

# CASE STUDY

## GREEN LANDSCAPE SERVICES Ltd.

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### **Company Overview**

Green Landscape Services Ltd (“GLS”), established in 1982, is a provider of commercial and residential landscape services throughout Cyprus. GLS in 2018 served 100 commercial and 700 residential customers. Landscape services include daily lawn and tree care and seasonal pruning. The service is based on monthly subscription payments priced at different levels of services.

### **Situation:**

The 70-year old Mr. Michaelides, a founder and sole-owner of GLS is looking to retire so it retained an investment advisor to help him find a buyer for his company. After a thorough valuation analysis of the GLS business, the investment advisor has advice Mr. Michaelides to seek at least €3 million for the business. The €3.0 million includes purchasing all the shares of the company estimated at €2.5 million and repayment of the €500,000 existing loans outstanding.

### **Transaction**

Heintz Ward & Co, (HW), a Private Equity firm, before signing the agreement to acquire GLS for €3.0 million needs to analyze that the asking price is justifiable based on a 5-year projections plan. Transaction Fees are €30,000.

### **Capital Raising:**

HW is in the process of raising the necessary funds to cover the purchase price, refinance GLS’s existing debt and pay for transaction fees. The proposed structure is as follows:

#### **Equity:**

HW will invest maximum of €1,200,000.

**Bank Debt:** Alpha Bank approved a loan based on the Company’s last year’s EBITDA. The Money Terms were as follows:

#### **TERM LOAN A**

<b>Amount:</b>	3.0x 2018 EBITDA *
<b>Interest:</b>	LIBOR + 3.5%
<b>Term:</b>	7 years
<b>Scheduled Payment</b>	Year 2019: 50,000, Year 2020:75,0000, Year 2021: 100,000, Year 2022: 125,000, Year 2023: 150,000, Year 2024:175,000, 2025: The Balance

#### **LIBOR ASSUMPTIONS:**

Starting LIBOR at 2.50% and increase 0.5% in 2019, increase 0.5% in 2020 and increase 1.0% in 2021

**Senior Unsecured Notes**

Morgan Stanley, an investment bank, managed to raise the Senior Unsecured Notes. The Money Terms were as follows:

<b>Amount:</b>	The balance of the financing (after Bank Loans & Equity)
<b>Interest:</b>	7.5%
<b>Term:</b>	8 years
<b>Scheduled Payment</b>	2019 – 2025: 0%, 2026: 100% (bullet payment)

**Last Year’s Operation Assumptions (2018):**

Average Revenue per month (ARPM) for Commercial Customer: €450  
Average Revenue per month f(ARPM) or Residential Customer: €200  
Number of total commercial customers 2018: 100  
Number of total residential customers 2018: 700  
Cost of Revenue as 55% of Revenue  
Operating Expenses as 20% of Revenue

**Projections’ Assumptions (Years 2019-2025):**

ARPM for both Commercial and Residential customers: Incr. of 3% per year  
Expected number of customers for both Commercial and Residential customers to grow: 2% per year.  
Cost of Revenue: **55% of Revenues**  
Operating expense: 20% of Revenues  
Depreciation: 5% of Revenues  
Amortization of Fees: 5 years  
Tax Rate at 20%  
Deferred Taxes as % of Tax expense 5%  
Working Capital is 1% revenue  
Capex: 5% of Revenues per year.

**ASSIGNMENT**

1. Prepare a transaction sources and uses statement
2. Prepare debt schedule for both the bank and mezzanine loans
3. Prepare Projections given the assumptions
4. Run an equity analysis for HW and see if the price meets the minimum return of 25%.