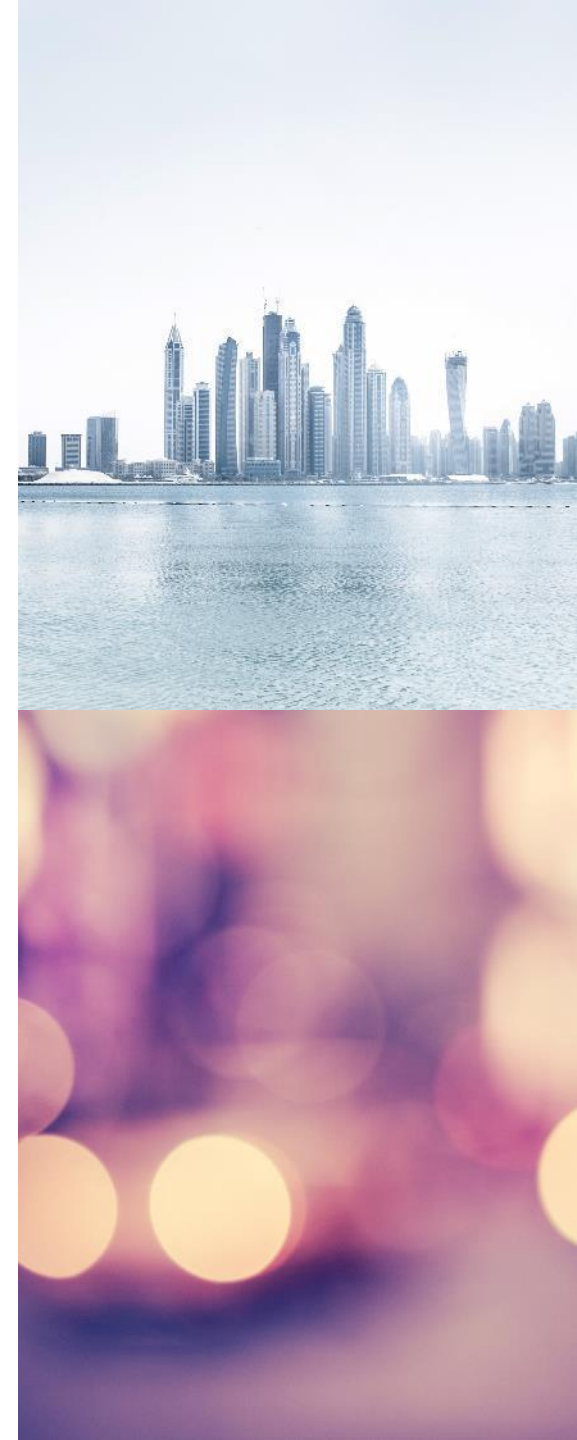




The Financial Model Behind Every Investment Decision

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2. Sell-Side vs. Buy-Side
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1. The Financial Model Behind Every Investment Decision



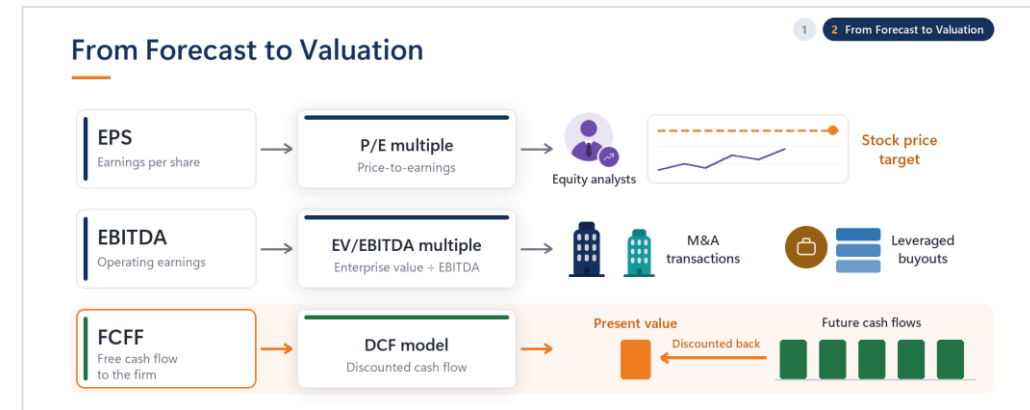
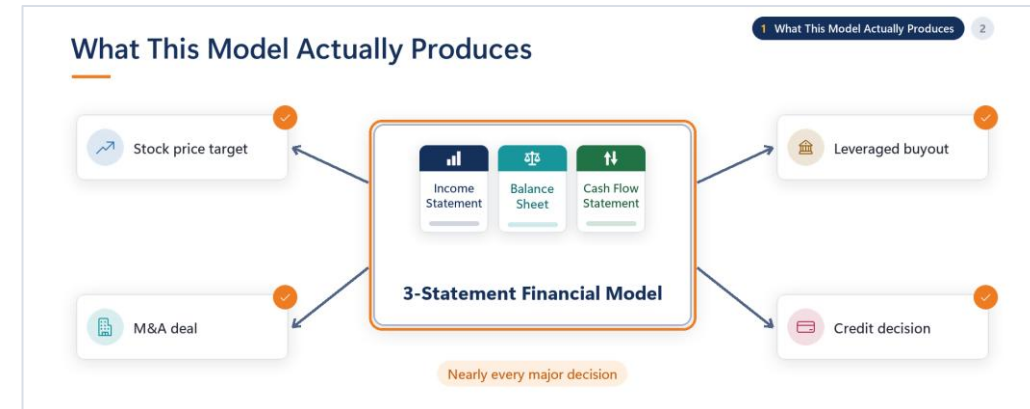
What This Model Actually Produces

- The 3-Statement Financial Model sits at the center of nearly every major financial decision.
- It connects the income statement, balance sheet and cash flow statement into one integrated system.
- Every valuation depends on three outputs; EPS shows the profit generated for each share outstanding.
- EBITDA measures operating earnings before interest, taxes, depreciation and amortization.
- FCFF (free cash flow to the firm) is the cash left after all operating costs and reinvestment needs.



From Forecast to Valuation

- EPS, EBITDA and FCFF are not ends in themselves: each one feeds a valuation method.
- EPS feeds the price-to-earnings multiple equity analysts use to set a stock price target.
- EBITDA feeds the EV/EBITDA multiple used in M&A transactions and leveraged buyouts.
- FCFF feeds the DCF model, where future cash flows are discounted back to present value.
- Without a disciplined forecasting model, a valuation is just a guess with no structural foundation.

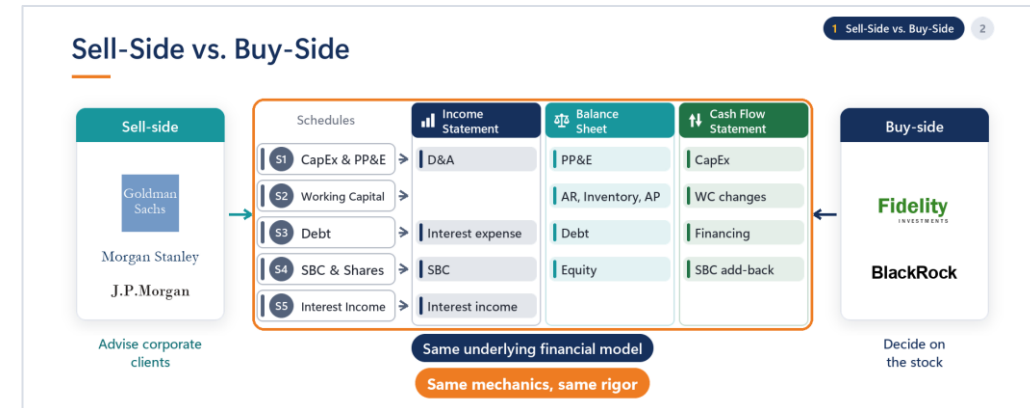


1. The Financial Model Behind Every Investment Decision (Part 2)



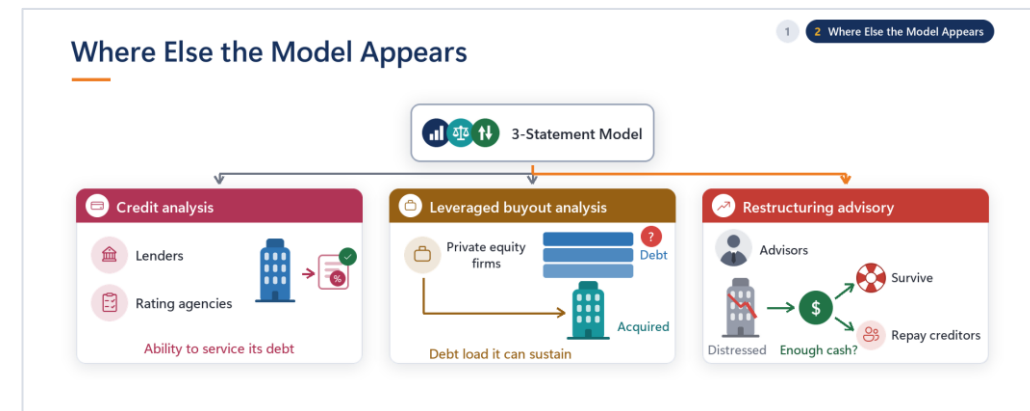
Sell-Side vs. Buy-Side

- The 3-Statement Model is used across financial markets; its purpose depends on where you sit.
- Sell-side investment banks such as Goldman Sachs, Morgan Stanley and JP Morgan advise corporate clients.
- Sell-side models help clients raise equity capital, issue debt or execute mergers and acquisitions.
- Buy-side asset managers, hedge funds and PE firms (e.g. Fidelity, BlackRock) test whether a stock price reflects the next two to three years of earnings.
- Both sides need the same model: the purpose differs, the mechanics and rigor are identical.



Where Else the Model Appears

- Credit analysis: lenders and rating agencies assess a company's ability to service its debt.
- Leveraged buyouts: private equity firms model how much debt an acquired company can sustain.
- Restructuring advisory: advisors forecast whether a distressed company can survive and repay creditors.
- In each context the model is not optional: every downstream financial judgment flows from it.



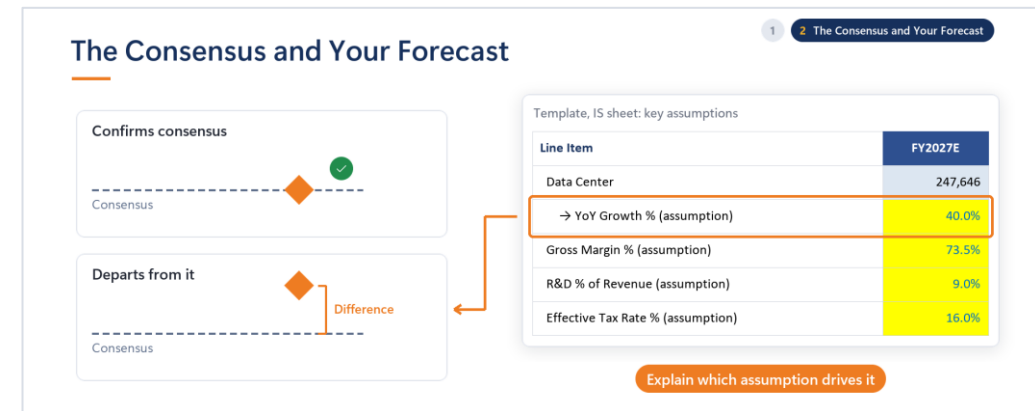
1. The Financial Model Behind Every Investment Decision (Part 3)

What Is an Earnings Surprise

- An earnings surprise occurs when reported results differ from the analysts' consensus estimate.
- Earnings that beat the forecast typically lift the stock price; a miss typically sends it down.
- The size of the stock move depends on the size of the gap.
- August 2023: NVIDIA's fiscal Q2 2024 revenue of \$13.5 billion beat a consensus of about \$11.2 billion; the stock rose more than 6% after hours.
- Analysts with better data center demand and hyperscaler spending assumptions saw that gap before it was confirmed.

The Consensus and Your Forecast

- The consensus estimate is the average of all analysts' EPS and revenue forecasts for a company.
- Building your own model forms your own view of where the company will land versus consensus.
- Your model either confirms consensus or departs from it.
- If it departs, you must explain exactly which assumption drives the difference.
- This structured thinking separates a professional forecast from an uninformed guess.



1. The Financial Model Behind Every Investment Decision (Part 4)



AI in Financial Modeling Today

- AI tools are now standard practice in financial modeling at many firms, at every stage of the process.
- Research: AI reads a full 10-K or earnings call transcript and extracts key assumptions within minutes.
- Example: 80 pages of NVIDIA's data center outlook summarized into structured inputs ready for the model.
- Modeling: AI drafts forecast assumptions from historical trends, flags inconsistencies and proposes scenarios.
- Output: AI turns the completed model into an equity research note, investment memo or management presentation.



What AI Cannot Do

- AI does not replace the analyst's judgment on which assumptions are defensible.
- It cannot tell whether 40% revenue growth for a semiconductor company reflects real supply chains or wishful thinking.
- That judgment comes from understanding the business, the industry and competitive dynamics.
- AI speeds up the path from information to structure; the analyst decides whether it reflects reality.

