

Model behaviour.

Deal Review

Financial Modelling

Financial models are the backbone of modern corporate decision making. They are now so ubiquitous, we are sometimes in danger of forgetting just how important they are and how much we rely on them.

Back to basics

In fact they are so much part of the furniture that it is worth reminding ourselves what we mean by the term financial model. At its simplest, a financial model is a decision support tool; the clue is in the title: financial model, a *model* or simulation of the *financial implications* of a possible course of action.

A good model (and by extension a good modeller) focuses on the key performance measures and drivers of the decision process – the material, critical assumptions and their commercial impact – and avoids getting bogged down in a distracting mire of detail. This is harder than it sounds, particularly given the proliferation of raw data now available to businesses.

In the current business environment, timely, robust and above all relevant analysis becomes even more vital. Cashflow forecasts and management decisions are coming under far closer scrutiny from stakeholders than before and it is vital that supporting analysis and models can withstand the heat. The price for weak or flawed analysis is, at best, damaged management credibility or reputation.

More than spreadsheets

All our financial modelling work at Baker Tilly is aimed at supporting clients through their decision processes and the associated external inspection – either through building flexible and robust tools to help forecast cashflows or analyse projects, acquisitions and investments, or through providing assurance that such tools are 'fit for purpose'.

Whatever the sector, a well constructed financial model should bring clarity and speed to the decision making process. It is not about spreadsheets or clever Excel coding, it is about distilling a complex set of information and data into a handful of key measures that help management teams and investors understand the potential impact of their actions.

It is also not just a product – we see financial modelling as an end to end service – the value to our clients comes from the process of challenge and development, from the freeing up of valuable management resource, and from the access we give them to leading edge expertise. This focus, on modelling as a service, underpins all we do.

One size does not fit all

Baker Tilly has a well established financial modelling group who have been delivering a wide range of services to our clients. We believe we bring a genuinely fresh approach; our experts are pragmatic, commercial, open-minded and mercifully free from jargon and dogma. We pride ourselves on listening to our clients, understanding their issues and proposing solutions tailored specifically to their needs.

This review showcases some recent assignments and you can see what our clients have to say about our talented people and how we added value in each of their transactions through the financial modelling process. We hope these case studies give you a feel for the breadth of our offering, our approach to client service and delivery and for the specific aspects that we believe make a difference.

Alistair Hynd Head of Financial Modelling
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Responsiveness

Decisions are made in real-time and the supporting analysis needs to adapt rapidly as circumstances shift and negotiations unfold. We invest time understanding the business and transaction upfront and anticipate potential issues in order to develop flexible decision support tools that can quickly and accurately be adapted.

Europa

Following two years of significant organic growth Europa identified an acquisition opportunity to accelerate their expansion strategy.

Baker Tilly provided financial modelling and deal support services to assist with managing the deal process and debt and equity stakeholders.

The financial model provided critical and constructive feedback to the management team. The scenario functionality allowed them to assess multiple options and business cases, and immediately to see their financial impact, providing them with real-time insight and valuable review time.

“Baker Tilly was an invaluable part of our internal deal team. They challenged our ideas and created a model that was flexible

as well as robust. The deal was complex with many last minute changes. Baker Tilly responded at all times of the day meaning we could access the impact of changes instantly. The key element was the team's ability to take a step back from the model and the numbers generated and provide advice in a broad, far reaching aspect.”

James Stander, Director, Europa

Security

Financial models are used to underpin critical business decisions. Business leaders need peace of mind that their decisions are supported by accurate analysis. We recognise that our financial models and team members will often be relied on heavily by our clients. We apply best practice financial modelling techniques and rigorous quality assurance procedures to help ensure these models are fit for purpose.

Discovery Education

The financial backers of the Dundee Schools project, a 30 year PFI contract for the construction of eight schools, required an audit of the deal's financial model as part of their due diligence to support the issue of RPI-linked bonds.

Baker Tilly audited the PFI models to provide assurance of their logical integrity, internal consistency, arithmetic accuracy and that all assumptions were in line with UK tax legislation and UK GAAP.

Baker Tilly provided interim reports that identified and prioritised issues to Dundee Schools. This enabled their modellers to make the necessary adjustments to ensure that the project remained on track.

“Baker Tilly provided a first class service. Their willingness and ability to interface at senior level and turn matters round at short notice was of vital importance in ensuring a smooth and efficient process to completion of the transaction.”

Peter Johnstone, Finance Director, Robertson Capital Projects

Delivery

Many companies use financial models and model assurance services in support of key business tenders. They need to be confident that their advisers and suppliers will be able to deliver against hard deadlines. Our clients testify to our pragmatic and determined approach to meeting challenging (and occasionally almost unrealistic!) deadlines in bid scenarios.

Stagecoach Rail

The Department for Transport routinely requires ‘best practice’ reviews and full audits of the diverse and complex suites of models that support tenderers bids for rail franchises when they are renewed.

Baker Tilly led the review of the bid models for the successful Stagecoach bid for the East Midlands Passenger Rail Franchise. This included the detailed review of the Revenue, Performance, Cost and Financial Models, to confirm

logical integrity and compliance with the Franchise Documentation, Accounting GAAP, Taxation legislation, in accordance with the DfT's tender requirements and guidelines.

"Baker Tilly demonstrated a thorough understanding of the financial modelling requirements for rail franchising. They were able to offer very good constructive, timely advice during the bid process as well as ensuring that the model best practice certificate and full model audit were delivered against tight timescales. I was particularly impressed with the professionalism of the team and their willingness to fit around our timescales which were particularly fluid during the bid evaluation phase."

Richard Bodicoat, Finance Director Transactions, Stagecoach

Expertise

Done properly, financial modelling is a surprisingly specialist and technical discipline. Building models for complex business decisions requires expertise that is based on deep technical knowledge and on a broad range of practical and applied experience across a variety of sectors. We have leading edge modelling skills and an advanced modelling toolkit within our team. We are often called upon to troubleshoot problems for our clients and we have provided expert financial modelling analysis in complex legal cases.

Stephenson Harwood

Baker Tilly were contracted by Stephenson Harwood on behalf of the French investment bank Natixis to act as expert witness and provide litigation support in relation to financial modelling and valuation aspects on a complex claim concerning the £750m BoxClever securitisation transaction.

The claim centred on allegations that the model was materially flawed. The role comprised giving evidence under cross examination and advising the client, legal team and ultimately the Court on modelling issues. The engagement included technical matters, such as who was responsible for the model, what the model was for and how it worked, the nature of the flaw, and whether the flaw in the model was, or should have been, identified.

"The support that the legal team and the client received from Baker Tilly was outstanding. The Baker Tilly team were responsive and diligent, and tight deadlines were always met. Alistair's expert reports were excellent - detailed, articulate and well-reasoned, and his oral evidence was clear, measured and persuasive."

Sunil Gadhia, Chief Executive, Stephenson Harwood

Rigour

Financial modelling is technically demanding, combining as it does the disciplines of business analysis, accounting, taxation and software programming. It demands a systematic and rigorous approach. Our methodologies for modelling and model assurance work are tried and tested. We are also not afraid of providing critical but constructive challenge to our clients, testing their assumptions and views through the model development process.

Airtanker

AirTanker, a consortium of EADS, Rolls-Royce, Thales UK, VT Group and Cobham, won the contract to supply a fleet of new air transport and refuelling Airbus A330-200s under a £13 billion Private Finance Initiative deal. The FSTA deal was awarded European PPP Deal of the Year for 2008 by Project Finance International, and is one of the largest and most complex PFI transactions to close in recent years.

Baker Tilly was engaged to construct an operational model to reflect the key financial contractual terms, the group structure and to report on the impact of actual events under both UK GAAP and IFRS. This involved reviewing the contractual terms for the payment mechanism and escalation, the funding agreements and the hedging contracts to ensure that they were appropriately reflected in the model.

"The exemplary support we receive from Baker Tilly has provided the additional capacity and expertise to allow the lean AirTanker finance team to meet their strict deadlines and provide accurate and timely management information, in the start up phase."

Christian Unrath, Chief Financial Officer, Airtanker

Clarity

Financial models should illuminate not infuriate. Decision makers want to understand the key business drivers and their impact. We use Excel's full functionality to design and build intelligently laid out models with straightforward and relevant 'dashboards'. These facilitate the communication of financial outcomes and demonstrate the impact of sensitivities and key drivers.

EcoCentroGen

EcoCentroGen provides project funding towards design and construction, and the on-going operation and maintenance of on-site energy centres producing power, heat and cooling.

Baker Tilly was engaged to assist them with their expansion strategy through the development of a financial model with full sensitivity testing to provide potential funders with a thorough insight into the business. Following the successful completion of the model, EcoCentroGen expanded the Baker Tilly role into a broader advisory remit.

"We came to Baker Tilly with the specific brief for them to develop an integrated financial model which would allow us to go to market and obtain further funding to expand the business. As we worked with them, Baker Tilly became a more integrated part of the team, challenging assumptions and never fearing to provide critique where appropriate, whilst all the time remaining totally focused on producing what we needed."

Peter Walker, Managing Director, EcoCentroGen

Commerciality

Financial models are only as good as the assumptions and data on which they are based. It is as important that the model is as commercially relevant and robust as it is well constructed. We understand that commercial nous is as important to our clients as elegant modelling. Baker Tilly's modelling team sits at the heart of its corporate finance group and as a result has a very sharp understanding of the commercial context in which it carries out its assignments.

Archial Group plc

The Archial Group is a listed architectural services provider. Baker Tilly was initially engaged to develop an integrated forecast model for the business. Subsequently, over a 6 month period, the business underwent four sets of external due diligence in relation to a bank refinancing, a possible merger, a possible takeover and finally an open offer to raise £15.1m. Throughout this period, we supported management in adapting and developing the model to deal with an evolving deal context. This included helping them to manage the flow of information to the due diligence teams.

We also assisted in providing debt advisory services to help management assess the potential financing options. Baker Tilly subsequently developed the model such that it would allow Archial to rebase their forecasts for actual performance and allow dynamic assessment of mid-term cashflow and funding requirements.

"Baker Tilly was able to design a model that put us in a position to respond quickly and confidently to a number of possible scenarios in relation to ownership, capital and debt structure of the business. The ability of the Baker Tilly team to respond quickly having invested the necessary time to understand the business 'up front' ultimately played a crucial role in our ability to raise the capital we needed to refinance the business."

Rob Boardman, Corporate Development Director, Archial Group Plc

Commitment

Investment decisions take place in a time pressured deal context. The whole deal team from management and financial advisers to lawyers and the financial modeller needs to be aligned and focused on a common goal. Through secondments and close working relationships, our ethos is to work collaboratively with our clients, becoming a natural extension of their team. We recognise that commitment to our clients' success is key to our success.

Raytheon

Baker Tilly was engaged to assist with the development and enhancement of the financial model submitted by Raytheon in support of its successful bid to implement and deliver the e-Borders project on behalf of the Home Office. The e-Borders project is a £1.2bn IT and Change Management programme to enhance the security of the UK's border controls through, for example, tracking carriers' inbound and outbound passenger data.

We worked closely with the bid team to benchmark their existing model against revised tender requirements and assisted in the development and enhancement of the model and documentation for two successive submissions. We

also provided critique and input to the financial aspects of the final written bid submission. The model was developed to reflect both US and UK GAAP and taxation.

“Baker Tilly impressed us with their flexibility and ability to deploy, at short notice, experienced and dedicated staff who quickly grasped and solved complex issues. What really stood out was the level of individual and team commitment to see the bid succeed. The Baker Tilly team consistently put in as much effort as our own staff to make the bid succeed.”

Mark Trivett, Financial Controller, Raytheon Systems Limited

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About Baker Tilly

Baker Tilly is a leading independent firm of accountants and business advisers that specialises in providing an integrated range of services. We provide our growing and established business clients with audit, accountancy, personal and corporate taxation, VAT, management consultancy, corporate finance, IT advisory, restructuring and recovery and forensic services. The firm has national coverage through its network of offices and is represented internationally through its independent membership of Baker Tilly International.

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