



Private Equity Acquisition Analysis

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Contents

- LBO – definition
- Internal Rate of Return (IRR) and Value Analysis
- LBO analysis models
 - LBO analysis model map
 - Assumptions
 - Sources and uses of funds
 - Sources of funds
 - Operating forecasts and cash sweeps
 - Model outputs
 - Levered valuation

2

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Leveraged Buy Out – Definition



3

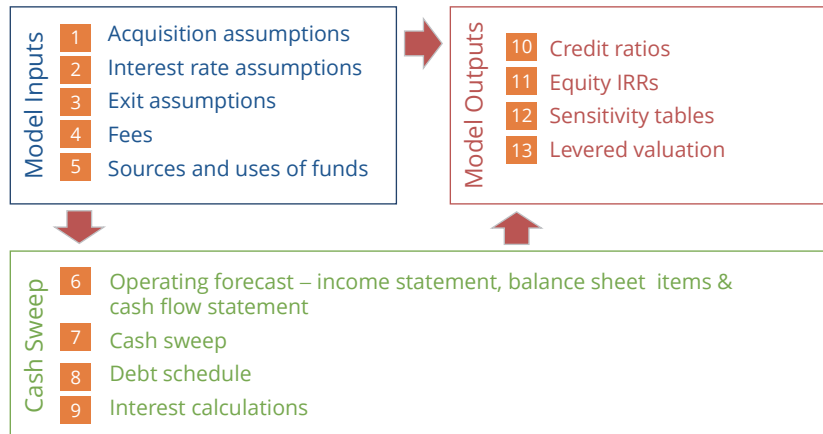
IRR and Value Analysis

	Entry	Exit	Comment
EBITDA	36.3	62.7	Today and estimated for exit
EBITDA multiple	6.0 x	7.0 x	Assumption based on expected performance within industry
Enterprise value	217.8	438.9	Calculate = EBITDA * multiple
Debt	108.9	65.3	From debt capacity and forecast paydown
Equity	108.9	373.6	Calculate = EV – debt
IRR – exit year 4	36.1%		Calculate = (equity on exit / equity on entry) ^{^(1 / 4)} - 1
Value created	264.7		Calculate = equity on exit – equity on entry
Debt repayment	43.6		Calculate = debt on entry – debt on exit
EBITDA improvement	158.4		Calculate = (exit EBITDA – entry EBITDA) * entry multiple
Multiple expansion/(contraction)	62.7		Calculate = (exit multiple – entry multiple) * exit EBITDA
Value created	264.7		Debt repayment + EBITDA improvement + multiple expansion

4

LBO Analysis Model Map and Steps

Remember to have the iteration setting turned OFF before starting



5

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Assumptions

Acquisition assumptions		
Target co	ABC Inc.	Acquisition premium, driven by comparable transactions
Currency	USD	
Share price	26.92	
Share price date	15-Feb-16	Acquisition price = (1 + premium %) * current price
Premium paid	56.0%	
Acquisition share price	42.00	
Basic shares outstanding	165.9	All dilutive securities, incl. RSU's, PSU's & stock options
Net new shares from dilutive securities	2.4	Dilution = MAX ((price - strike) / price * no units), 0)
Diluted shares outstanding	168.2	

Acquisition valuation		
Acquisition equity value	7,065.6	Acquisition equity value = acquisition price* diluted shares
Net debt	5,326.0	Net debt from most current balance sheet
Other debt-equivalent liabilities	0.0	
Acquisition enterprise value	12,391.6	Other claims on the business might be refinance, e.g. pensions and operating leases
Historical (LTM) EBITDA	1,818.0	
Historical (LTM) EBITDA multiple	6.8 x	Entry multiple

6

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Assumptions

Exit assumptions	
Exit year	5.0
Exit EBITDA multiple	6.8 x
Fees assumptions	
Debt financing fees	1.0%
Debt financing fees amortization (years)	5.0
Advisory fees % of acquisition EV	1.0%

Exit year
The shorter the time horizon the higher the returns

Exit multiple is usually set equal to entry multiple, the figure is usually sensitized

Assumptions on fees, Drives sources and uses of funds.
Debt fees are amortized. Advisory fees are expensed immediately post acquisition.

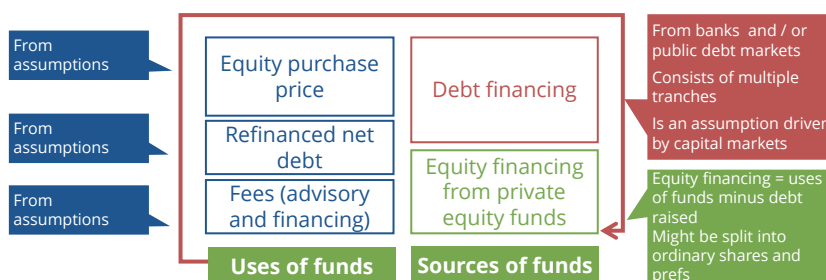
Interest assumptions	
Interest income on cash	0.3%
U.S. 3 month LIBOR	0.621%
Benchmark government bond	2.250%

Assumptions on base interest rates
Debt tranches will be priced via spread over base rates

7

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Sources and Uses of Funds

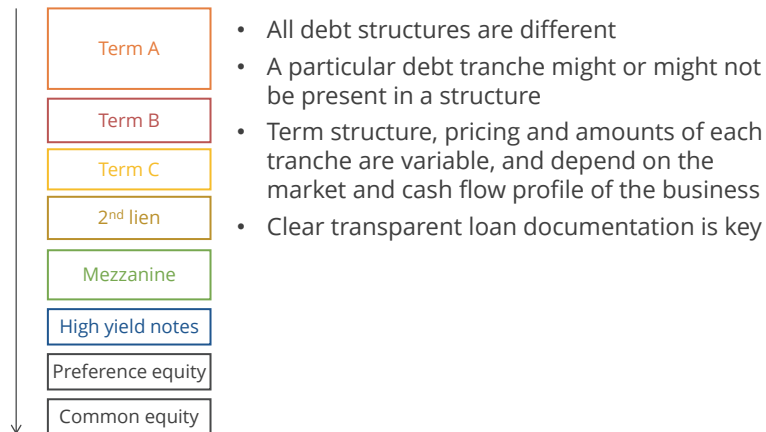


Sources and uses of funds						
Uses	\$MM	Sources	\$MM	x LTM EBITDA	Spread	Interest rate
Acquisition equity value	7,065.6	Revolver	0.0		2.0%	2.6%
Refinanced net debt	5,326.0	Term loan A	3,500.0	1.9 x	3.0%	3.6%
Debt financing fees	67.5	Term loan B	2,500.0	3.3 x	4.0%	4.6%
Advisory fees	70.7	Mezzanine loan (PIK)	750.0	3.7 x	8.0%	8.6%
		Senior unsecured notes	500.0	4.0 x	8.0%	10.3%
		Equity	5,279.8			
Total uses of funds	12,529.8	Total sources of funds	12,529.8			

8

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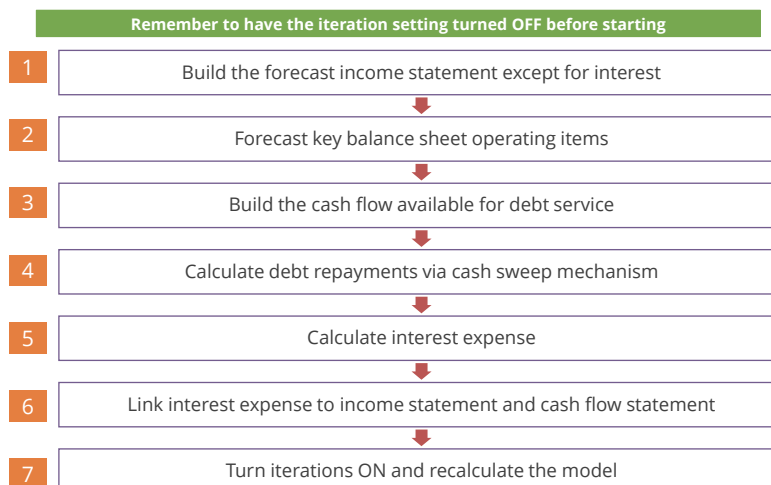
Sources of Funds



9

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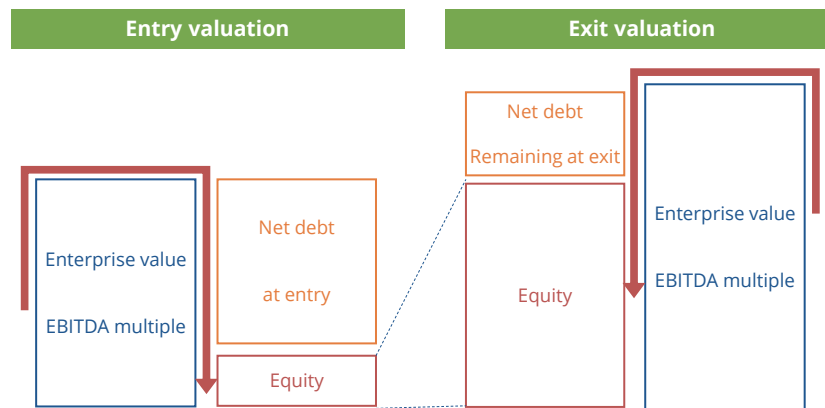
Model Intro and Steps



10

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Levered Valuation



11

Levered Valuation

Assumption	Value	Comment
Exit EBITDA	250.0	From the model
Exit multiple	7.0x	Assumption based on expected performance within industry
Exit enterprise value	1,750.0	Calculate = exit EBITDA * exit multiple
Exit net debt	750.0	From the model
Exit equity valuation	1,000.0	Calculate = exit enterprise value - remaining net debt
Required IRR	25%	Assumption
Exit year	4	Assumption
IRR implied entry equity valuation	409.6	Calculate = exit equity valuation / (1+ IRR) ⁿ
Available debt financing, entry	1,600.0	Assumption
IRR implied enterprise value	2,009.6	Calculate = available financing + IRR implied equity valuation
Target's refinanced net debt	250.0	Assumption
Target's implied equity purchase price	1,759.6	Calculate = IRR implied enterprise value - refinanced net debt
Current target market cap	1,600.0	Assumption
Implied premium / (discount)	10.0%	Calculate = target's implied purchase price / target market cap

In LBO models indicative LBO valuation range is usually derived by either changing the purchase premium or via sensitivity data tables

12

