Debt Schedules 101: What They Are and How to Build Them with an 80/20 Approach

And why some rabbit holes are not worth going down...

*"I've completed many of your tutorials, but I'm confused about **Debt Schedules**. How do I decide on the setup and individual elements?"*

*"Each example in the 3-statement modeling, LBO modeling, and other case studies seems to be **different**."*

Debt Schedule 101

For all the files and resources, go to:

https://breakingintowallstreet.com/kb/leveraged-buyouts-and-lbo-models/debt-schedule/

(Or Google "biws debt schedule")

Debt Schedules 101

- **Debt Schedule:** Tells you how much Debt a company is **issuing or repaying** each year and its **approximate interest expense**

- **Mechanics:** If a company falls below its "Minimum Cash" or "Targeted Cash," then it must issue Debt or Equity

- **And:** If a company has a *cash flow surplus,* it can **repay Debt** or **repurchase Stock**

- **Complexities:** Mandatory vs. optional Debt repayments, different model and deal types, and different tranches of Debt with different interest rates and other terms

Debt Schedules 101

- **3-Statement Model:** Keep it very, very simple and follow the outline here; combine all the Debt "tranches" (separate loans) and use a weighted-average interest rate

  - **Purpose:** Most companies want to **keep their Cash and Debt in similar ranges or percentages of Revenue** over time

- **LBO Model:** You probably need ~2 tranches (Term Loans that can be repaid early and Senior Notes that can't) and possibly a Revolver for unmet cash flow needs as well

  - **Purpose:** You normally assume that a company **repays significant Debt** following a leveraged buyout

- **And:** You need to track the interest rate and interest expense for each tranche separately

Debt Schedules 101

- **Credit/Refinancing Model:** A company has upcoming Debt maturities or needs capital for other projects, so you forecast its financials and consider different options

  - **Purpose:** Should the company raise 100% Debt? 100% Equity? A mix of both? Which type of Debt?

- **And:** You'll need not only its **Minimum Cash** but also its **targeted credit stats and ratios** and **different scenarios**

- **Other Types:** In M&A models, Debt Schedules tend to be quite simple and follow the 3-statement treatment; Debt Schedules in real estate, project finance, etc., are much more specialized

Debt Schedules 101

Complexity:

Simple, 30-90-Minute 3-Statement Models	Longer 3-Statement Models and Simple LBO Models (<= 2 Hours)	More Complex LBO Models (> 2 Hours)	Credit / Refinancing Models
▪ **Purpose:** Keep Cash and Debt in similar ranges	▪ **Purpose:** In LBO models, repay significant Debt	▪ **Purpose:** Repay significant Debt	▪ **Purpose:** Fund maturities and/or other capital needs
▪ **Minimum/Targeted Cash** is a key driver	▪ **Minimum/Targeted Cash** is a key driver	▪ **Minimum/Targeted Cash** is a key driver	▪ **Minimum/Targeted Cash** is a key driver
▪ **Debt Tranches:** Tend to be *combined* into 1 (weighted-avg. interest rate)	▪ **Debt Tranches:** 2-3, each with separate interest and repayment terms	▪ **Debt Tranches:** 3-4+	▪ **Debt Tranches** could be anything
▪ **Cash Flow Avail. for Debt Repayment:** Often skip this and just calculate Cash Flow Surplus / Deficit	▪ **Cash Flow Avail. for Debt Repayment** is linked to Beg. Cash, FCF, mandatory repayments, and Min Cash	▪ **Cash Flow Avail. for Debt Repayment** is linked to Beg. Cash, FCF, mandatory repayments, and Min Cash	▪ **Cash Flow Avail. for Debt Repayment** is less predictable/formulaic
▪ **Revolver:** Unlikely in very short/simple models	▪ **Revolver** may or may not be present	▪ **Revolver** is always present	▪ **Revolver** is possible
		▪ **Additional:** May include interest floors, PIK, cash flow sweeps, OID, commitment fees, etc.	▪ **Additional:** May also include stock issuances and repurchases and any of the extra features to the left

Outline for This Tutorial:

- **Part 1:** Debt Schedules in 3-Statement Models   **7:22**

- **Part 2:** Debt Schedules in LBO Models   **9:46**

- **Part 3:** Debt Schedules in Credit/Refinancing Models   **15:07**

3-Statement Model Debt Schedules

- **GOAL:** Keep it **simple**, especially with a time limit such as 30, 60, or 90 minutes, and keep Cash and Debt in similar ranges

- **Best Example:** Look at our 90-minute model for Otis

- **IDEA:** Take the Beginning Cash, add everything on the CFS except for Debt and Equity Issuances/Repurchases, and subtract the Min Cash

- **Positive:** Repay some Debt and repurchase some Stock

- **Negative:** Issue additional Debt to boost the Cash balance
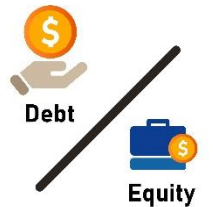
LBO Model Debt Schedules

- **GOAL:** Simplicity + repay as much Debt as possible over time

- **Requirements:** Whatever the case study asks you to do – but you will *usually* need to model at least 2 tranches of Debt

- **Tranche 1:** Term Loans, which have mandatory and optional repayments and floating interest rates

- **Tranche 2:** Senior Notes, Subordinated Notes, etc., which tend to have fixed interest rates and stay constant until maturity

- **Revolver:** Like an "overdraft account" for a company

LBO Model Debt Schedules

- **Best Examples:** Look at some of the LBO models posted in this channel, such as the Twitter LBO or the 60-minute case

- **Complexities:** People tend to **make mistakes with the Revolver** and the **Cash Flow Available for Debt Repayment**

- **"Cash Flow Available for Debt Repayment":** Beginning Cash + Free Cash Flow – Mandatory Debt Repayments – Min Cash

- **Revolver:** If the CFADR is negative, draw on the Revolver in this amount; otherwise, repay as much of the Revolver as the company can with its CFADR

LBO Model Debt Schedules

- **Optional Repayments / "Cash Flow Sweep":** If the company has a Cash Flow Surplus after all of this (no need to draw on the Revolver), you can assume some **optional repayments**

- **Most Common:** Say that a fixed %, such as 50%, goes to repay the Term Loans or other "Senior Debt" ("50% Sweep")

- **Other Tranches:** They rarely allow for this early repayment, but you could build in a switch/assumption just in case

Credit/Refinancing Debt Schedules

- **GOAL:** "Based on a maximum Debt / EBITDA of 5x and a minimum EBITDA / Interest of 3x, this company should issue **60% Equity and 40% Debt** to refinance its upcoming maturities."

- **Requirements:** You still need a **Minimum Cash**, repayment terms for each tranche, and interest rates, but you *also* need ways to vary the **operational scenarios** and the **% of Debt and Equity issued**

- **Difficulty:** The biggest issues tend to be creating **justifiable assumptions** and deciding **how much to simplify**

Credit/Refinancing Debt Schedules

- **Best Examples:** We're providing a simplified Netflix refinancing model here to illustrate (full model is about 4x the length)

- **Step 1:** Build the cash flow projections or full 3-statement model, with support for multiple scenarios

- **Step 2: Forecast the interest rates**, which is simple if the company mostly has fixed-rate issuances

- **Step 3:** Project the **mandatory repayments and maturities** so you know the cash outflows each year
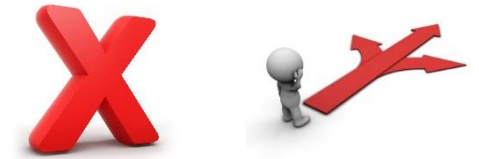
Credit/Refinancing Debt Schedules

- **Step 4:** Calculate the CFADR or "Cash Flow Surplus / (Deficit)" the usual way (Beg. Cash + Net Change in Cash or FCF – Debt Maturities/Repayments – Min. Cash)

- **Step 5:** Draw on or repay the Revolver, factoring in constraints like the max size and commitment fees

- **Step 6:** If the company still needs Cash, issue Debt or Equity; if it has a Cash Flow Surplus, repay Debt or repurchase Stock

- **Step 7:** Calculate the Interest Expense and Interest Income and link everything on the statements or CF projections

Credit/Refinancing Debt Schedules

- **Step 8:** Evaluate the credit stats and ratios in different scenarios until you find a **mix of Debt and Equity** that works (try different issuance times, types of Debt, etc.)

- **Netflix:** If their initial plan is to use 100% Debt to fund everything, we'd say **they need to rethink their plan**

- **Extreme Downside Case:** If the business trends in this direction, switch to 50% Debt / 50% Equity instead

- **And:** Consider issuing Equity now to build up a "buffer" and avoid future issuances at even higher rates

Recap and Summary

- **Part 1:** Debt Schedules in 3-Statement Models

- **Part 2:** Debt Schedules in LBO Models

- **Part 3:** Debt Schedules in Credit/Refinancing Models