LBO Case Study – Fromageries Bel – 90 Minutes

You are working at LBO France, a leading private equity firm specialising in middle-market European buyouts.

You are considering a leveraged buyout of Fromageries Bel ("Bel"), a leading pure-play cheese manufacturer with strong growth opportunities in emerging markets, especially in Africa & the Middle East and Asia.

Use the **provided template** to build an LBO model for the transaction, calculate the returns to the sponsor and management team, and **recommend for or against the deal**. You have **90 minutes** to complete the model and make a short recommendation.

Among other topics, this case study will cover Net Operating Losses (NOLs), Shareholder Loans, waterfall incentive structures, and value creation / returns attribution analysis in the context of leveraged buyouts.

PART 1 – FINANCIAL PROJECTIONS

Bel expects to grow the most quickly in Africa, followed closely by the Near & Middle East, followed by the Americas & Asia-Pacific; growth in the other regions will be muted.

Margins are expected to increase modestly in many regions but will fall slightly in the Near & Middle East due to the company's planned expansion there.

To achieve this growth, the company plans to spend higher-than-normal amounts on CapEx and Working Capital over the next four years.

Use the percentages in the file, some of which have already been filled in, to project the blank percentages and complete the company's revenue, expense, and cash flow projections.

Project down through "Free Cash Flow (FCF)" and leave Cash Interest, Debt Interest Expense, and Shareholder Loan Interest Expense blank for now.

PART 2 – TRANSACTION ASSUMPTIONS

Please assume a Purchase EV / EBITDA of **10x** and Debt as the provided multiples of EBITDA. The transaction will be completed on a cash-free, debt-free basis.

The transaction fees will be a fixed €50 million.

The **Equity** portion of the deal will be:

- **Management Equity Investment:** 10%.
- **Sponsor Equity:** 30%.
- **Shareholder Loan (Sponsor Only):** 60% at an 8% fixed interest rate.

For the Debt, please use the figures provided for the interest and amortization for each tranche.

PART 3 – CASH FLOW AND DEBT REPAYMENT

If you haven't already done so, project the company's Free Cash Flow starting with EBITDA, and leave blank any line items that you do not yet have.

In the Debt schedule, link the contractual repayments for each tranche to the figures in the Debt assumptions, and assume no optional repayments except for the Revolver.

Revolver borrowing should be based on a **minimum Cash balance** of 5.0% of annual SG&A.

To avoid circular references, always use the *beginning* Debt balance to calculate Interest.

PART 4 – RETURNS CALCULATIONS

Your firm believes it can **expand Bel's multiples** as the company demonstrates higher growth in emerging markets and increases its EBITDA margins.

Therefore, assume an EBITDA Exit Multiple of 10x in Year 1 (the same as the Purchase Multiple), rising to 12x by Year 5, which reflects the company's improving financial performance.

Project the changes in the Shareholder Loan as well as the returns to both the sponsor and the management team under these assumptions. You should make separate calculations for **each projected year** in the model.

PART 5 – TAXES, NOL SCHEDULE, AND LINKS

First, return to the P&L and make sure you've linked in the Debt Interest Expense and Shareholder Loan Interest Expense properly. Those will change the Profit Before Tax significantly.

Bel has an initial NOL balance of **€350 million**. Use that information to project the NOLs Created, NOLs Used, and Cash taxes each year, and make sure you update the Free Cash Flow projections accordingly.

Ensure that everything else is linked properly as well.

PART 6 – MANAGEMENT INCENTIVES

Bel management has demanded an incentive structure whereby they receive an increased percentage of the marginal returns if certain thresholds are met.

For example, if the money-on-money multiple is above 1.75x, management will receive 15% of the portion of proceeds that represent the 1.75x multiple up to the 2.00x multiple.

The full schedule for multiples and marginal profit percentages is shown in the model.

Complete this **waterfall schedule** across the four tiers, and calculate the money-on-money multiple and IRR to the sponsor and management team each year *after* this retrocession has been granted.

PART 7 – SENSITIVITIES AND VALUE CREATION ANALYSIS

Assume an exit in Year 5, and create sensitivities based on the exit multiple vs. the purchase multiple and the exit multiple vs. the EBITDA performance relative to the company's plan (use the toggle toward the top of the spreadsheet to adjust for that).

Pick reasonable ranges for the percentages and multiples.

At the bottom, complete the Value Creation analysis that shows the returns percentages from EBITDA growth vs. multiple expansion vs. debt paydown and cash generation.

Also, break down the EBITDA creation by Sales Growth vs. Margin Expansion.

PART 8 – INVESTMENT RECOMMENDATION

Your firm's targeted IRR is 20%, and its targeted holding period is five years.

Based on that criteria, would you recommend acquiring Fromageries Bel? Explain why or why not in **no more than five sentences**.