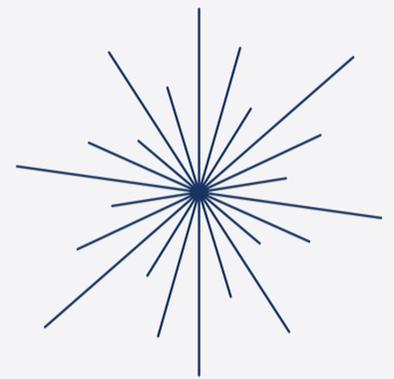


# Newsletter

By [Bojan Radojicic](#)

No. 16  
Week # 52

## Finance Like Piece of Cake



1. Inventory level  
planning

4. Finance model  
designing

2. Valuation methodology

3. 4 Types of investment  
analyzed

5. 12 Income statements  
green flags



# INVENTORY LEVEL

# PLANNING

Split inventories to 3 levels: Raw materials, WIP and Finished Goods

Calculate days on hand for each type of inventories

Make best estimate for each type of DOHs for next period

Input historical figures of cost of material and COGS and inventories

Input forecast of cost for material and COGS

Calculate inventories level based on formulas

Inventories	Actual Jun	Actual Jun	Actual Jul	Forecast Avg	Forecast Sep	Forecast Oct	Forecast Nov	Forecast Dec	Forecast Jan
\$ thousands									
Days on Hand - Raw materials	16.4	17.0	17.8	17.8	17.8	17.8	17.8	17.8	17.8
Days on Hand - WIP	5.9	6.0	5.8	5.8	5.8	5.8	5.8	5.8	5.8
Days on Hand - Finished goods	17.4	18.2	17.6	17.6	17.6	17.6	17.6	17.6	17.6
Cost of Material	17,500	18,500	19,500	19,890	20,288	20,694	21,107	21,530	21,960
Cost of Goods Sold	22,500	23,500	24,500	24,990	25,490	26,000	26,520	27,050	27,591
Raw materials	10,000	11,000	12,000	11,474	11,828	12,065	12,306	12,552	12,803
Work in Progress	4,200	4,500	5,000	4,728	4,857	4,954	5,053	5,154	5,257
Finished goods	12,500	13,850	15,000	14,270	14,659	14,952	15,251	15,556	15,868
<b>Inventories</b>	<b>26,700</b>	<b>29,350</b>	<b>32,000</b>	<b>30,472</b>	<b>31,344</b>	<b>31,971</b>	<b>32,610</b>	<b>33,263</b>	<b>33,928</b>

Cost of material is associated with Raw material planning, COGS is associated with WIP and FG planning

$$\text{DOH RM} = \frac{\text{Average Raw Mat.}}{\text{Cost of Material}} \times 90$$

$$\text{RM} = \frac{\text{Cost of Material}}{(90 / \text{DOH})}$$

$$\text{DOH WIP} = \frac{\text{Average WIP}}{\text{COGS}} \times 90$$

$$\text{WIP} = \frac{\text{COGS}}{(90 / \text{DOH})}$$

$$\text{DOH FG} = \frac{\text{Average FG}}{\text{COGS}} \times 90$$

$$\text{FG} = \frac{\text{COGS}}{(90 / \text{DOH})}$$

DOWNLOAD MODEL – LINK IN POST



# VALUATION

## METHODOLOGY



### INCOME APPROACH

This approach is based on the idea that the value of a company is directly related to its ability to generate income.

#### DCF

DCF estimates the intrinsic value based on the present value of the expected cash flows, discounted at an appropriate discount rate that reflects the riskiness of those cash flows.

#### Cap of earnings

Method of determining the value of a company by calculating the worth of its anticipated profits based on current earnings and expected future performance

#### Excess earning method

Business valuation approach used to estimate the value of intangible assets, particularly goodwill.

#### WHEN TO APPLY

For any company whose future income/cash flow can be projected with some level of certainty. Applied for growing companies with stable sales and business model. Also used to reflect both long term potential and business risks.



### MARKET APPROACH

This approach assumes that the value of a company is closely related to the prices of comparable companies in the market.

#### Precedent transactions

Looking at the prices paid in past transactions for companies that are similar to the one being valued.

#### Comparables company

Valuing a company by examining the valuations of similar companies in the same industry or sector.

#### Market price method

Method assesses the value of an asset or liability based on its market price or the current price it would fetch in the open market.

#### WHEN TO APPLY

This approach is most applicable when there are comparable transactions or market prices available and when valuator want to reflect the current sentiment of the market. Also, good for companies that might not have positive cash flows



### COST APPROACH

This approach is based on the principle that the value of a company is equal to the sum of its assets.

#### Net book value

NBV of an asset is the difference between its historical cost and its accumulated depreciation. Used in accounting to reflect the asset's current value on the company's balance sheet.

#### Replacement costs

Refers to the cost of replacing an asset or an item at its current market value.

#### WHEN TO APPLY

Mostly for companies in financial difficulties and companies with significant amount of assets, but without profit generating power or very low / negative return on investments.

### EXAMPLES

Type of business	Maturity	Assets	Cash flow predictability	Comparable data	Method to consider
SaaS startup	Scale up	Intangible assets	MRR model, stable growth, expected churn etc..	Not available	DCF
Tech startup	Early stage	No significant assets	Not reliable, this is pre-revenue stage	Not available	Berkus method, or replacement cost
Manufacture	Mature, public	Plant and equipment, brands	Stable revenues with stable growth rate	There is comparable companies data	Comparable companies or DCF
Manufacture	Mature, public	Plant and equipment, brands	Financial difficulties, losses, no significant revenues	No comparable data	Net book value method
Wholesaler	Mature	Plant and equipment, brands	Stable revenues and cash flows	Precedent transactions	Precedent transactions



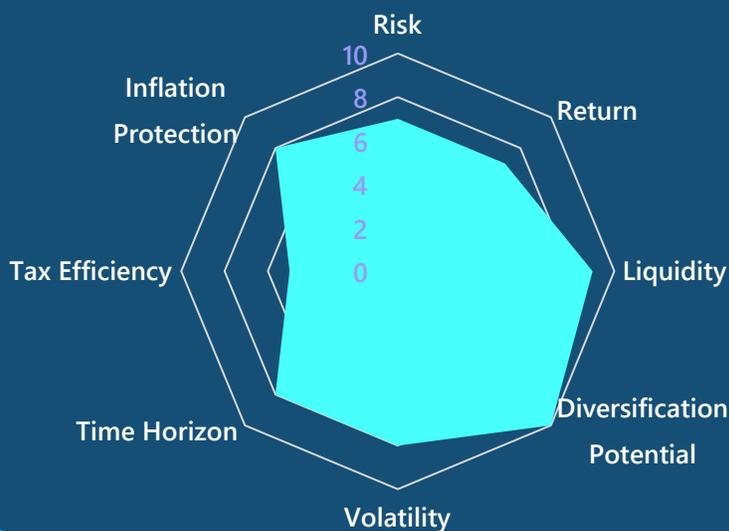
# 4

# INVESTMENT TYPES ANALYZED

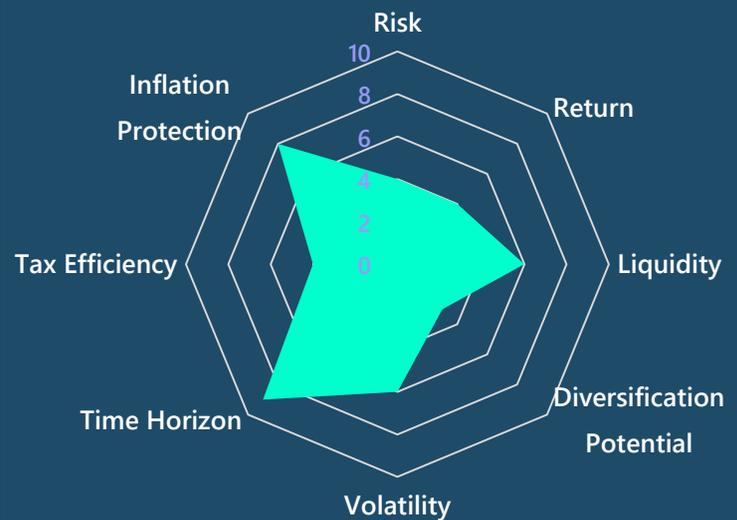
## CRITERION

- 1** Risk: This measures the uncertainty or potential financial loss inherent in the investment. Higher risk typically correlates with a higher potential return
- 2** Return: gain / loss on investment over period expressed as a percentage of the investment's cost.
- 3** Liquidity: This refers to how quickly and easily an asset can be converted into cash
- 4** Diversification Potential: how well the investment contributes to diversifying your overall portfolio.
- 5** Volatility: Measure of the degree of variation of an investment's returns over time.
- 6** Time Horizon: This refers to the length of time an investor expects to hold an investment before taking the proceeds.
- 7** Tax Efficiency: This considers how much of the return is lost to taxes.
- 8** Inflation Protection: how well the investment protects against the loss of purchasing power due to inflation.

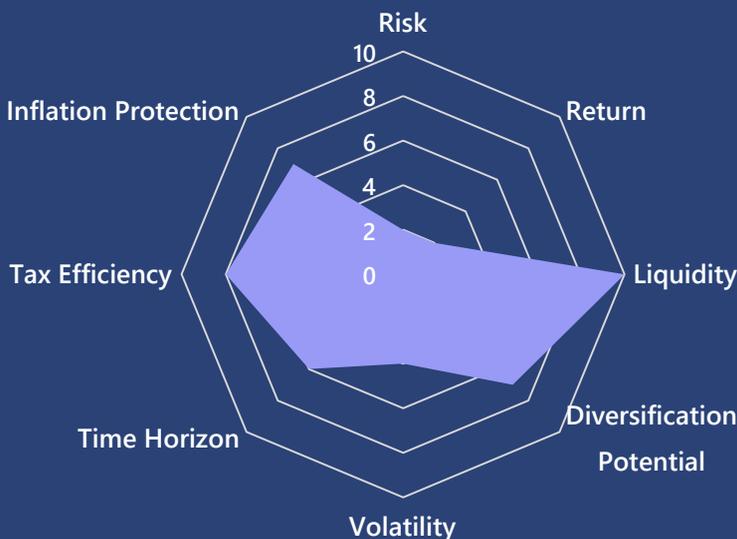
## STOCKS



## REAL ESTATE



## BONDS



## BUSINESS ACQUISITION



# FINANCE MODEL DESIGN

# DESIGN

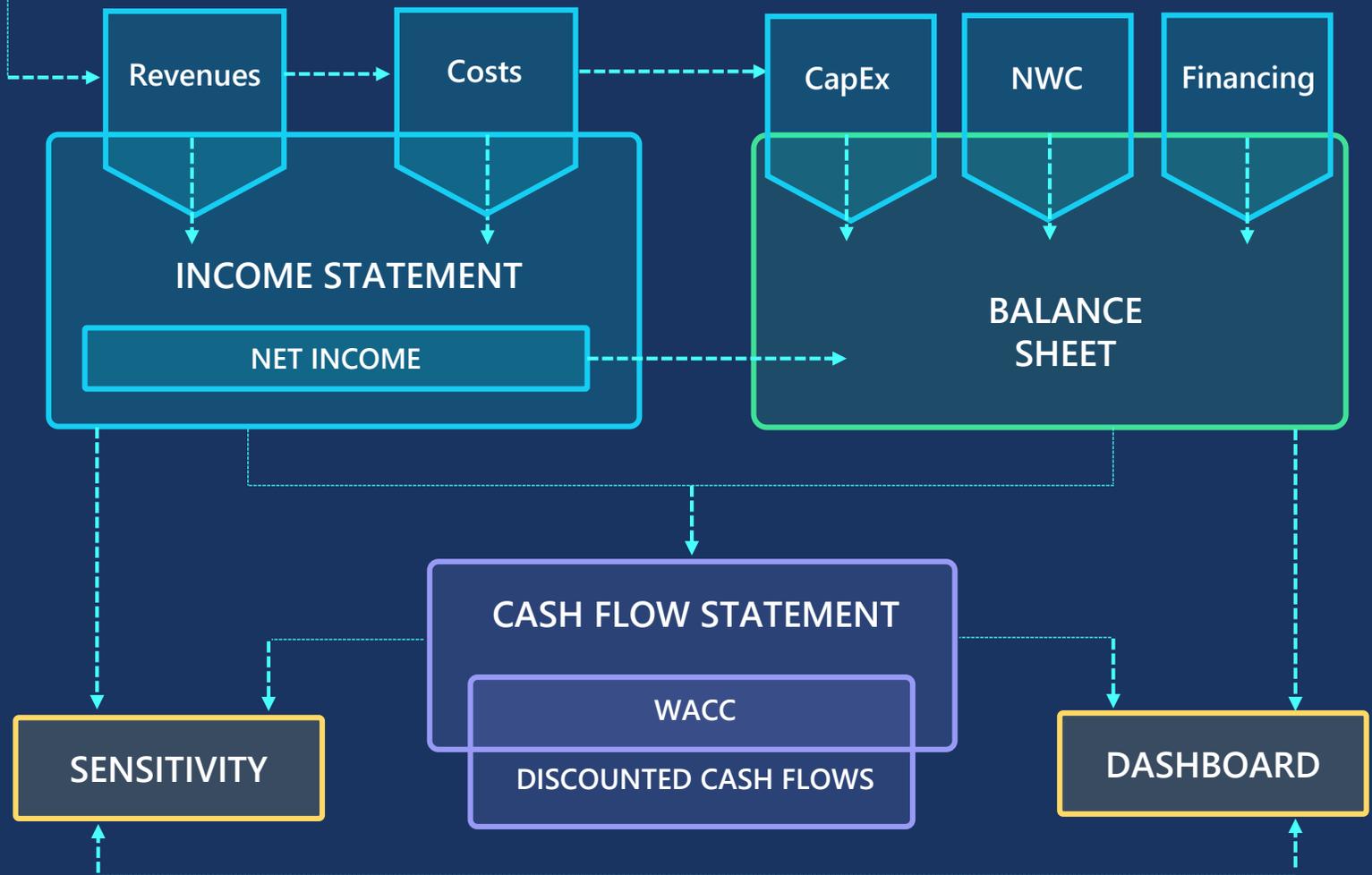
PRESENTATION FLOW



DRIVERS

INPUTS

ASSUMPTIONS



## LAYOUT TIPS

- Consistency
- Data visualization
- Error checks
- Print ready

- No hard code in formulas
- Simplicity
- Transparency

## FORMATING TIPS

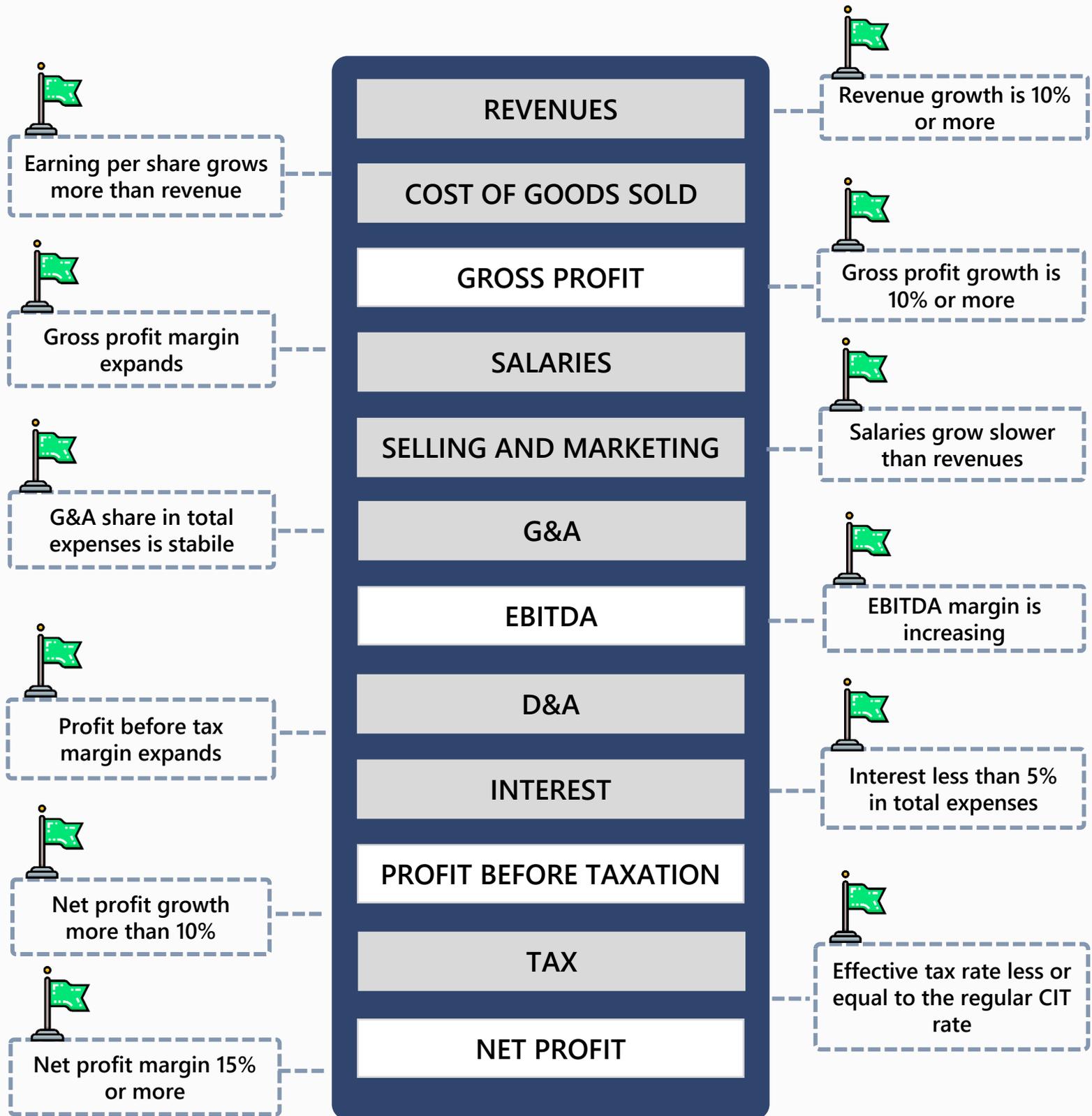
- Color coding
- Alignment best practices
- Font consistency

- No blank columns between periods
- Borders and gridlines

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# INCOME STATEMENT

## GREEN FLAGS



# Transform Numbers into Narratives

Let your financial data tell compelling stories of opportunities and growth

- ✓ 6 Hours of video course sessions
- ✓ 35 lessons divided in 5 modules
- ✓ 50+ finance modeling sheets, editable in Excel
- ✓ 330 pages of PDF finance modeling instructions
- ✓ 30+ Pieces of actionable content: visuals, handbooks..
- ✓ 10+ Languages video course subtitle
- ✓ Assumptions, accuracy validation and consistency checks
- ✓ 3 statements monthly and annually planning excel model
- ✓ Advanced platform interface, tracking notes and progress



Modeling Files + Guidelines

\$65 - \$119

Get Access

Select the best type of **functional statement** structure and fill historical data.

Revenues and gross profit are copied from the **Revenue sheet**.

Income Statement						
	Last Period	Current Period	Year 1	Year 2	Year 3	
Revenue						
Gross Profit						
Operating Expense						
EBITDA						
Net Income						
Balance Sheet						
	Last Period	Current Period	Year 1	Year 2	Year 3	
Current Assests						
Non-current Assets						
Financial Debts						
Cash Flow						
	Last Period	Current Period	Year 1	Year 2	Year 3	
COGS						
Salaries						
NWC						
OPEX						
CAPEX						
Debt						
3 Statements P						

Link any change in current assets and liabilities from the **balance sheet**. Adjust for non-cash items

Transfer net income to retained earning position. Transfer the cash from the **cash flow statement**.