According to a recent study performed by a leading financial modeling training company, approximately 88 percent of all spreadsheets contain errors, and 50 percent of the spreadsheets used by large companies have material defects. Many of these errors go undetected and can lead to poor operational, financial or strategic decisions. In addition, many companies are unfamiliar with the tools and processes available to reduce these risks and improve model efficiency.*

Where KPMG can help
Financial modeling issues can arise in many different business situations, including the following:

— Deal models for mergers and acquisitions (M&A), carve-outs, divestitures, initial public offerings, and other transactions
— Business and asset valuations
— Three-statement models
— Budgeting and forecasting
— Return on investment and cost of capital calculations
— Evaluating major investments or capital expenditure projects
— Credit analysis
— Demand forecasting
— Customer attrition analyses
— Distribution and waterfall calculations
— Working capital and inventory management models.

Model development/remediation
— Model development: Develop from scratch a new model based on specific requirements/specifications.
— Model remediation: Take an existing model, fix errors, and add functionality based on specific requirements.

Model validation
— Formula integrity review: Read the model’s architecture, logic, and mechanical code, and document instances where the model code has deviated from management’s understanding of the structure or contains formula errors. This includes testing of sensitivities/scenarios and providing commentary on modeling leading practices, and review of any changes made to the model based on additional iterations.
— Assumption accuracy check: Document and comment on whether key deal assumptions/terms, contained in term sheets, financing arrangements, and/or other materials to be provided, are appropriately captured in the model.
— High-level model structure check: Assess whether the model’s architecture and structure have been appropriately constructed by referencing to the model documentation and other model validation report provided by client.
— Accounting and tax review: Review and comment on significant assumptions used in the model.

Our experience

Valuation models—valuation analysis
— Equity valuation: KPMG assisted a major investment bank’s equity research team to build various valuation models based on data from the bank’s information system to analyze earnings estimate variances, dividend policies, intrinsic value, and price target probabilities.
— Enterprise valuation: KPMG assisted a consumer products company to remediate its internal valuation model that values all of its business lines and subsidiaries globally. This model is used to help evaluate internal decisions around M&A, restructuring, and capital allocation.

Operating models—strategic decision assessment
— Corporate structure analysis: KPMG assisted a transmission and distribution infrastructure company by preparing an options analysis of the benefits and risks associated with a proposed corporate structure reorganization. KPMG provided a wide-ranging analysis by evaluating its current capital structure, potential alternatives, and capital options based on the company’s financial performance and industry benchmarks.

— Strategic budgeting and forecasting assistance: KPMG assisted one of the world’s largest producers of low-iron nepheline syenite to develop a standard three-statement financial model to facilitate the CFO office’s monthly/annual budget and forecast process by incorporating different growth scenarios to various business divisions and product lines.

Transaction models—deal advisory and impact analysis
— Buy-side modeling: KPMG worked with various strategic and financial buyers to develop multiple buy-side M&A models to evaluate the postdeal impact on the consolidated financial statements of both the buyer and the target, and analyze the EPS accretion/dilution with consideration of transaction synergies and the cost to achieve synergies.

— Sell-side modeling: KPMG was hired by one of the world’s largest automobile suppliers to help close a sell-side carve-out transaction by modeling the carve-out financial statements and purchase price adjustments, and providing data room management and Q&A support.

Project models—project financing and cash flows
— Wi-Fi network construction project: KPMG was engaged by a telecom company to develop a project finance model for its contemplated investment in the Wi-Fi network for a city’s commuter train system. KPMG forecasted the project’s revenue and cost based upon an engineering report, sources and uses of funds based on the letter of intent, and optimized the cash flow under different scenarios.

— Utility’s rate base and customer tariffs: KPMG was engaged by a large utility company to provide an economic assessment of investing in physical oil and gas assets to serve as a hedge for future gas prices. KPMG demonstrated the strategic view of the planned investment by building a model to understand the impact of the proposed strategy.

Contact us

Matt Jones
Principal
Business Modeling Services
T: 312-953-6004
E: mattjones@kpmg.com

Nausheer Allibhoy
Managing Director
Business Modeling Services
T: 213-955-8998
E: nallibhoy@kpmg.com

Why KPMG?
KPMG Valuation and Business Modeling Services professionals provide complementary and scalable support to investment, FP&A, finance, and tax teams by drawing on the skills and experience of our diverse team of CFAs, MBAs, FP&As, CPAs, CMAs, and PhDs. The team leverages its deep financial analysis, modeling, and industry experience to assist clients with improving, building, and documenting robust, well-supported financial models and analyses.

KPMG employs a robust and standardized model development approach, model leading practices, and proprietary modeling tools developed by KPMG.

Through our industry specialization, we understand the issues, value drivers, leading practices, and trends that shape the future of a particular industry.

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

kpmg.com/socialmedia

The information contained herein is of a general nature and based on authorities that are subject to change. Applicability of the information to specific situations should be determined through consultation with your tax adviser.

© 2021 KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization. NDP064411-2N