Mergers & Acquisition

PROJECT DESCRIPTION

Each student will be assigned a publicly traded company. You need to do the following:

1. You need to spread at least **<u>3-year historical financials</u>** including the Balance Sheet, Income Statement and summary Cash Flow Statement that includes Working Capital, Capex and Depreciation expense.

2. You need to build the **<u>transaction sources and uses</u>** and pro-forma balance sheet using the following assumptions:

    a. Purchase Stock Price: 20% premium of the December 31, 2021, closing price
    b. Refinance total debt (including short term and long term)
    c. Total Transaction fees and expenses of 3.0% of total (Purchase Price + Debt)
    d. New acquisition Debt should be structured as follows:
        i. The lowest amount of either:
            1. Senior Debt to total Acquisition Cost (Including transaction fees) of 50%; or
            2. Senior leverage of 4.0x (Senior Bank Debt 4.0x December 31, 2021 EBITDA)
        ii. The lowest amount of either:
            1. Subordinated Bonds to total Acquisition Cost (including transaction cost) of 20%; or
            2. Subordinated Debt to December 31, 2021 EBITDA of 2.0x
        iii. The Balance will be cash equity from the Private Equity Investor.

3. Your need to build **<u>Projections</u>** using reasonable assumptions (sales growth, margins, Capital Expenditures, Depreciation, Working Capital as % of Revenues, – based on historical experience – You may adjust them based on your independent work justifying the projected levels). Other assumptions will be as follows:
    a. Tax Rate: 22%
    b. Bank Loan Interest (Floating L+4.0% with Libor 50 bps escalation for the next 3 years) – use starting Libor rate of 1.0%
    c. Subordinated Debt Interest Rate – Fixed 8.0%
    d. No Dividends
    e. No Divestitures

4. Need to construct an **<u>Equity Return and DCF Analysis</u>** page.
    a. Calculate the Private Equity Investor's IRR based on the following assumptions:
        i. To Calculate the WACC use 20% Equity Return
        ii. Use the average of Terminal Value based on the following two methods:
            1. EBITDA Multiple method (use the same multiple you are purchasing the company.
            2. TV based on perpetuity method (Use WACC and growth rates at 80% of WACC) based next year's cash flow.