



Investment banks will often require top-notch Excel modelling skills when they hire analysts or associates from other investment banks or from other professionals in the finance sector (i.e. accountants and consultants). Part of those interviews almost always includes a full-blown Excel modelling test to be completed in a few hours to test your operational and DCF modelling skills.

What is an investment bank modelling test?

A modelling test is similar to a case study; you are given assumptions, sometimes a brief description of the business, and then asked to perform some analysis. The most common test given is to a Discounted Cash Flow analysis (DCF) and Operational Modelling (i.e. forecasts). Sometimes you may be asked to build Merger models but this is less common. The models given are usually very complex with a very short time allowed for completion.

The most common type of test will happen like this:

- You will be seated in a room alone with a laptop, with only Excel on it.
- You will be given some assumptions, either on a separate page, or in an Excel file saved on the laptop. Except for the assumptions and maybe some basic headings, the file will be totally blank.
- You will then be asked to build a model based on the assumptions within a specific time frame (two to four hours)

Why do banks give modelling tests?

While many people can be good at interviews through extensive practice, you can't fake a modelling test. The investment banking modelling test is the ultimate test of your ability to be a good analyst or associate.

- A modelling test can help the investment bank test the following:
 1. Ability to understand complex financial and accounting terms (assumptions can often be complex and involve detailed tax treatments, industry jargon, etc.)
 2. Ability to structure a model
 3. Ability to work fast and accurately under pressure

4. Quality of your Excel modelling and ability to use appropriate and advanced formulas

Can you give me some tips for Investment Banking modelling tests?

Do you have any investment banking modelling test example?

A standard DCF modelling test that you would get for an analyst-level investment banking modelling test interview.

You can also download the DCF modelling test. You would have four hours to complete this test.

The answer to the DCF modelling test is also available.

1. Spend some time reading the assumptions first and understanding them all.
2. After reading the assumptions, think about the structure of your model.
3. Create the following tabs: Assumptions, P&L, Balance Sheet, Cash Flow, DCF and (optionally) WACC
4. Once you are clear about the structure, lay out all the assumptions on the "Assumptions" sheet so you can easily track and modify them.
5. Start building out the forecast P&L. Model down to EBITDA linking your assumptions, and leave the rest blank for now (i.e. interest expenses, depreciation and tax)
6. Go to the balance sheet - model the fixed assets using the depreciation and Capex assumptions. Link back depreciation to the P&L. (Now it's possible to have EBITDA in the P&L.)
7. Model the debt using any assumptions about debt increase / repayments. Based on the debt balances, you can model the interest expense on the P&L using the interest rate assumptions. (You now have EBT in the P&L - you can then model the tax and you are down to net earnings - P&L model complete!) Model all other balance sheet items but leave the cash balance blank.
8. Go to cash flow. You should be able to build the cash flow from every balance sheet and P&L items now. You end up with a cash figure for each year which you can use to link back to your balance sheet cash balance.
9. Always make sure that the balance sheet balances: Total Assets minus Total Liabilities = Total Equity.
10. From there on, you have all the necessary items to build your DCF, which is very simple.
11. If you have to estimate the WACC (unlikely but may be required if all assumptions are given), do it on the separate tab and link this to your DCF assumptions.
12. To make it perfect, add sensitivity tables in your DCF, showing different Enterprise Values for different WACCs, exit multiples, or perpetual growth values. You can also build some add-on functions allowing for interest earned on cash, automatic overdrafts when cash balance is negative, etc., but this is not critical - focus on the main assumptions first!

Download More Free Articles & Guides at AskIvy.Net