Cascade Consumer Brands

Consumer Goods — Specialty Snacks & Beverages

Format	Full 3-Statement LBO
Difficulty	Associate
Suggested Time	3 hours (Part A)

You are an associate at a middle-market private equity firm. The deal team is evaluating the acquisition of **Cascade Consumer Brands ("CCB" or the "Company")**, a fast-growing independent manufacturer and marketer of branded ready-to-eat snacks. Build a three-statement LBO model from the financials and assumptions below. Treat any pre-filled template you are given as a colleague's draft from a *different* deal — do not assume it is correct.

1. Business Overview

Cascade Consumer Brands is one of the fastest-growing independent producers of branded ready-to-eat snacks in the United States, based on the West Coast. The Company owns its manufacturing facility, giving it flexibility to reconfigure production lines and bring new flavors to market quickly — a capability management views as a competitive advantage versus larger CPG competitors that have historically focused on a narrow set of simple flavor profiles.

CCB generates revenue from three primary product families:

- **Indulgent line** (the Company's fastest grower, introduced ~4 years ago): a premium, chocolate-drizzled product that became the #1 SKU last year, growing >25% annually for the last two years. Management expects it to drive a disproportionate share of future growth as it gains distribution in national retailers and online channels.
- **Core line** (the original, 20+ year-old SKU): a light, low-calorie snack sold primarily through regional grocery and convenience accounts.
- **Seasonal / gift line**: a multi-pack product that sells heavily around the holidays and is commonly shipped as a gift or used for large gatherings.

The Company recently hired a food scientist to accelerate flavor innovation and has conducted consumer research pointing to white space in adjacent flavor profiles. Based on current forecasts, management expects to expand facility capacity within ~3 years to support growth.

2. Market, End Markets & Customers

- The U.S. ready-to-eat snack category in which CCB competes generates >$1.7B in annual tracked retail sales. The category is large but historically under-innovated, with most shelf space held by large CPG players focused on simple, single-flavor SKUs.
- **Channels:** strong distribution in club and convenience nationally; food/drug/mass distribution is regional today (primarily West/Southwest). Key national accounts still to be won include the largest mass and grocery retailers.
- **Online:** historically under-invested in digital marketing, yet online repeat-purchase rates exceed in-store, and contribution margins on direct/e-commerce sales are roughly double wholesale — a clear margin-accretive growth lever.

- **Sourcing:** deep relationships with farmers and ingredient suppliers for premium inputs (corn, dairy, chocolate, etc.). Management runs a lean operation with a culture of continuous innovation.

3. Historical & LTM Financials

Figures in $ millions. Use LTM 6/30 EBITDA to size the debt tranches.

$ in millions	FY-2	FY-1	FY-0	LTM 6/30
Revenue	108.0	128.0	148.0	152.0
Gross Profit	43.0	52.0	62.0	64.0
Gross Margin %	39.8%	40.6%	41.9%	42.1%
Adj. EBITDA	24.0	29.0	34.0	35.0
EBITDA Margin %	22.2%	22.7%	23.0%	23.0%
Capex	6.5	7.5	8.5	9.0

Projection drivers (base case): revenue grows ~14% in Year 1, decelerating toward ~9% by Year 5 as the indulgent line matures; gross margin expands ~30–50 bps per year on mix shift and online growth; capex ~$9–11M/year (a capacity expansion is expected mid-projection). Use a 5-year projection from close (12/31/Year 0) to 12/31/Year 5.

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4. Transaction & Capital Structure Assumptions

General:

- Run a 5-year model. Closing date 12/31/Year 0; first projection year is Year 1.
- Company is acquired **cash-free, debt-free**.
- $2.5M buyer third-party diligence fees and other transaction expenses (these are *not* financing fees — do not capitalize them).
- Tax rate of 26.5%, constant throughout the projection.

Leverage (sized off LTM 6/30 EBITDA):

Tranche	Sizing	Rate	Key Terms
Revolver	$10M capacity	SOFR + 6.5%	$1M drawn at close; 0.5% unused fee; 2.25% upfront fee; 5-yr
Term Loan	4.0x LTM EBITDA	SOFR + 6.5%	1% annual amortization; 2.25% upfront fee; 5-yr; ECF sweep (below)
Sr. Sub Notes	1.0x LTM EBITDA	10% cash / 2% PIK	3.5% upfront fee; 5-yr; PIK accretes to balance

Term Loan Excess Cash Flow (ECF) sweep — begins in Year 2:

- Prior fiscal year-end total net leverage **< 1.5x** → sweep = **0%** of ECF
- Prior FY-end total net leverage ≥ **1.5x and < 3.0x** → sweep = **25%** of ECF
- Prior FY-end total net leverage ≥ **3.0x** → sweep = **50%** of ECF
- **ECF** = Cash Flow from Operations + Cash Flow from Investing, for the fiscal year *prior* to the payment year (e.g., the Year 2 sweep is based on Year 1 ECF). No voluntary prepayments beyond amortization and the sweep.

Working Capital: hold Days Payable, A/R Days, and Inventory Days constant at FY-0 levels across the projection. A closing balance sheet will be provided.

Equity & Management:

- The firm invests at close (12/31/Year 0) and exits 12/31/Year 5 in common stock (no dividends).
- Current shareholders roll into **15% of pro forma common equity**; the firm owns the remainder. Rollover and firm equity are **pari passu** (identical per-share economics).
- **Management Incentive Plan:** 10% of fully diluted equity, struck at the firm's entry valuation. Model so that management participates in 10% of proceeds **only after** the common investors each recover their initial capital investment (**no catch-up**).

Exit: assume exit at the entry multiple on Year 5 EBITDA unless your analysis supports otherwise (you will defend your view).

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Required Deliverables

- **Part A (return within 3 hours):** purchase price, Sources & Uses, closing pro-forma cap table, and a full three-statement model (IS / BS / CF).
- Pro forma common equity ownership and a management option waterfall.
- Expected returns: **IRR** and **MOIC** at the Year 5 exit.
- A clearly labeled list of any additional assumptions you made.
- **Part B (discuss in interview):** what should the firm pay (enterprise value)? Which inputs most drive returns? Run and be ready to walk through key sensitivities.
- **Part C (bring written notes):** investment merits & risks, your top 3–5 diligence requests, and a 2–3 sentence investment thesis (do the deal or not).

Discussion Questions (be ready to defend verbally)

- What entry multiple would you recommend, and what are the key assumptions behind it?
- What are the 2–3 model inputs that most affect returns in this deal?
- How does the PIK toggle on the sub notes affect your analysis? When would PIK matter most?
- Run a downside: EBITDA grows 20% slower than base. What happens to IRR / MOIC?
- Would you do this deal? State your thesis in 2–3 sentences.

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