

Euromoney Training

Gulf Capital

**Leveraged Buyouts
Cash Flow Analysis**

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LBO Model

Project Giddy
Transaction Structure

Performance Case: Base
(FYE January; \$ in millions) 1/15/2006 9:36
#N/A

Uses of Funds	
Equity Purchase Price	\$19.0
Debt Retired	1.0
Debt Assumed	1.0
Cash Infusion	0.5
Transaction Costs	0.6
Total Uses	\$22.1

Sources of Funds		%
Existing Debt	\$0.0	0.0%
Bank Revolver	0.0	0.0%
Senior Bank Term "A"	12.0	54.3%
Senior Bank Term "B"	0.0	0.0%
Other Long-Term Debt	0.0	0.0%
Senior Subordinated Debt	3.0	13.6%
Junior Subordinated Debt	0.0	0.0%
Seller Note	0.0	0.0%
Preferred Stock	0.0	0.0%
Common Equity:		
Sponsor Equity	6.6	29.9%
Management Equity	0.5	2.3%
New Equity	0.0	0.0%
Excess Cash on Balance Sheet	0.0	0.0%
Total Sources	\$22.1	100.0%

IRR	Average Life
8.5%	3.68
15.1%	6.68
31.1%	
31.1%	

Acquisition Multiples	
2005 EBITDA	11.1x
EST. 2006 EBITDA	9.9x
2005 P/E	54.2x
EST. 2006 P/E	0.0x
To 2005 Book	3.5x
To EST. 2006 Book	2.8x

Exit Multiples	
Exit Year	2010
Exit EBITDA Multiple	7.0x
Exit P/E	0.0x
Exit Book Multiple	0.0x

Equity Allocation		Undiluted	Fully-Diluted
Senior Subordinated Debt	0.0%	2.0%	
Junior Subordinated Debt	0.0%	0.0%	
Seller Note	0.0%	0.0%	
Preferred Stock	0.0%	0.0%	
Sponsor Equity	93.0%	91.1%	
Management Equity	7.0%	6.9%	
New Equity	0.0%	0.0%	
Total Equity Allocation	100.0%	100.0%	

Goodwill Calculation	
Purchase Price of Equity	\$19.0
Plus: Existing Goodwill	0.0
Less: Net Worth	5.5
Asset Write-Up	0.0
Deferred Taxes	0.0
Goodwill	\$13.5

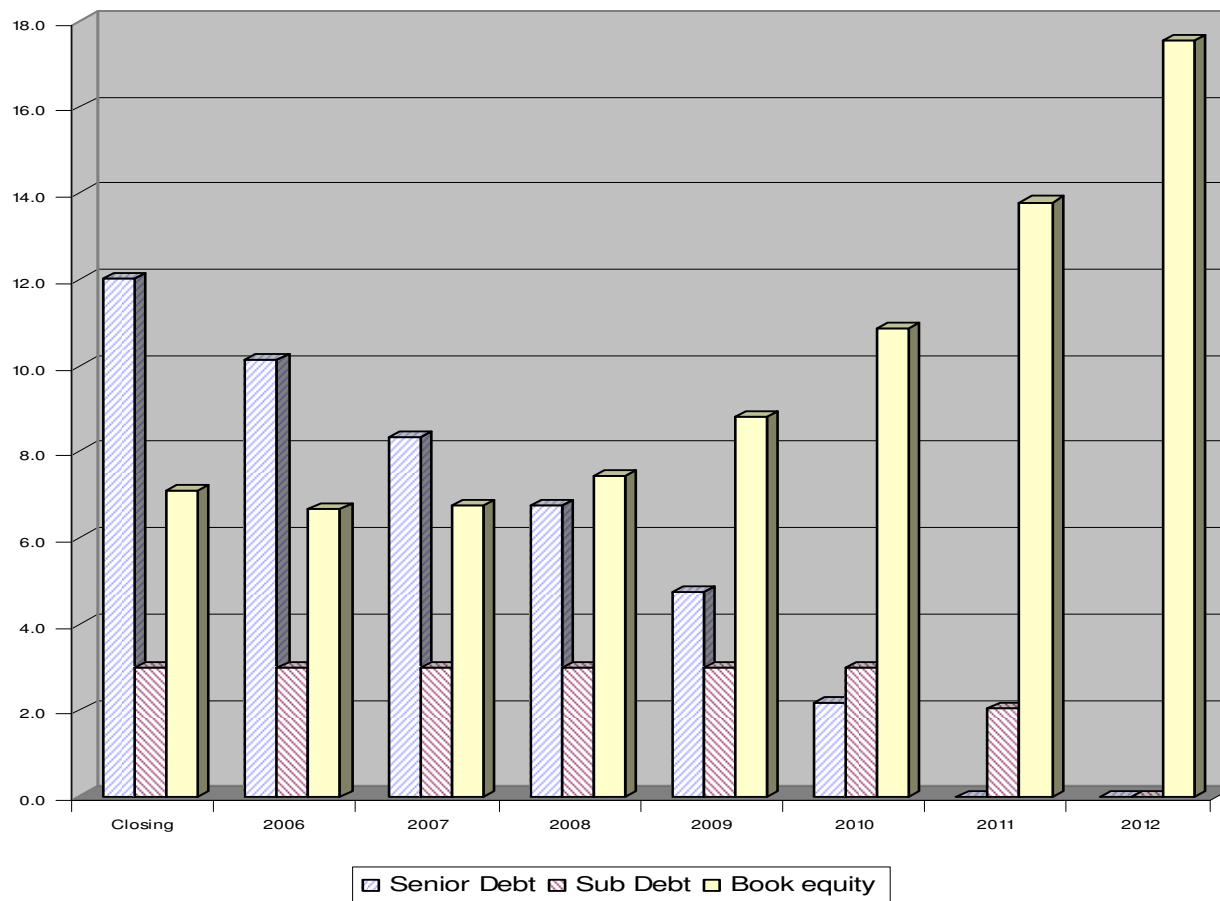
Leverage Assumptions				
	2005	2006	2007	2008
Sr. Debt / EBITDA	1.0x	4.8x	3.4x	2.3x
Sr. Debt / (EBITDA - Capex)	1.0x	4.8x	3.4x	2.3x
Total Debt / EBITDA	1.0x	6.1x	4.4x	3.2x
Total Debt / (EBITDA - Capex)	1.0x	6.1x	4.4x	3.2x

Other Assumptions / Switches		
Performance Case	1	Base
Circ Breaker	0	On
Preferred Dividend	0	% of Par
Cash Minimum	1	

Source: lbo_model1.xls

LBO Debt Paydown and Equity Buildup

Debt Amortization (US\$ millions)



Highlights: Debt Amortization

Project Giddy												
Projected Debt Repayment Schedule												
Performance Case: Base												
(FYE January; \$ in millions)												
Year #...	Projected										2015	
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015		
	1	2	3	4	5	6	7	8	9	10		
11	Cash Available For Debt Repayment	\$1.4	\$1.3	\$1.6	\$2.0	\$2.5	\$3.1	\$4.0	\$6.8	\$12.5	\$19.1	
13	Asset-Backed Addition To Revolver	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
15	Cash For Retirement Of Existing Debt	1.4	1.3	1.6	2.0	2.5	3.1	4.0	6.8	12.5	19.1	
16	Existing Debt Mandatory Repayment	0.5	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
17	Existing Debt Retired	0.5	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
19	Cash For Retirement Of Senior Bank Term "A"	1.9	1.8	1.6	2.0	2.5	3.1	4.0	6.8	12.5	19.1	
20	Senior Bank Term "A" Mandatory Repayment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
21	Senior Bank Term "A" Retired	(1.9)	(1.8)	(1.6)	(2.0)	(2.5)	(2.2)	0.0	0.0	0.0	0.0	
23	Cash For Retirement Of Senior Bank Term "B"	0.0	0.0	0.0	0.0	0.0	1.0	4.0	6.8	12.5	19.1	
24	Senior Bank Term "B" Mandatory Repayment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
25	Senior Bank Term "B" Retired	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
27	Cash For Retirement Of Other Long-Term Debt	0.0	0.0	0.0	0.0	0.0	1.0	4.0	6.8	12.5	19.1	
28	Other Long-Term Debt Mandatory Repayment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
29	Other Long-Term Debt Retired	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
31	Cash For Retirement Of Senior Subordinated Debt	0.0	0.0	0.0	0.0	0.0	1.0	4.0	6.8	12.5	19.1	
32	Senior Subordinated Debt Mandatory Repayment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
33	Senior Subordinated Debt Retired	0.0	0.0	0.0	0.0	0.0	(1.0)	(2.0)	0.0	0.0	0.0	
35	Cash For Retirement Of Junior Subordinated Debt	0.0	0.0	0.0	0.0	0.0	0.0	1.9	6.8	12.5	19.1	
36	Junior Subordinated Debt Mandatory Repayment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
37	Junior Subordinated Debt Retired	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
39	Cash For Retirement Of Seller Note	0.0	0.0	0.0	0.0	0.0	0.0	1.9	6.8	12.5	19.1	
40	Seller Note Mandatory Repayment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
41	Seller Note Retired	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
43	Cash For Retirement Of Preferred Stock	0.0	0.0	0.0	0.0	0.0	0.0	1.9	6.8	12.5	19.1	
44	Preferred Stock Retired	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
46	Cash For Retirement Of Bank Revolver	0.0	0.0	0.0	0.0	0.0	0.0	1.9	6.8	12.5	19.1	
47	Bank Revolver Retired	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
48	Bank Revolver Addition	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
50	Additions To Cash	\$0.5	\$0.5	\$0.5	\$0.5	\$0.5	\$0.5	\$2.4	\$7.3	\$13.0	\$19.6	

Existing debt paydown

Senior debt paydown

Ending cash

Highlights: Operating and Financing Assumptions

Project Giddy															
Income Statement Assumptions and Historical Performance															
Performance Case: Base (FYE January; \$ in millions)															
	Historical					Projected									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Consolidated Sales Growth	0.0%	0.0%	0.0%	0.0%	0.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%
Cost Of Goods Sold / Sales	0.0%	0.0%	0.0%	0.0%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%
Gross Margin	0.0%	0.0%	0.0%	0.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
Operating Expenses / Sales:															
SG&A	0.0%	0.0%	0.0%	0.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Other Expense #1	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other Expense #2	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other Expense #3	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other Expense #4	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Consolidated EBITDA / Sales	0.0%	0.0%	0.0%	0.0%	10.0%	10.0%	11.1%	12.0%	12.9%	13.6%	14.3%	14.9%	15.5%	16.0%	16.4%
Consolidated EBIT (Post-Transaction) / Sales	0.0%	0.0%	0.0%	0.0%	5.0%	4.0%	2.8%	1.8%	1.0%	0.3%	0.0%	0.0%	0.0%	0.0%	0.0%
Interest (Coupon) Rates															
Interest Income	0.0%	0.0%	0.0%	0.0%	0.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Existing Debt	0.0%	0.0%	0.0%	0.0%	0.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%
Bank Revolver	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Senior Bank Term "A"	0.0%	0.0%	0.0%	0.0%	0.0%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%
Senior Bank Term "B"	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other Long-Term Debt	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Senior Subordinated Debt	0.0%	0.0%	0.0%	0.0%	0.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%
Junior Subordinated Debt	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Seller Note	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Preferred Stock (% of Par)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Preferred Stock (\$ Amount)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Preferred Stock Par Value	\$100.00														
Tax Rates:															
Federal Tax Rate	0.0%	0.0%	0.0%	0.0%	0.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
State Tax Rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Effective Tax Rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Highlights: Exit

Performance Case: Base (FYE January; \$ in millions)				
EXIT YEAR:	2010	Guess Rate:	10.0%	Return:
Equity Allocation				
	Investment	Dilution		
		Undiluted	Partial	Full
Sponsor Equity	\$6.6	93.0%	91.1%	91.1%
Management Equity	0.5	7.0%	6.9%	6.9%
New Equity	0.0	0.0%	0.0%	0.0%
Other Long-Term Debt	0.0		0.0%	0.0%
Senior Subordinated Debt	3.0		2.0%	2.0%
Junior Subordinated Debt	0.0		0.0%	0.0%
Preferred Stock	0.0		0.0%	0.0%
Seller Note	0.0		0.0%	0.0%
Management Performance Option				0.0%
Total Initial Equity Investment	\$7.1			
Total Overall Investment	\$10.1	100.0%	100.0%	100.0%
Exit Proceeds And Allocation				
Exit Year EBITDA	\$4.8			
x EBITDA Multiple	7.0x			
Exit Valuation	\$33.7			
Plus: Excess Cash	0.5			
Conversion Costs	0.1			
Less: Total Remaining Debt	(6.2)			
Total Preferred	0.0			
Net Proceeds To Allocate	\$28.1			
Allocation				
	%	Gross Allocation	Conversion Costs	Net Allocation
Other Long-Term Debt Share	0.0%	\$0.0	\$0.0	\$0.0
Senior Subordinated Debt Share	2.0%	0.6	(0.1)	0.4
Junior Subordinated Debt Share	0.0%	0.0	0.0	0.0
Preferred Stock Share	0.0%			0.0
Seller Note Share	0.0%			0.0
Sponsor Equity Share	91.1%			25.6
Management Equity Share	6.9%			1.9
New Equity Share	0.0%			0.0

Exit equity allocation

Exit valuation

Case Study: Jordan Cement

- ❑ The owner of Jordan Cement wants to sell his family's company for \$19 million. He is prepared to offer a vendor note at 10% p.a. for up to \$2 million of the financing.
- ❑ A preliminary agreement for the sale has been reached between the Biriqadar family and the sponsors of the acquisition, Orascom and a European development bank. Together with management, the sponsors can contribute equity capital of \$5.5 million, and banks can provide a further \$12 million.
- ❑ **Your challenge is to structure the remainder of the financing.**



Project Jordan Cement
Transaction Structure

Performance Case: Base
(FY: January, \$ in millions)

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Uses of Funds		Sources of Funds		IFR	Average Life
Equity Purchase Price	\$19.0	Existing Debt	\$0.0 0.0%	8.5%	4.20
Debt Retired	1.0	Bank Revolver	0.0 0.0%		
Debt Assumed	0.0	Senior Bank Term "A"	12.0 58.5%	15.0%	7.00
Cash Infusion	0.4	Senior Bank Term "B"	0.0 0.0%		
Transaction Costs	0.2	Other Long-Term Debt	0.0 0.0%		
Total Uses	\$20.5	Senior Subordinated Debt	3.0 14.6%		
Current Stock Price	\$63.25	Junior Subordinated Debt	0.0 0.0%	29.3%	29.3%
Offer Premium	0.0%	Seller Note	0.0 0.0%		
Offer Price Per Share	\$63.25	Preferred Stock	0.0 0.0%	29.3%	29.3%
Shares Outstanding		Common Equity	2.0 9.9%		
Equity Purchase Price		Sponsor Equity	1.5 7.3%		
		Management Equity			

Acquisition		Equity Allocation		Goodwill Calculation	
2005 EBITDA	10.58	Senior Subordinated Debt	0.0%	Purchase Price of Equity	\$19.0
EST. 2006 EBITDA	9.28	Junior Subordinated Debt	0.0%	Plus:	
2005 P/E	77.4x	Seller Note	0.0%	Existing Goodwill	0.0
EST. 2006 P/E	0.0x	Preferred Stock	0.0%	Less:	
To 2005 Book	2.9x	Sponsor Equity	36.7%	Net Worth	6.5
To EST. 2006 Book	3.7x	Management Equity	27.1%	Asset Write-Up	0.0
		New Equity	36.2%	Deferred Taxes	0.0

Exit Multiples

Exit Year	2010
Exit FRITDA Multiple	7.0x

Use the spreadsheet: jordan.xls

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