

LBO QUICK & DIRTY

LBO Test

Test instructions

You have **75 minutes** to build a full LBO. Find the return the Sponsor will receive for buying and selling the below Company over 5 year's time.

Assumptions

- Transaction date of 12/31/2014
- Minimum cash balance of \$300mm
- Write-up of assets: 20%
- Useful life of write-up: 10 years
- Useful life of financing fees: 7 years
- Entry multiple: 5.0x
- Exit multiple: 6.0x
- M&A fees: 1.0%
- Financing fees: 1.5%

New debt issued with transaction

- \$600mm new term loan at 5% amortization and 6% interest rate; 100% cash sweep
- \$600mm new senior notes at 0% amortization, 6% PIK interest, and 10% interest rate; 0% cash sweep
- \$100mm Revolver capacity at 5% interest rate and 1% commitment fee

2014 Income statement

- Revenues: \$1,000mm, with 10% projected sales growth
- COGS: \$600mm
- SG&A: \$50mm
- D&A: \$25mm
- Taxes: \$100mm
- Assume flat margins, SG&A, and D&A

2014 Balance sheet

- Cash and equivalents: \$350mm
- Accounts receivable: \$200mm
- Accounts payable: \$200mm
- Inventory \$300mm
- PP&E: \$750mm
- Goodwill: \$50mm
- Other long-term assets: \$225mm
- Other current liabilities: \$325mm
- Existing term loan: \$300mm
- Existing senior notes: \$300mm

Cash flow statement

- Capex projections as 7% of sales

Other

- 3% cash interest rate