should be relevant for the business and sector.
- Model duration:
 - As a guideline, 15-30 yrs (min 5 yrs explicit forecasts).
- Model periodicity:
 - Monthly or quarterly.
- Output sheets required:
 - Key reports: P&L, Balance Sheet, Cash Flow.
 - Summary with key metrics.
- Actuals:
 - The model also needs to contain historical/actual values.

Design elements of a Financial Model

	Project Finance	Corporate Finance
Financing vehicle	Single-purpose organisation	Multi-purpose organisation
Type of capital	Finite, time horizon matches life of project	Permanent, an indefinite time horizon for equity
Dividend policy and reinvestment decisions	Fixed dividend policy, immediate pay-out; no reinvestment allowed	Corporate management makes decisions autonomous from investors and creditors
Capital investment decisions	Highly transparent to creditors	Opaque to creditors
Financial structures	Highly tailored structures which generally cannot be re-used	Easily duplicated; common forms
Transaction costs for financing	Relatively higher costs due to documentation and longer gestation period	Low costs due to competition from providers, standard mechanisms and short turnaround time
Size of financings	Generally requires critical mass to cover high transaction costs	Flexible
Basis for credit evaluation	Technical and economic feasibility; focus on project's assets, cash flow and contractual arrangements	Overall financial health of corporate entity; focus on balance sheet and cash flow
Cost of borrowing	Relatively higher interest charges	Relatively lower interest charges
Investor / lender base	Typically smaller group; limited secondary markets	Typically, broader participation; deep secondary markets
Administrative / controlled	Application of funds highly controlled; purpose of every draw down must be clearly articulated. Rigorous processes	Application of funds relatively less controlled

Design elements of a Financial Model

FIGURE 2. Caption Example of a financial model structure



Design elements of a Financial Model

FIGURE 3. Screenshot from the Index-page of a financial model

Model structure	Inputs	Calculations	Reports
Cover	Scenario manager	Global calculations	Financial statements
User guide	General inputs	Timeline Macroeconomics	KPI's Cash flow waterfall Income statement Balance sheet
Model information Instructions Model Key	Model Revenue Opex Operations Financing Current assets and liabilities Long term assets and liabilities Existing assets and liabilities Macroeconomics Developer inputs Lists	Operations	Summary
Navigation		Revenue Cost of goods sold (COGS) Operating expenditure Inventory Distribution channels Capital expenditure Current assets and liabilities Long-term assets and liabilities Tax	
		Financing	
		Breakeven point Sources & Uses Cash Financing Ratios	
		Returns	
		Returns (nominal) Shareholder returns	

Interested in more information?

This is a general presentation to introduce a wide audience to the Financial Modelling Services offered by the GET.invest Finance Catalyst.

Clean energy projects or companies in Africa, the Caribbean or the Pacific, who are seeking access to finance can apply for support from the GET.invest Finance Catalyst, which the Financial Modelling Services are part of, via our website: get-invest.eu/finance-catalyst/

If you wish to receive more information on the Financial Modelling Services, please send your request to: info@finance-catalyst.eu



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