



# Model validation services

## Overview



Greater than **95 percent of the models** reviewed by our KPMG Business Modeling Services group contain value-changing errors **and embedded** unclarified key assumptions.

Many of these errors and key assumptions 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 and transparency.

Below are some common questions or concerns companies may have in building financial models:

- How can I ensure significant errors have been identified and corrected?
- Why does it take so much time and effort to update the model?
- How can I leverage this model for future projects without recreating it each time?
- What are the key assumptions in the model that have the biggest financial impact?
- Where can I get an external viewpoint on the major model assumptions?

## How KPMG can help

**We can help you reduce transaction, managerial, and reputation risks resulting from material errors and misleading assumptions** in your financial models. Our experienced modeling professionals adopt KPMG proprietary tools and leverage a standardized and robust approach in the delivery of model validation engagements.

### Formula integrity review

- Validate the logical and mathematical integrity of the formulas.
- Review changes made to the model and confirm our initial findings are addressed in the subsequent iterations.

### Structure & common practice review

- Assess whether the model's architecture and structure have been appropriately constructed to meet the business and functional requirements and reference to the modeling common practice.

### Assumption consistency check

- Document or 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.

### Forecast & value insights analysis

- Assess the deal forecast and critical assumptions that are instrumental to driving growth, margin changes, and capital efficiency.
- Objectively compare financial KPIs to relevant market data, historical company data, or relevant source documents.

### Accounting and tax review

- Review and comment on significant accounting or tax assumptions/structures used in the model, including tax and accounting related calculations, waterfall structure, and formula integrity based on the specific provisions in the corresponding section of the agreement.

## Potential benefits of the services we deliver

- Unbiased assessment of the technical mechanics and key drivers
- Reduced transaction, managerial, and reputational risk
- Increased confidence in the reasonableness of the overall forecast
- Make more informed decisions with more transparency in the model
- Satisfy the demands of investors, regulators, and auditors

## Model Review Tool

Our KPMG proprietary tool allowing our trained specialists to quickly analyze the structure, consistency, and complexity of a model as part of a full logical integrity review. The model review tool includes a number of innovative productivity enhancing features that can add value by enabling us to:



Significantly increase our efficiency when testing models, decreasing the cost to you and delivering results quicker



Focus on high-risk areas at an early stage, thereby enabling you to remedy those issues early on



Compare models effectively such that when we review amended models, we do so on an incremental basis, reducing review time, and project costs and enabling us to report within tight deadlines



Report our findings to you in a systematic and controlled manner with an audit trail of our comments and how they have been actioned.

## Industry specialization

We understand the issues, value drivers, leading practices, and trends that can help shape the future of a particular industry. Our team members have deep industry experience gained from working with clients in various sectors such as **oil and gas; technology, media, and telecommunications; manufacturing; real estate; and consumer markets** in a variety of settings and with cross-functional teams to provide wide-ranging **strategic, accounting, tax, valuation, and transaction-related advice.**

## Why KPMG?

KPMG Valuation and Business Modeling professionals leverage their 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.

## Contact us

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