



Acquisition Financing

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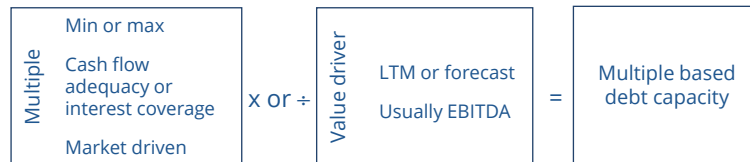
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Multiple Based Debt Capacity Analysis



Haircuts might also be applied

Multiple	Value Driver	Debt Capacity
Debt / LTM EBITDA = 5.5x	LTM EBITDA = 1,200.0	Max debt capacity = 6,600.0 (1,200.0 * 5.5x = 6,600.0)
FWY 1 EBITDA / interest expense = 3.0x	FWY 1 EBITDA = 1,260.0 Current interest rate = 6.0%	Max interest expense = 420.0 (1,260.0 / 3.0x = 420.0) Max debt capacity = 7,000.0 (420.0 / 6.0% = 7,000.0)

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Dangers of Using Multiples

	Media company Univision	Manufacturer Lockheed Martin
EBITDA	1,249.0	6,292.0
Operating profit	1,077.2	5,438.0
Tax rate	35.0%	35.0%
NOPAT	700.2	3,534.7
Depreciation & amortization	171.8	854.0
Change in OWC	25.9	(894.0)
Capex	(126.8)	(939.0)
Free cash flow / cash flow available for debt service	771.1	2,555.7
FCF / EBITDA (%)	61.7%	40.6%

EBITDA is a proxy for cash flow BUT not cash flow itself

The publisher has high cash conversion due to positive OWC cash flow and relatively low capex

The manufacturer has a low cash conversion from EBITDA due to high capex requirements and negative OWC cash flow

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Cash Flow Based Debt Capacity Analysis

		Year 1	Year 2	Year 3	Year 4	Year 5
Free cash flows		100.0	105.0	110.0	118.0	124.0
Term	5 years					
After tax cost of debt	5.0%					
Present value of cash flows / principal	479.7					
Debt amortization schedule						
Beginning balance		479.7	403.7	318.9	224.9	118.1
Accrued interest (on beginning balance)		24.0	20.2	15.9	11.2	5.9
Cash payment		100.0	105.0	110.0	118.0	124.0
Ending balance		479.7	403.7	318.9	224.9	118.1

Debt capacity established by NPV at post tax cost of debt
A haircut can also be used

Debt is paid off by year five assuming all cash flows are used

Cash flow based capacity lending is based on the free cash flows forecast and current interest rates

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Debt Tranching

		Year 1	Year 2	Year 3	Year 4	Year 5
Free cash flows		100.0	105.0	110.0	118.0	124.0
Term	5 years					
After tax cost of debt	5.0%					
Principal	479.7					

Total amount of one tranche of debt with 5 year term

Other lenders could be willing to lend against cash flows in year 6 at a higher interest rate

		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Free cash flows		100.0	105.0	110.0	118.0	124.0	127.0
Cash flows available for 2nd tranche		7.2	7.2	7.2	7.2	7.2	127.0
2nd tranche term	6 years						
After tax cost of debt	6.0%						
Principal	119.8						
Interest		7.2	7.2	7.2	7.2	7.2	7.2
Cash flows available for 1st tranche		92.8	97.8	102.8	110.8	116.8	
1st tranche term	5 years						
After tax cost of debt	5.0%						
Principal	448.6						
Total debt borrowed	568.4						

2nd loan requires cash flows to pay cash interest for 6 years and is a bullet repayment

Cash flows in year 6 should cover interest and principal repayment for 2nd loan
(127.0 = 119.8 + 7.2)

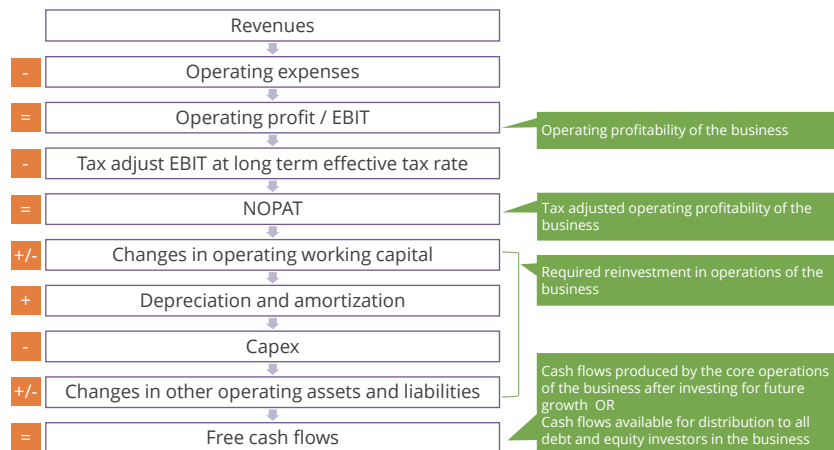
Cash flows available for 1st loan are reduced by the amount of 2nd loan interest
e.g. year 5 (116.8 = 124.0 - 7.2)

Individual tranches are reduced but the total amount of borrowing is increased

Debt tranching allows the issuer to increase the total amount of debt by appealing to investors with different risk profiles

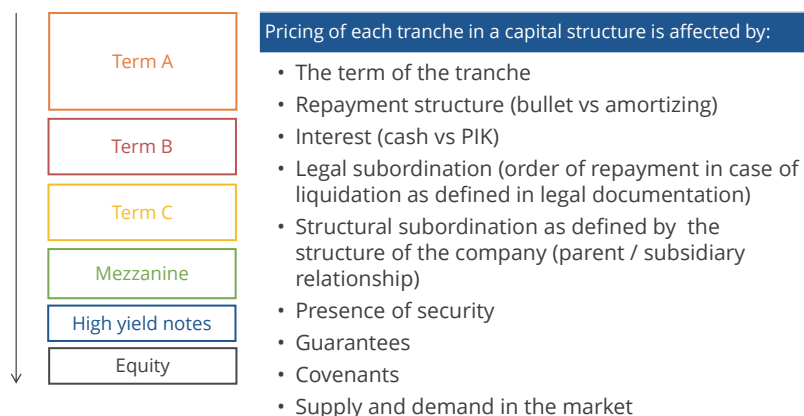
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Calculating Free Cash Flows



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Seniority and Subordination



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