Case Study – “Paper LBO” / Quick LBO Modeling Test

ABC Capital is considering a leveraged buyout of OpCo.

OpCo has had poor operating results over the last few years, with Revenue and EBITDA declining rapidly, but ABC Capital believes it has found a management team that will stabilize OpCo.

OpCo currently has EBITDA of $250mm, and ABC believes that the new management team could keep EBITDA flat for the next 5 years.

ABC Capital has obtained debt financing of $750mm at 10% interest, and OpCo expects working capital to be a source of funds at $6mm per year.

OpCo requires capital expenditures of $35mm per year, and it has a tax rate of 40%. Assume no transaction fees, zero minimum cash required, and that PP&E on the balance sheet remains constant for the next 5 years.

Assume that excess cash is NOT used to repay debt, and instead simply accumulates on the Balance Sheet.

Calculate the purchase price required for ABC Capital to obtain a 3.0x multiple of invested capital (MOIC) if it plans to sell OpCo after five years at an EV / EBITDA multiple of 6.0x.