ASSOCIATION FOR FINANCIAL PROFESSIONALS

AFP® FP&A Guide to

What Is Financial Analysis

INTRODUCTION

This guide is designed to help the corporate finance practitioner understand the context for financial analysis within the overall CFO organization, providing both theoretical positioning and tactical approaches to the financial applications and modeling tools of the job. AFP works for the benefit of the corporate finance practitioner, and we hope this guide will provide you with ideas and the FP&A Advisory Council who contributed their experience, expertise and editing to this guide.

CONTENTS

THE FINANCIAL ANALYST ROLE

Financial analysis is the heart of what we do in financial planning & analysis (FP&A). We are often asked to address "the three what's" — what happened, what does it mean and what do we do next? Financial analysis helps to answer all three of those questions with an end goal to optimize the use of capital and resources. Driving strategic business decisions requires the analyst practitioner to:

- Provide insights into the financial decision-making process in an organization through analysis, financial projections (planning, budgeting and forecasting), and performance management reporting.
- Understand the entire decision support process and contribute to and be responsible for individual components of the process.
- Analyze data and relevant facts and consolidate and convey insights to support decision-makers and other stakeholders.
- Communicate with others in a wide range of positions, internal and external to the organization, to understand and gather qualitative and quantitative information on factors affecting the organization's financial performance.

The analyst performing this work must blend a variety of skills, including technical finance, accounting, technical modeling and interpersonal skills. This guide centers on the work and the position within the CFO organization; for more information about the technical methods of conducting financial analysis, please see the reference section at the end of this guide. The following is additional information about the corporate financial analyst:

Total Compensation 2022 (Salary + Bonus)

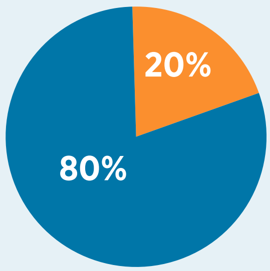
Mean	**$80,932**
25th percentile	**$70,000**
50th percentile	**$80,000**
75th percentile	**$90,000**

Alternative titles

Analyst	Corporate Analyst
Business Analyst	FP&A Business Partner
Budget Analyst	Planning Analyst

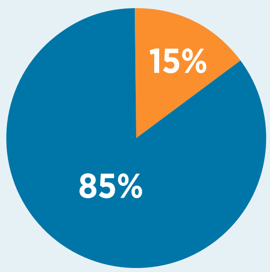
Education

- MBA (generally business, finance or management)
- Bachelor's degree (generally accounting, business, finance or management)



Professional Experience

- 5 to 10 years
- <5 years
  - 2-4 years of financial analysis, accounting or treasury
  - 2-4 years of business analysis or data analysis



Charts represents finance professionals in the United States surveyed in AFP's 2023 Compensation Report, except as noted.

Common functions and responsibilities of the financial analyst:

- Engage business and operations partners to create detailed financial plans and influence investment decisions.
- Analyze performance, identify areas of risk and opportunity, and make recommendations to finance and business leadership for improvements.
- Support the financial planning process at the department level, inclusive of budgets, re-forecasts, capital planning and long-term plans. Helps to define and load data into models.
- Consolidate smaller forecasts and models into the overall plan and reports.
- Conduct analysis of business units, portfolio segments, geographic territories, business lines and acquisitions.
- Gather data to track and review performance of strategic initiatives (the investment portfolio).
- Build databases and prepare reports for senior management.
- Learn, prepare and maintain financial models and tools; learn and master the budget forecast model, making enhancements as necessary.
- Develop relevant reporting, including data preparation, report creation and quality control; strive to deliver insight, consistent data and effective visualizations.
- Monitor operational statistics; report trends, variances and issues; take appropriate action, including proactively notifying business or financial partners/ superiors.
- Provide data and analyses to support periodic (monthly, quarterly, year-end) financial and operational performance reviews with the business and finance teams and the Board of Directors meetings.
- Perform other ad hoc analyses.
- Assist in building business cases and perform due diligence on potential opportunities, deals, partnerships, etc.
- Apply financial and economic concepts, including financial modeling, economic analysis, cash flow (DCF), profitability, earnings, balance sheet, taxes, financial ratios, alignment to KPIs, RO/ ROIC/NPV/IRR, customer lifetime value, churn rate, cost of capital benchmarks, market analysis and strategic analysis.
- Manage cash flow forecast models, variance analysis and other financial performance tools.
- Leverage analytical tools and methodologies, including visualizations, to present findings.
- Collaborate on processes and projects while representing the goals of the Finance group.
- Demonstrate finance, business, and industry expertise; learn the strategy, drivers, metrics and data elements of the company.
- Establish credibility through respectful, thoughtful interactions, attention to detail, professional integrity and excellent financial insight.

Skills and abilities:

- Ability to work independently and collaboratively in a fast-paced environment
- Highly analytical, critical thinker
- Attention to detail
- Financial analysis skills
- Good problem-solving skills
- Highly organized
- Multi-tasker
- Self-motivated
- Communication skills

FROM FP&A ANALYST TO CFO

By William Washington III, CFO, Baker McKenzie

When I started as a financial analyst, I did not know what my roadmap was going to look like. One of my early jobs had very clear progressions, from financial analyst to specialist to manager over a set number of years. You just worked really hard and hoped you got the promotion at the time that most people got promoted.

Every career takes a different path, and it is about matching who you are with where you want to be and then allowing the process to play out as you take on different roles at different places. In my work as an analyst or as a CFO, I always saw myself as bringing that finance thinking to the business. Even today, I still feel like I wear the hat of a financial analyst because I'm still the same person that I was 20 years ago.

Every business has some type of financial analyst. I've worked in a cotton seed company, a real estate investment trust and a professional services firm, and in each of those, people wanted to understand what happened and how they could do better by examining the revenue and expenses. They want to know their variances in budgets and forecasts and how their key performance indicators are tracking. That requires them to relate the story of their business, not to see their job as delivering a hundred different spreadsheets. Now, as CFO, **I need the FP&A analysts to help me and the business partners to see around corners and surface the most important information even before someone asks for it**.

People trust FP&A because of our understanding of the numbers, and they listen to us because of our ability to tell the story. Take a moment to ask yourself, "Why am I being asked for this? What is the next person going to do with it? How is this helping the business?" The goal is to learn how to add more value as you grow in your career, and to do this, analysts need to move from reporting to analysis to storytelling, in both their work and their career.

Early in my career, I thought the great analysts were the ones who had mastered spreadsheets. I thought that if I couldn't run the pivot tables or understand the software or be the greatest version of what we were being asked to do that day, I would never progress in my career. However, what I've learned is different people are great at different things. Some of the people I have worked alongside were great at Excel and have gone into more technical versions of finance, even

in leadership roles. My strength wasn't in my ability to crank out a bunch of different data as quickly as possible. I became great in my own way by really working on communicating insights to my business partners.

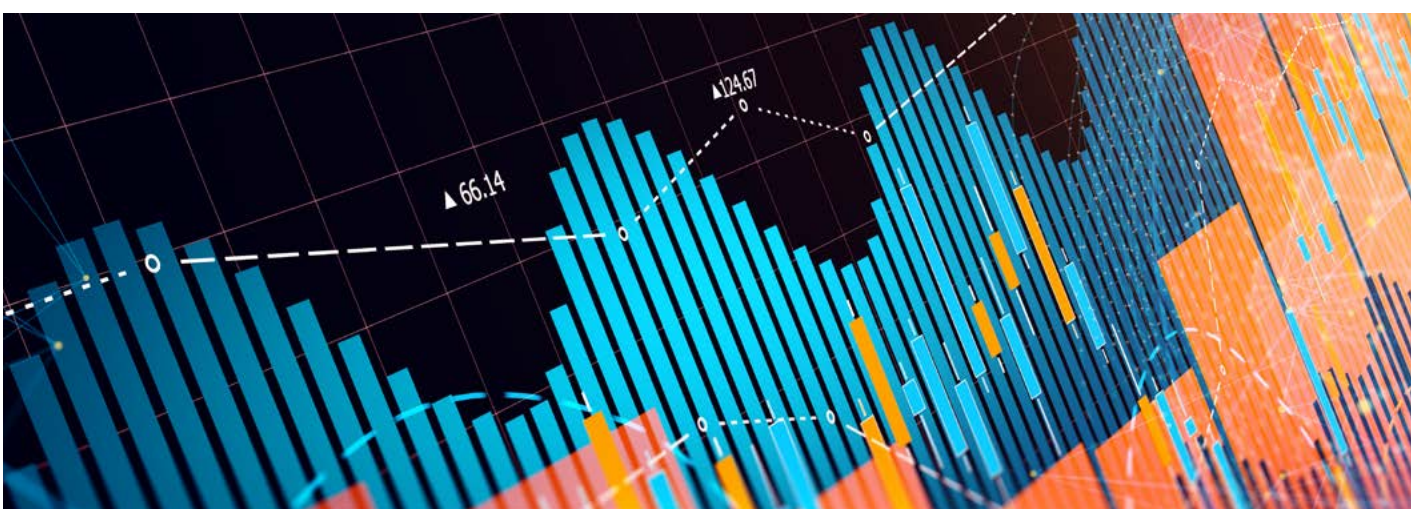
You have to make some type of progression in your career, and you should think about what's needed for the next step in this process. I think all of us need to set a goal early on to be the best version of ourselves, and one of my core tenets is continuous learning. Even after I earned my BA and MBA, I kept taking classes. I went back to school and got a master's in law firm management to deepen my skills in this area.

I could probably list for you about 30 other classes that I took along this journey, whether it was Spanish classes, golfing at junior college because I heard that was something that successful people do, classes to get my Six Sigma Master Black Belt certification, or typing because that would help me to process my work faster. It's about carving out personal development time — alongside personal and social time — and learning skills that "sharpen the saw," as Steve Covey says.

Of all the finance functions today, FP&A is probably the vertical that leads closest to the CFO position. Most CFO job descriptions are looking for the head of FP&A if they need a person who is more strategic, or the head of accounting if they need someone very technical. My FP&A experience helped me as CFO by **preparing me to be comfortable with the uncomfortable reality that the future is not known**.

Looking ahead, **I think the financial analyst position is getting ready to go through one of the most disruptive changes** that any corporate finance position has ever gone through. The rollout of generative artificial intelligence, ChatGPT and other things is going to change the job; it is going to make the reporting a lot more automated and take a lot of the steps that we take early in our career out of our hands and move us quicker to the analysis part.

Let's all get into AI early on; let's become the early adopters and experiment with it on our own. I can research it and figure out what's next for my firm, but imagine if all 1,400 finance professionals on my team experimented and bubbled their ideas up to me. And it is the same for the AFP community. If all of us get involved, I think that the younger generation might be the smartest generation in terms of helping us to change.



THE ANALYTICAL FRAMEWORK FOR FINANCIAL DECISIONS

By Geetanjali Tandon, SVP of FP&A, Ceridian

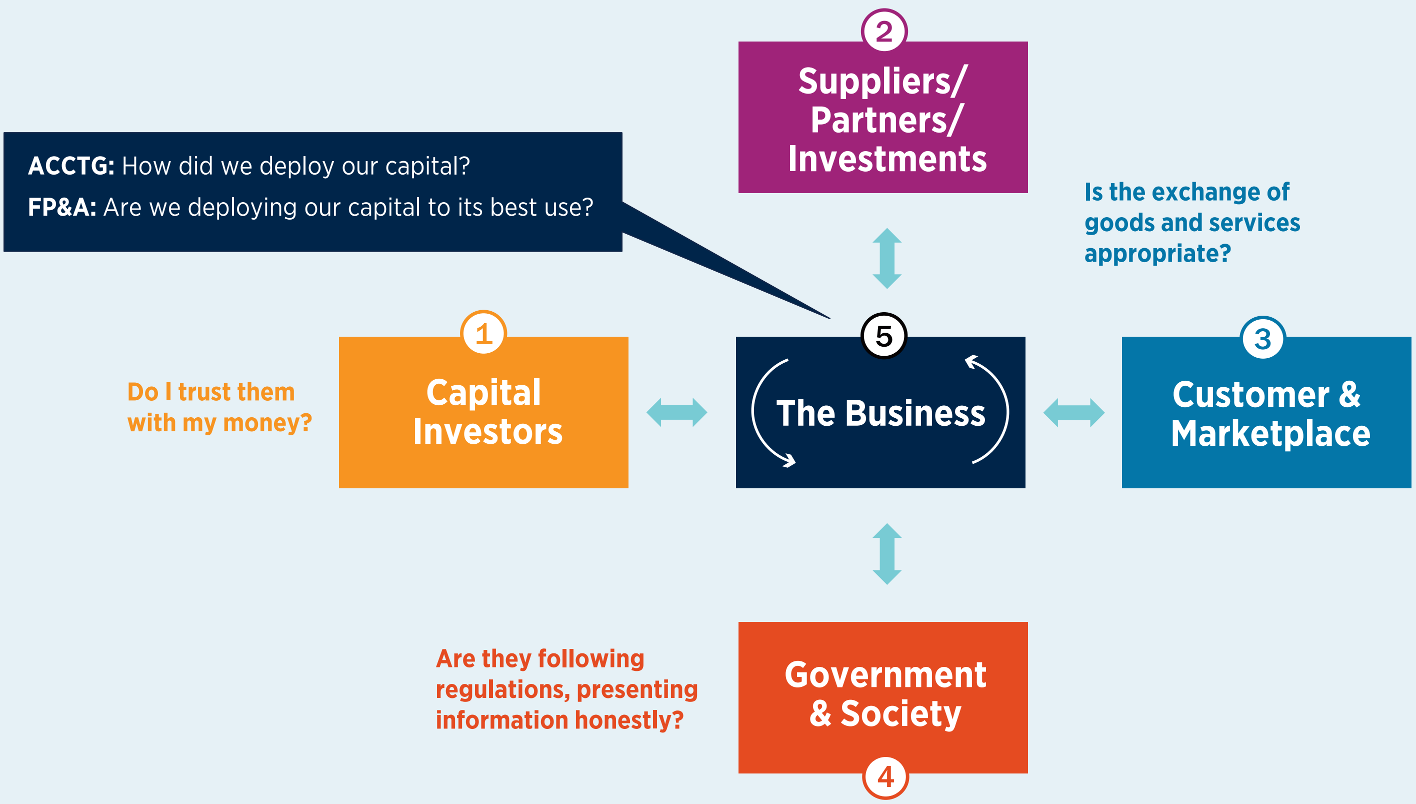
“I tell my business partners that every decision that they make has a bottom-line impact, and the job of financial analysis is to help all parties understand the financial impact of those decisions.”

Financial analysis is a structured way to analyze historical data, trends and events to understand the present and think through various pathways of potential futures. In financial analysis, we convert the theoretical to concrete, the qualitative impact to quantitative. Should we enter new markets? Should we build, buy or subscribe? How do we relate different decisions based on company vision, current positioning, and the short-term versus long-term needs of the company?

THE COMPANY AS IS AN INTERNAL CAPITAL MARKET

Companies operate as an internal capital market (image below), sourcing cash from several places to be used in business operations. Financial analysis is rooted in understanding these flows and allocating the capital to the best use.

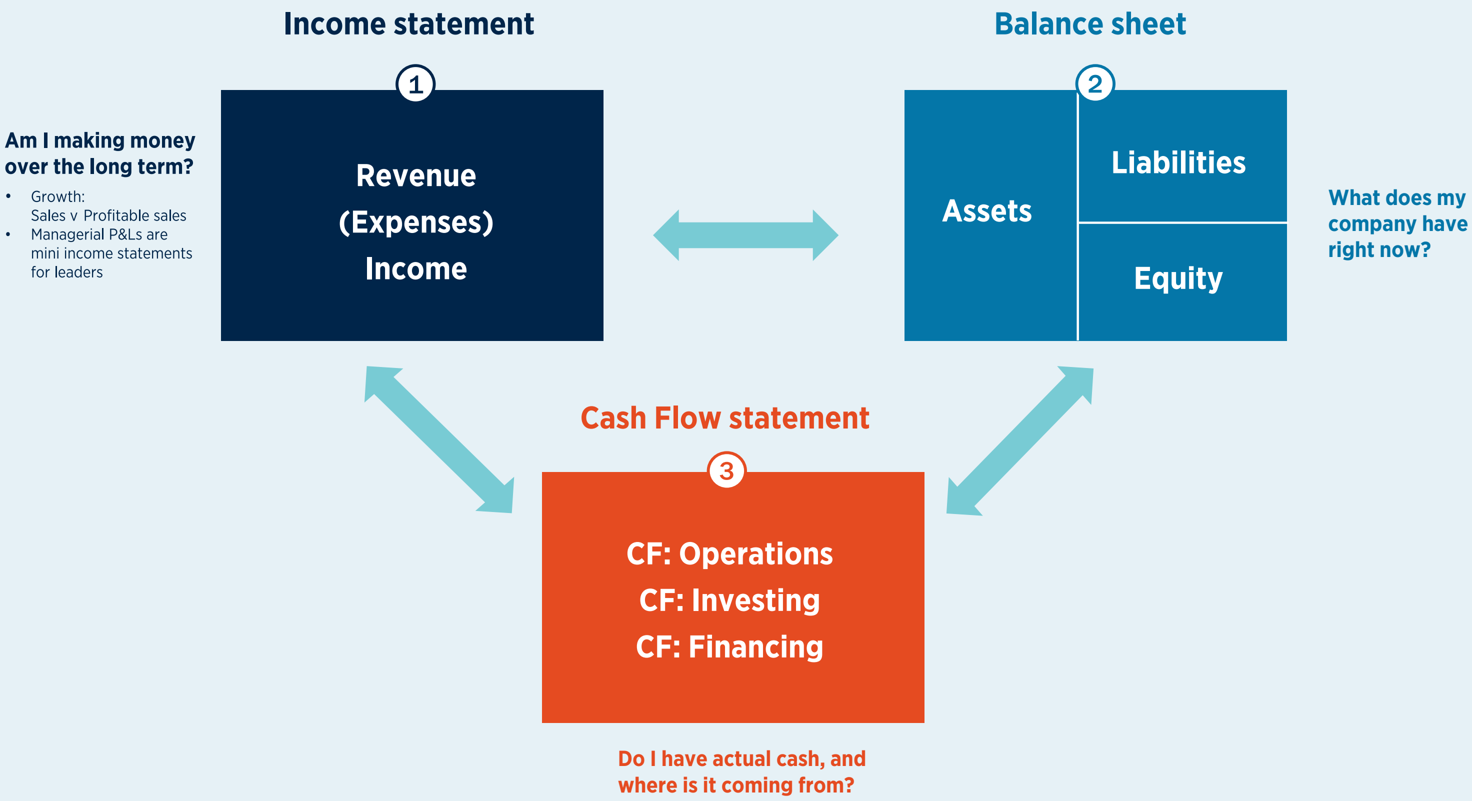
1. **Embed investor expectations** into the risk appetite, growth and profitability expectations your company needs to deliver. As owners and creditors, investors entrust your company with their money and may add capital in the form of equity investments or debt (loans).
2. **Understand how we create value** with our suppliers and partners and how that value is shared. Are we negotiating the right prices with those partners?
3. **Deliver products and services to the market** for the right price. Are we satisfying customer needs? Are we selling profitably in the right markets? Is the market growing?
4. **Ensure we are operating our business** in compliance with the letter and spirit of applicable laws and regulations and our corporate vision and values.
5. **Make investments in the company to satisfy these external constituents.** This means taking care of our employees (compensation, benefits, training) and building our capabilities and infrastructure to be successful in the future.



FINANCIAL ANALYSIS CONNECTS TO THE THREE FINANCIAL STATEMENTS

The three financial statements inform the health of the company and expectations for future performance as specified by accounting standards; banks, auditors and investors constantly analyze them. Inside the company, FP&A bridges these financial reports to internal operations so that business partners can focus on their areas of expertise.

1. The **income statement** shows the profitability of the company over a period of time, matching revenue, expenses and the delivery of goods/services. Financial analysis compares the products or business lines against each other and themselves, as viewed against the same period last year or as part of a longer-term trend. Management reporting breaks this down into areas of management responsibility called the profit and loss statements (P&L).
2. The **balance sheet** shows our financial resources at a point in time. What are our assets, especially our cash position, as balanced against debts and obligations? The residual is the equity, the value that accrues to owners, and includes accrued profit, which is the ability to generate earnings from the assets in excess of obligations.
3. The **cash flow statement** shows the movement of cash without regard to the matching rules in the income statement and, therefore, shows how much money is moving in or out of the company in a given period. It reflects cash flows from three areas: operations, i.e., the daily business of buying from suppliers, selling to customers and running the company; the investing and building long-term assets to generate business; and financing, i.e., investors and capital markets.



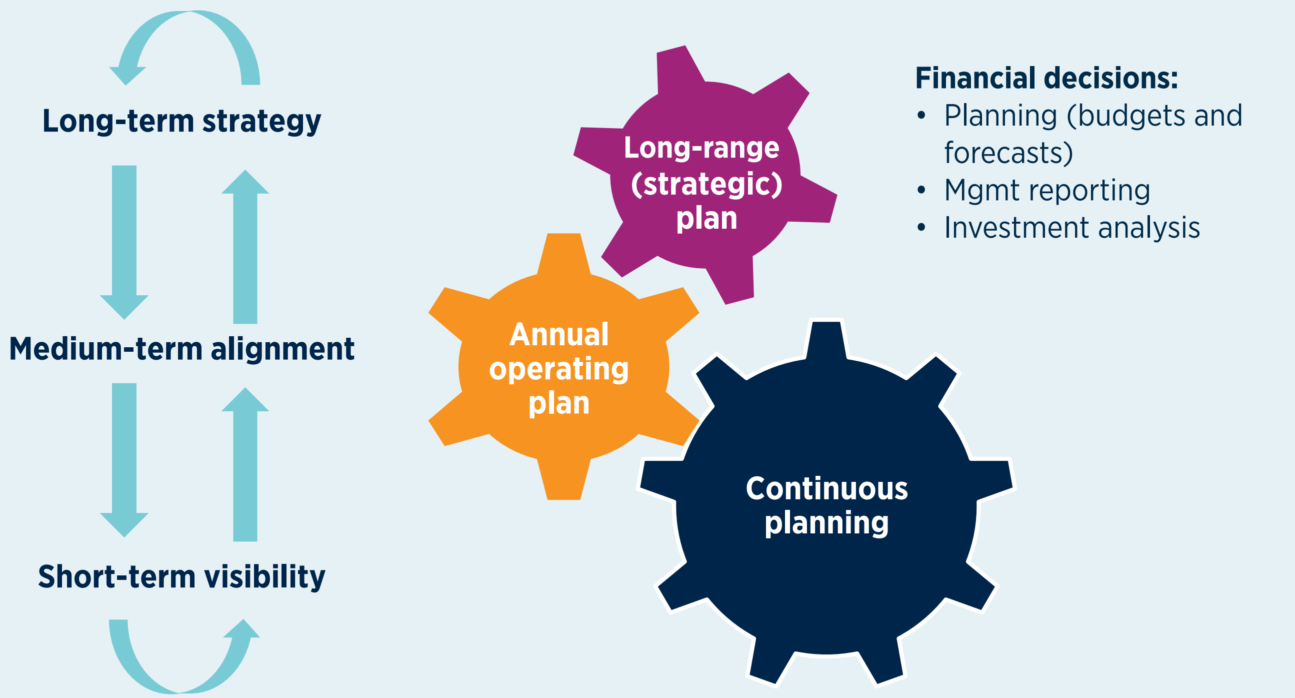
FINANCIAL ANALYSIS IS EMBEDDED IN THE PLANNING CYCLE

Financial analysis needs to be "bilingual" and reflect both the language of business and finance; this fluency describes both the personal interaction and FP&A processes. Among the most critical processes is the planning cycle, where company capital is allocated to business owners to achieve their parts of company strategy, align resources and actions, and ultimately satisfy all stakeholders in the internal capital market.

The general process is:

1. The board, CEO and senior leadership develop a long-term strategy for the company.
2. FP&A and the business create the annual operating plan (budget) of how to achieve this year's steps toward the company's vision.
3. FP&A updates current expectations of performance so the entire group knows whether different actions or course corrections are needed.

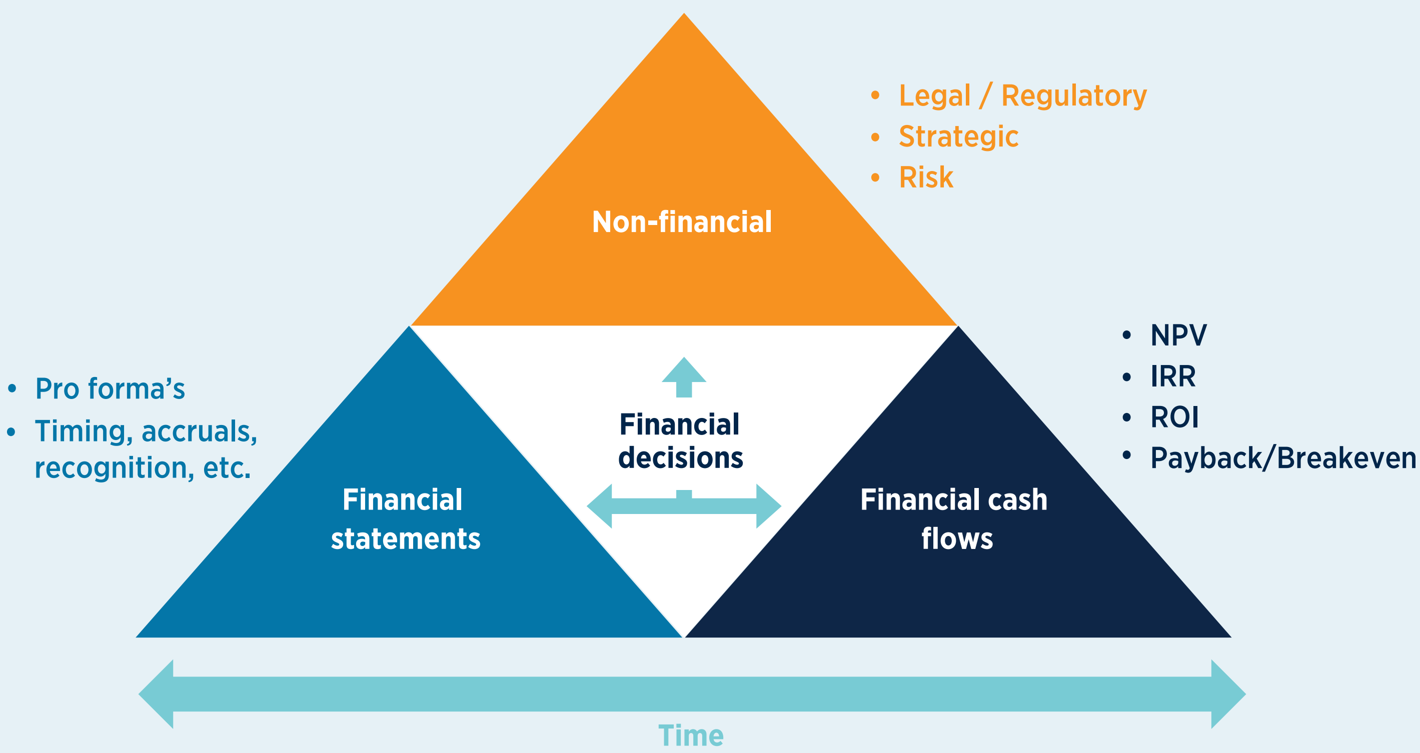
In this way, financial analysis includes the planning process (budgets and forecasts), performance measurement of operations and finance (more on this in the Performance Management as Financial Analysis section), and project-specific examinations. The planning cycle is supported by variance reports relative to the plan, performance management reporting (which really can be anything that helps management run the business), and ad hoc analyses of opportunities. A best practice is for the business to include finance partners early on in their decision-making, not at the end when there is little opportunity to influence the decisions



DECISION FRAMEWORK

If capital and resources were infinite, companies could act on all value-adding projects. Since capital is scarce, companies are in a constant state of evaluating options against a changing landscape, and FP&A is constantly updating its estimations of the best future. Figure X examines three types of decision criteria to consider for business decisions:

1. **Non-financial decisions** are required if there is no quantifiable financial benefit (i.e., we don't know the impact) or even a negative impact (i.e., we will lose money). Examples include legal and regulatory compliance with environmental codes or new accounting guidance like ASC 606 lease accounting; strategic rationale, such as testing new products or entry into new markets; or risk mitigation, such as cyber security defenses. Non-financial decisions will still have a financial impact, so FP&A will analyze how they fit into the cash flow and earnings potential.
2. **Valuation of cash flows** ignores the timing rules of GAAP or IFRS to determine whether the decision adds value to the company (in finance speak, provides a return in excess of the cost of capital) and how it compares to other investment opportunities. Finance has several tools to assess the valuation, including net present value, internal rate of return, return on investment, payback and breakeven point.
3. **Financial statements pro-formas** translate the timing of cash flows into the impact on official financial statements. A key consideration is how it will appear to capital investors, such as stock markets and debt holders.



The table below looks at how a fictitious cereal company might consider various spending decisions through the lens of the decision matrix.

	NON-FINANCIAL CONSIDERATIONS	VALUATION OF CASH FLOWS	FINANCIAL STATEMENT (I/S, B/S IMPACT)
Profitable product A new breakfast cereal that will be immediately profitable	Strategic	CF ↑	Income ↑
Loss leader A new organic cereal, expensive to produce, but demonstrates complete product category coverage	Strategic	CF ↓	Income ↓
Research & development Research team creates new types of cereal that demonstrates market leadership	Strategic	Short term: CF ↓ Long term: CF ?	Short term: Income ↓ if expensed Long term: Income ? Balance Sheet Assets ↑
Profitable product with machine investment Buy a new production machine (asset) to produce unique shapes	Strategic	Short term: CF ↓ as purchase equipment before sales Long term: CF ↑ as revenue/profits surpass equipment costs	Income ↑ as revenue matched to asset amortization Return on Equity ↓
Hire new salesperson Increased sales as product gets into more stores	Strategic	CF ↑	Income ↑
Hire new financial analyst Required for compliance and strategic management	Compliance	CF ↓ Despite value, cannot tie income to new hire	Income ↓
SAAS monitoring service Cybersecurity vendor protect infrastructure against malicious intrusion	Strategic	CF ↓ Despite value, cannot tie income to new service	Income ↓ Expense item
Hardware for intrusion detection Equipment purchase to protect infrastructure against malicious intrusion	Compliance	CF ↓	Balance sheet ↑ asset increase Income ↓ As expense depreciation

WORKING WITH PARTNERS

Today's CFOs are right-hand advisors to their CEOs, and as a corollary, analysts at every level should think like the CFO advising their leadership teams. Here are three ways to build trust with business partners through financial analysis:

1. To **build transparency**, recognize that good financial analysis is co-owned with the business. They own the assumptions about growth, pricing and cost of production; analysts add their expertise to calculate profitability, returns and the opportunity cost of not doing something. They can also look across functions and relate single decisions to the company-wide financial outlook. Analysts can push their partners' thinking by asking if they have considered different options, understood the sensitivity of the main drivers, and balanced short-term goals against the long-term vision of the company.
2. To **learn the business**, sit in meetings, meet with a customer or even sit in a truck as your product is delivered. You'll understand the mechanics and be able to talk the language of the business, and business partners will respect you and trust you for your front-line knowledge.
3. To **recognize uncertainty**, I suggest not presenting one exact number. It is impossible to calculate the single, perfect answer to an analysis. I always present scenarios and a range of outcomes and highlight the two or three variables that will impact that decision most.

NUMBERS AND NARRATIVES: WHERE STORY MEETS VALUATION

Based on Professor Aswath Damodaran's FP&A keynote presentation at AFP 2023. Damodaran is the Kerschner Family Chair in Finance Education at the NYU Stern School of Business and an expert on financial valuation.

"A good valuation cannot just be about numbers, and it can't just be a fairy tale," says Professor Damodaran. Yet, from an early age, people are divided into two camps: the number crunchers and the storytellers. Each side stays in its preferred habitat, speaking its own language, convinced that the other group is wrong. "What I'd like to propose is to start bringing the two sides together because if we don't, we are going to create some mistakes that are going to cost us all."

Damodaran explains the anatomy of the two groups and how they approach financial analysis, emphasizing the shortcomings of each side that lead to an incomplete picture:

NUMBERS PEOPLE		NARRATIVE PEOPLE
Favorite tools: accounting statements, spreadsheets, statistical measures, pricing data	Valuation and financial analysis	**Favorite tools:** anecdotes, experience, behavioral evidence, "trust your gut" if something feels right
Illusions/delusions: • **Precision:** "When in doubt you know what numbers people do? Add decimals because it feels more precise" — without adding accuracy. • **Objectivity:** "I'm using numbers, there's no bias here. Of course numbers can lie as easily as people." • **Control:** We believe we have control because we have measures. Right before they went bankrupt, Lehman thought its value at risk was manageable, until it was not.		**Illusions/delusions:** • **Creativity:** You cannot put a number on creativity, but "you also can't get paid in creative dollars." • **Story:** If the story is good, the investment will be good. "They're often great believers in anecdotes" and extrapolate from there. • **Experience:** Experience is the best teacher, whether it happened to them or others.

Finance tends to be dominated by the numbers people, which means when we do our financial analysis, we are surrounded by peers who look at numbers through the same training and see the world the same way. This amplifies the three most significant challenges in valuation that befall the quants among us:

- **Bias.** When we sit down for valuation work, we generally have a preconceived notion of how things will work out. Damodaran explains when operating with bias, "I write down what I think I'll find in the valuation and what I think about the company before I look at the numbers."
- **Uncertainty.** We don't like uncertainty and tend to deny what we don't know. "Here's my advice," says Damodaran. "Don't hide from it. Face up to it. Look it in the eye and admit you don't know what the growth rate is. I'm going to try to make my best estimate. I'm going to be wrong." And then, be willing to change when new information comes in.
- **Complexity.** "Valuation and financial analysis have become an exercise in financial modeling," says Damodaran. Spreadsheet models may run to hundreds of lines across a dozen worksheets, and that has missed the story of the company.

To combat these challenges and overcome the illusions/delusions, Damodaran has put together the following process to harness the strengths and minimize the weaknesses of both the numbers and narratives people:

STEP 1: **Develop a narrative for the business you are valuing.**	Don't start with spreadsheets or ratios; frame a story that explains what a company does, the market it is going after and who it is competing against. "If you think Cisco [a technology hardware manufacturer] makes vegetable oil, it does not matter how good you are with Excel."
STEP 2: **Test the narrative to see if it is possible, plausible and probable.**	A business story must be grounded in reality, so check to see if your story is on track with the three Ps test. • *Is it possible?* It could happen, but it is unclear what "it" is, when it could happen or what it will look like when it does. • *Is it plausible?* You can make a reasoned argument that it could happen even without possessing tangible evidence. • *Is it probable?* It is something likely to happen with a basis of evidence.
STEP 3: **Convert the narrative into drivers of value.**	Each part of the narrative should have a place in your numbers, and each number should be backed up by a portion of your story. "What does the story mean for revenue growth, margins, reinvestment, risk?"
STEP 4: **Connect the drivers of value to valuation.**	Create a valuation model that connects the inputs to an end-value. "I have a value based on the story I have told. I feel good about it, but is it real?"
STEP 5: **Keep the feedback loop open.**	"The feedback loop essentially is listening to people that disagree with you, leaving the door open to fixing that story. If you hang out with people who think like you, they are likely to agree with you." Work out the effects on value of alternative narratives for the company.

"We need more renaissance people who can go back and forth between numbers and narratives," says Damodaran. Good financial analysis requires both sets of skills as practitioners and business partners. For example, it is finance's job to listen to stories without denying what our business partners are saying; instead, we flesh out the stories, convert those stories into numbers, and challenge them as appropriate. This requires a common language because neither side has a monopoly on truth.

This approach will become more critical to finance practitioners as AI becomes more prevalent. "You can already see number crunching as a skill is only going to get more diluted over time," says Damodaran. "A machine can always out-number you and me. The number crunchers must learn to write, read, communicate and convert their numbers and the stories, and the storytellers must learn to work with numbers until they get comfortable. My advice is to become more balanced people."

BUILD BETTER MODELS

By Ian Schnoor, Executive Director, Financial Modeling Institute

A financial model represents the integration of technical skills with business acumen to create a decision-making tool. Technical skills include design, logic, presentation and prowess of the tool itself (spreadsheets, SaaS or other). Business skills may include finance, accounting and statistics.

A model is a means to an end, not an end in itself. While you may strive for elegance, a good model needs to be a powerful communication tool so that it can be used to make effective decisions. Done right, it creates tremendous credibility for the builder, inspires confidence in the reader, and makes it easier for someone else to validate or even take ownership.

Attributes of a good model include:

- **Dynamic —** Easily adjusts to dimensional changes of time, product and data/assumption updates.
- **Flexible —** The model calculations can change to reflect a changing reality.
- **Intuitive —** Easy to grasp the logical flow of inputs, calculations and outputs.
- **Printable —** Key pages can be printed and studied offline.
- **Transparent —** Lack of hidden logic.
- **Transferable —** Beyond the model creators, others can step in and understand how the model works and can operate it themselves.

Before you begin building the model, consider the following steps.

1. **Plan a model.** In my experience, whenever a model becomes an illegible error-prone mess, it is almost always because the modeler didn't properly devise a model plan. Your plan should be able to answer the following questions:
    - What is the purpose of the model?
    - Which assumptions should become scenarios?
    - How much detail is required?
    - Do I have enough historical detail to validate the amount of forecast detail that is required?
    - What metric is used to measure results?
    - What is the important output that the client wants to know?
    - How many time periods should be included in the forecast? Why?
    - What is the most logical order to present the data?

2. **Ask the right questions.** Gathering the right information is one of the most difficult and important parts of the modeling process, but a good model can help to define the problem and the process. The role of the financial analyst is to:
    - Ask questions to determine the scope of the analysis, the right level of detail required to solve the problem, and how to source the data. Don't assume that the information provided is the right level of detail.
    - Be a critical thinker and push for supportable data, realistic assumptions and honest conclusions.
    - Use the model to facilitate the organization and flow of the analysis. A model must be a powerful communication tool to convey all the information about a particular analysis. Use it to keep key players engaged through regular updates and by soliciting feedback and pushing for specific responses rather than generalizations.

3. **Design the components.** Every financial model is made up of worksheets and schedules that fall into the following three categories. Note: Not all models require every worksheet or schedule listed below, and some models will require other schedules.

INPUTS AND OUTPUTS	CALCULATIONS & SCHEDULES	FINANCIAL STATEMENTS
• Model Cover	• Revenue Schedule	• Income statement
• Executive summary (output values	• Costs Schedules	• Cash flow statement
• Inputs / assumptions	• CAPEX/Depreciation Schedule	• Balance sheet
• Sources and uses of capital	• Fixed Asset Schedule	
• Scenarios	• Income Tax Schedule	
• Sensitivity tables	• Working Capital Schedule	
	• Debt and Interest Schedule	
	• Shareholders Equity Schedule	
	• Valuation Schedule	
	• WACC Schedule	

Building effective models requires both planning and practice.

Here are some of my favorite modeling tips:

- **Start with a cover page and executive summary.** When someone reads your model, the very first thing they want to know is the answer.
- **Keep assumptions and inputs together, right up front.** People want to know the logical basis of your calculations and the decisions you made to derive your conclusions. Have a list of every single assumption in this model, including cost assumptions, interest rate assumptions, CapEx assumptions, etc. When your assumptions are scattered in the model, it leads to errors and makes it hard for others to step into your model. ***Never hardcode data into a formula***.

> ✔ ***EXCEL TIP:*** Analysts are often tempted to place their input assumptions next to the output so they can observe the changes immediately; however, this leads to scattered inputs that invite errors and makes the model hard for others to use. A better way: Use Excel's ***Watch Window*** feature, located on the Formulas menu (keyboard: Alt+M), toward the right of the menu bar (keyboard: "W"). When the window opens, select "Add Watch" and highlight the numbers you want to observe, from any tab or linked file. Any change from the assumptions tab can viewed here in real time, risk-free!

- **Avoid giant formulas.** As formulas grow, they become hard to read, understand and audit and are more prone to error. Excessive linking will send users on a hunt around the model, searching for the source and prior logic. It is better to stay on the same page via "repeat and link," that is, to add rows to your schedule where you repeat the assumption or prior calculation right next to the new formula. In doing this, you ***never create multiple inputs for the same variable***; instead, you enable tiny, understandable formulas by repeating the inputs.

> ✔ ***EXCEL TIP:*** Replace nested IF/THEN instructions with CHOOSE. The syntax is: CHOOSE(Index, Value1, [value2], ...) where the index is the number of options and will correspond to the values 1, 2, ...). This is also how I like to build a "switch" to toggle through various scenarios.

- **Create a scenarios page.** The scenarios page allows you to communicate risk and volatility by showing impacts to the most volatile or internally controllable assumptions in your forecast. You may have lots of assumptions that have minimal fluctuations, such as the bank debt at 6% or the tax rate at 35%. However, there are always a handful of variables that are hard to forecast, hard to control, and beyond your ability to manage, such as inflation or commodity prices. Adding these to your scenario page will minimize the number of saved versions of the model.
- **Don't do work on financial statements.** The calculations should happen on schedules or calculation pages and then link to the financial statements.

> ✔ ***EXCEL TIPS:*** Many purpose-built modeling tools will include the items below automatically, but these additional Excel tips can improve the quality of your spreadsheet life:
>
> - Use different colors for inputs (usually blue) versus calculations or actual results (usually black).
> - To be very quick in Excel, learn keyboard shortcuts and don't use the mouse.
> - Use a manageable number of worksheets (five to 10 if possible).
> - If possible, put all financial statements and schedules on the same worksheet.
> - Label every row — have one column that's used just for row labels.
> - Include key identifiers on every page: model title, worksheet title, scenario, date, time and file path.
> - Think about how the model will be printed and make sure the data is in page-size units.
> - Never delete a cell, row or column until you have determined whether it is used in other cells within the file.
> - Do not make multiple copies of the model with minor revisions — use scenarios.
> - ALWAYS review your model on paper before delivering it to your colleagues or the client.
> - Format your model as you go — don't wait until the very end.

PERFORMANCE MANAGEMENT AS FINANCIAL ANALYSIS

By Jeremy Pawlak, FPAC, Managing Director, Accordion

Performance management helps companies track and drive continuous improvement through critical drivers and reporting related to strategic goals, operational planning and financial results. FP&A requires a successful performance management program[1] to be a business partner that conducts financial analysis and creates a feedback loop that connects and clarifies the expectations across stakeholders.

Ideally, performance management follows a cascading framework to align strategy to metrics and accountability to teams. The structure of KPIs should flow from the top down, from the thesis on company value creation to the leadership's goal areas to leaders' performance and operational KPIs. Reporting flows from the bottom up to inform the progress on goals, the validity of the business value thesis and the financial health of the organization.

Unfortunately, our research[2] shows that businesses are not doing this well. A survey of CFOs and private equity sponsors revealed that 81% of respondents believe CFOs are not delivering performance management that enables business measurement, and 91% believe CFOs are not delving into information to manage the business.

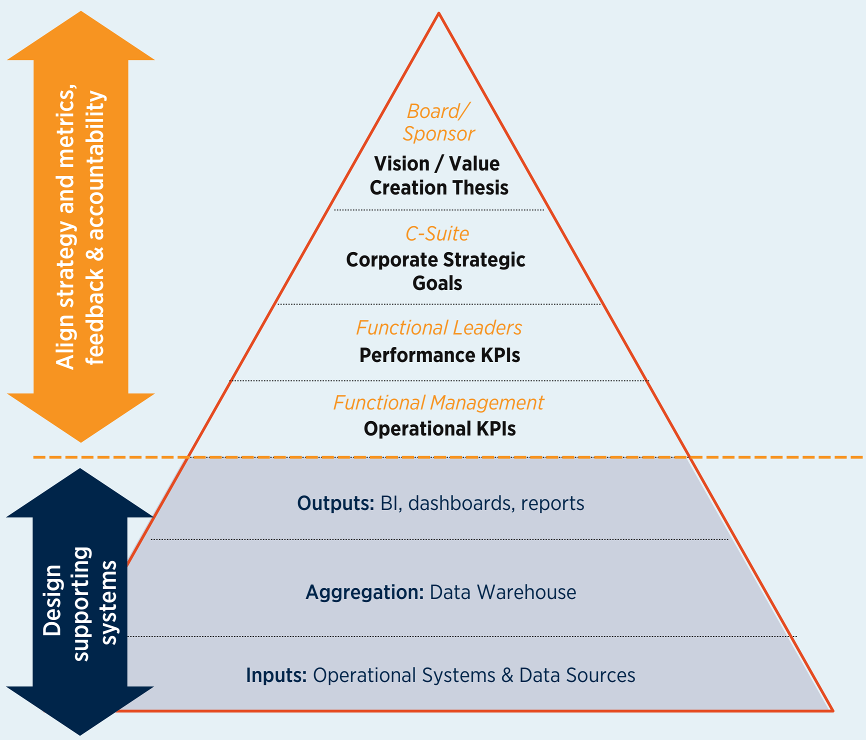
Here is a general framework to align, measure and manage company performance. You can adapt it to fit the personality, maturity and situation of your company:

- **Be intentional in your performance management program.** It is all too common for companies to report a lot of numbers without a reporting strategy or alignment with their business strategy.
  - ***Create project ownership.*** Secure enthusiastic executive sponsorship, funding and resource assignment.
  - ***Communicate and collaborate across the organization.*** Establish the working group to include business owners and IT; establish a governance plan for metric definition, data ownership and data access.
  - ***Establish project management resources.*** Designated project or program management can establish and then maintain smooth execution and communication among various groups. They can monitor the usefulness and utilization of reports and ensure the team is really driving toward goals.

[1] Financial reporting must follow accounting rules as proscribed by GAAP or IFRS; management reporting is for internal use, is free from these standards, and can be constructed in any manner that helps the business operate more effectively.
[2] The State of the PE Sponsor-CFO Relationship, 2021.

- **Align strategy to metrics.**
  - ***Understand what is "key."*** You can have many measures and metrics, but there are generally three to seven KPIs at a given organizational level.
  - ***Tie back to the operating plan.*** If your budget is the short-term step in your long-term strategy, then performance reporting should go hand-in-hand with budget drivers.
  - ***Accountability is critical.*** People should be close to the numbers that they influence. Managers should know how they influence the metrics.
  - ***Single source of truth on metric definitions.*** Document clear definitions and agreed-upon calculations based on clean, governed, agreed-upon data.
  - ***Curate your metric list*** by taking stock of what currently exists and why and considering what should exist. This should relate back to budget drivers.
- **Design supporting systems.** Spend time analyzing the trends and implications of the reporting, not the effort to collect, cleanse and produce reports.
  - ***Single source of truth on data.*** Establish confidence in the data by controlling the collection and transformation of trusted data into a data warehouse.
  - ***Select reporting tools and methods.*** Make the data available for export through business intelligence tools, dashboards, reports, etc. Ensure finance and business partners are trained on end-user tools.
  - ***Build flexibility for future states.*** Lay groundwork for changes in business dimensions, such as products or reorgs, and technology changes, such as AI/ML capabilities.
- **Establish process cadence.** Ensure the accurate and timely delivery of the process as people, the organization and the business landscape change; focus on effectiveness and efficiency!
  - ***Timeliness matters.*** Great outputs at a significant delay are not going to be as effective as timely and actionable results.
  - ***Pursue progress over perfection.*** Businesses need this information now, but sometimes this process gets messy. Plan for iterative improvements in order to deliver results and learn over time.
  - ***Review the program framework.*** Budgeting processes, major reorganizations and long-range strategic planning are great times to ensure the reports and KPIs remain aligned with the business strategy and organizational design. Promotion, demotion or development of new KPIs may be required based on the shifting landscape of markets or the business itself.

KPI AND REPORTING FRAMEWORK



NAVIGATING A FINANCIAL CRISIS AND TURNAROUND

Dr. Tamer Alsayed, CFO, FII Institute, Author of The Art of Becoming a Strategic CFO

A mid-sized player in the retail sector was hit by a perfect storm: An economic downturn, fierce competition and internal insufficiencies led to cash scarcity. It was a CFO's nightmare, but also an opportunity to demonstrate the critical importance of strategic financial leadership. To tackle the immediate threat, the CFO initiated a dual strategy:

- **Financial restructuring:** renegotiating with creditors to ease the immediate cash flow pressure and to allow room to maneuver. This included extending payment terms, reducing interest rates and reducing capital payments for a period.
- **Aggressive cost reduction:** reviewing and renegotiating vendor contracts, reducing discretionary spending and right-sizing the workforce. To emphasize a point, cost optimization is not just about cutting expenses but about making smarter spending choices that align with core business priorities.

Internally, the company focused on forecasting and cash flow, especially working capital management. The teams estimated cash shortfalls and improved the company's liquidity position by speeding up collections, reducing inventory levels and extending payables when possible. A robust cash flow forecast is like a radar in stormy weather, helping to see through the turbulence and navigate safely!

In a volatile market, the CFO planned for multiple futures through scenario planning and sensitivity analysis. FP&A must often plan for the worst case while striving for the best because it is their responsibility to ensure the organization is prepared for any eventuality. The team stress tested the company's financial resilience against various potential shocks and ensured that contingency plans were proactive.

The company emerged from the crisis with a stronger financial foundation, but this was just the beginning of a journey towards strategic recovery. Efficiency gains often outlive the crisis that necessitates them, becoming a legacy of FP&A's strategic foresight. Over time, the company thrived as profitability and efficiency increased.

The company also emerged more resilient. The crisis strategies became a template for future planning, and the successful turnaround restores stakeholder confidence. Investors, creditors and employees now see the company tested and prepared for an enduring future. Resilience isn't just about bouncing back, it's about bouncing forward, learning and evolving from each challenge.

In my experience crisis often expose underlying issues that may have gone unnoticed during prosperous times. However, you don't have to wait for a crisis. The following best practices for FP&A will help your financial analysis and can be implemented at any time:

- **Define + Align = Success!** That means defining strategic goals and aligning the organization with performance management to achieve your goals (or mitigate risks).
- Adopt **rolling forecasts** to extend forecasts and analysis beyond the traditional budget period.
- Embrace **driver-based planning** to focus on what truly drives the business.
- Leverage **cost analytics** for smarter spending.
- Establish robust **data governance** to maintain integrity, accuracy and consistency throughout all processes.
- Foster **business partnerships** to become trusted advisors to other departments and know how the business is operating.
- Emphasize **continuous learning** to promote a culture of professional development.
- Implement **key risk indicators** into the planning processes for proactive risk management.
- Enhance **visualization** tools and techniques to communicate effectively.
- **Review processes** regularly to identify areas for improvement and efficiency gains.

2024 AFP FP&A Guide to What Is Financial Analysis

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References and Appreciation

AFP has prepared a list of books that may help candidates who are preparing to take the Certified Corporate FP&A Practitioner (FPAC) exam. This is a broad list of references covering several aspects of financial analysis, including accounting, economics, modeling, planning (budgeting and forecasting), ratio analysis, strategy and statistics.

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