

Financial Modeling Approach

DC&F's approach to financial modeling is based upon a Simplified Financial Model that can be used to as the starting point to develop a model for any project finance transaction.

This Simplified Financial Model has two components: the first component represents worksheets that are unique to a project; and the second component represents worksheets that are independent of the project. It has 11 worksheets:

- Assumptions
 - Construction financing
 - Depreciation
 - EBITDA
 - Cash waterfall and debt repayment
- These worksheets are customized to a project finance deal
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- Income statement
 - Sources & uses of funds
 - Balance sheet
 - Taxes
 - Cash flow
 - Capital account & tax basis
- These worksheets form the chassis (do not change from one project to the next)

The first 5 worksheets (Assumptions, Construction Financing, Depreciation, EBITDA, and Cash Waterfall & Debt Repayment) are project-specific and data from these worksheets feeds the chassis (Income Statement, Sources & Uses of Funds, Balance Sheet, Taxes, Cash Flow, and Capital Account & Tax Basis). The logic and inter-relationships between the worksheets in the chassis does not change from one project to the next.

Note, that most project finance transactions are structured as a Limited Liability Company (“LLC”). This is why the Simplified Financial Model is structured as an LLC and it includes a projection of the Capital Account and Tax Basis. However, it also is available as a corporation, should that be the desired structure for an individual project.

The Simplified Financial Model follows rigorous modeling discipline:

- ✓ It always starts a project from zero without taking any benefit from an existing balance sheet.
- ✓ A residual value assumption at the end of the analysis horizon captures the full economic benefit of a project;
- ✓ Schedules such as: construction period, operating period, depreciation, and loan amortization are automated, wherever possible;
- ✓ Switches are pre-programmed to examine different scenarios;
- ✓ Manual data is only entered in the Assumptions worksheet;
- ✓ Each worksheet clearly shows the assumptions as well as any information used from other worksheets. This shortens formulas by removing the worksheet reference and makes them easier to understand;
- ✓ Does not hide cells (using white font), or hide rows, columns, or tabs;
- ✓ Uses the same formula across every row and at the end of that row, it explains in English what the formula is doing (making the model easier to debug);
- ✓ Does not use any macros (DC&F does not recommend that macros be used, unless they are essential and, in that case, they should be meticulously documented);
- ✓ Designs the output in a format that presents relevant information to project participants. Supporting calculations are presented at the bottom of the worksheet in the non-print area; and
- ✓ Labels each page of the output with the scenario being examined, date, and page number.

The chassis of the Simplified Financial Model includes a column that totals all of the columns in the model and this facilitates conducting the following tests to demonstrate that fundamental accounting entities have been met:

- ✓ Cumulative Pretax Income = Cumulative Taxable Income
= Cumulative EBITDA – Cumulative Interest + Residual Value – Capital Cost
- ✓ Cumulative Distributions = Cumulative Pretax Income + Equity
- ✓ Balance sheet = 0 (at the end)
- ✓ Capital Account and Tax Basis = 0 (at the end)

The primary advantage of DC&F's approach is that it is a much more efficient way to model a project compared to starting with a highly customized model that was developed for a specific project. In addition, the Simplified Financial Model provides comfort (through the different tests) that the model has gotten the accounting right, since the chassis does not change from one project to the next. As a result, the customer can focus on the financial structure, the cash waterfall, and other business aspects.

DC&F's approach has been used for projects across industries, including renewable energy, conventional power generation, process industry, oil & gas, etc.