

Sensitivity Analysis

This analysis enables you to present a true picture of your potential for gain and loss. While the best case is what you hope for, the worst case is what you need to be prepared for; in the meantime, the most likely case will be the basis for many of your, and your investors', decisions.

In essence, the Sensitivity Analysis compares your Income Statement with worst/planned/best case scenarios. Instead of changing numbers throughout your financial model, with this unique page, you can play "what-if?" all in just one place.

It takes its base case numbers from the Income Statement (listed down the center of the model). In the columns to the left and right, you directly enter percentages (blue numbers) that project possible pessimistic and optimistic deviations from your original budgeted projections. Investors may want to enter their own assumptions about your business – here they can do it relatively quickly.

	Pessimistic	Planned	Optimistic
Sales	70%	100%	120%
Start-Ups	\$ 3,063	\$ 4,376	\$ 5,251
Small Businesses USA	1,532	2,188	2,626
Businesses Non-USA	1,532	2,188	2,626
Associations	1,532	2,188	2,626
Affiliates	1,532	2,188	2,626
Resellers	1,532	2,188	2,626
Schools	1,532	2,188	2,626
Corporations	1,532	2,188	2,626
Consultants	1,532	2,188	2,626
Other	484	691	829
Product Returns	110%	100%	90%
Returns & Allowances	(617)	(561)	(505)
Net Sales	\$ 15,186	\$ 22,010	\$ 26,583
Costs of Goods Sold	200%	100%	50%
Variable Cost of Goods Sold	\$ 1,926	\$ 963	\$ 482
Fixed Costs Reclassified to Variable Costs	-	-	-
Total Variable Costs	\$ 1,926	\$ 963	\$ 482
Fixed Costs of Goods & Services	110%	100%	90%
Fixed Costs of Goods & Services	\$ 173	\$ 157	\$ 141
Total Costs of Goods Sold	\$ 2,099	\$ 1,120	\$ 623
Gross Profit	\$ 13,087	\$ 20,890	\$ 25,960
% of Total Sales	86.2%	94.9%	97.7%

Weighted probability of cases

At the bottom of the Sensitivity Analysis, you can also enter the weighted probability of each scenario happening—you don't want someone dwelling on the possibility of only the worst case happening!

(Make sure they add up across to 100%).

The resulting math will multiply each case by its weight percentage and calculate your Weighted Average Income, shown in the center.)

	A	B	C	D
56		110%	100%	90%
57	Fixed Costs Reclassified to Variable Costs	-	-	-
58	Total Expenses	\$ 13,392	\$ 11,236	\$ 10,079
59				
60				
61	Income From Operations	\$ (385)	\$ 9,654	\$ 15,881
62				
63	EPS	\$ (0.03)	\$ 0.97	\$ 1.59
64				
65	Probability	30%	50%	20%
66		(\$92)	\$4,827	\$3,176
67	Weighted Average Income		\$7,912	
68				
69	Investor's Scratch Pad			
70	If IRR =	40%		
71	...and if the P/E ratio =	10	\$79,117	
72	Then the NPV Valuation =		\$14,711	
73	Investment (000) =	\$1,000	\$15,711	
74	Investor Gets:		6%	
75	Investment Future Value in Year:	5	\$5,036	
76	Which is...		5.04 x	

Investor's Scratch Pad

Let's say you send your financial model to an investor or lender. (In your email, you will likely want to suggest they review this entire page as well as 'play' with this section.)

Investors can enter their own perceptions for your best and worst cases, they can enter their own assumptions for the probabilities of each case coming true, next they can work with some of their own investment criteria to see what happens.

Instructions for investors are to the right of the shaded area above—directing them how to fill-in/change the blue numbers in the Investor's Scratch Pad. Nevertheless, it should be self-explanatory.