

The 1-Hour LBO

Blank workbook. One hour. Five-year hold. Build it in this order: sources and uses, income statement, working capital, cash flow, debt schedule, returns.

TRANSACTION

Entry EV / LTM EBITDA	10.0x
Exit EV / LTM EBITDA	10.0x
Hold period	5 years
Transaction fees	\$25m
Minimum cash	\$20m
Management rollover	8.0% of equity
Tax rate	25.0%
Existing debt	Refinanced at close

FINANCING

Revolver commitment	0.5x LTM EBITDA, undrawn
Revolver interest / commitment fee	7.0% / 0.50% on undrawn
Term loan	4.0x LTM EBITDA
Term loan interest / amortization	8.0% / 1.0% p.a.
Mezzanine	1.5x LTM EBITDA
Mezzanine interest	10.0% cash + 3.0% PIK
OID / financing fees	2.0% each, 7-year amortization
Cash interest income	2.0%
Cash sweep	100%, revolver then term loan

PURCHASE ACCOUNTING

Excess allocated to PP&E	20%
Incremental D&A life	15 years

INCOME STATEMENT

LTM revenue	\$800m
Revenue growth	8.0% p.a.
COGS	60.0% of revenue, held flat
LTM EBITDA	\$120m (15.0% margin, held flat)
D&A	3.0% of revenue

OPENING BALANCE SHEET

Cash	\$30m
Accounts receivable	\$100m
Inventory	\$80m
PP&E	\$500m
Goodwill	\$150m
Accounts payable	\$55m
Accrued liabilities	\$40m
Existing debt	\$300m
Shareholders equity	\$465m

WORKING CAPITAL AND CASH FLOW

Days sales outstanding	45
Inventory days (on COGS)	60
Days payable outstanding (on COGS)	40
Accrued liabilities	5.0% of revenue
Capex	3.5% of revenue

WHAT TO HAND IN

Entry equity check, MOIC and IRR over the five-year hold. A model that ties and flexes scores higher than a fuller one that breaks, so get a balancing shell working before you layer in the sweep, the PIK and the purchase accounting.

ONE SIMPLIFICATION

Interest is calculated on beginning balances. Production models use average balances, which makes the model circular, since interest depends on the debt balance and the balance depends on cash flow after interest. That requires iterative calculation to be switched on. Worth knowing, because it is a common follow-up question.