

Chapter 9
"An Analytical Approach to
Investments, Finance and Credit"

Transaction Analysis: LBOs, M&As, and other Capital Market Deals

Transaction Analysis: An Overview

- A company needs to decide either to raise equity or debt, or both, and that constitutes a transaction.
- Every transaction that involves accessing the capital markets for successful execution is unique.
- Whether a private equity firm is tendering 100% of the shares of publicly traded company, or a company is seeking to merge with another company, the capital market raised has different “shapes and sizes.”
- The common goal, of course, is meeting or exceeding return expectation. Since each investor, debt or equity, that is participating in the transaction has different objectives, it’s important that the transaction is structured to meet everyone’s expectations.

One Transaction, Multiple Expectations: The Analysis

- The parties involved in a transaction such as an LBO or an M&A have the following expectations at different periods of their business cycle in their respective markets:
 - **Private equity firms (PE firms):** Private equity firms, also known as financial sponsors, are investment companies financed by third-party investors such as pension funds, insurance companies, and high net-worth individuals.
 - **Investment bankers and underwriters**
 - **Commercial banks and institutional investors**
 - **Public bond and private note investors**
 - **Target company**
 - **Government**
 - **Rating agencies**

Case Studies

- **Case Study I**: Leveraged Buyout Transaction (LBO), Public to Private (Hypothetical): AK Steel
- **Case Study II**: Leveraged Buyout Transaction (LBO), Private to Private: Celerity Technology, Inc
- **Case Study III**: Stock Purchase Mergers and Acquisition (M&A): Steel Dynamics Acquisition of AK Steel (Hypothetical)
- **Case Study IV**: Asset Purchase Mergers and Acquisition (M&A): Steel Dynamics (STLD) Acquisition of AK Steel (AKS) (Hypothetical)
- **Case Study V**: Distress Buyout of Private Company: Southstar Apparel Manufacturing Inc.
- **Case Study VI**: Initial Public Offering: Droussia Beach Hotel Company