Landmark Facility Solutions

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I. Introduction

In September 2014, Tim Harris, CEO and president of Broadway Industries, faced a pivotal decision regarding the acquisition of Landmark Facility Solutions, a facility-services company based in Sacramento, California. Broadway Industries, rooted in Newark, New Jersey, operated within the highly competitive and fragmented facility management industry, which in 2013 saw U.S. organizations spend $120 billion on facility management services. This industry context underscored the significance of Harris's contemplation, especially considering the industry's trend towards consolidation and the growing preference for integrated facility services among large corporate clients.

The case presents the main challenge as determining the valuation of Landmark for Broadway and deciding the optimal financing strategy for the acquisition. Harris was considering whether to finance the acquisition entirely with debt or with a combination of debt and equity, amid varied opinions from the board members and the backdrop of an industry poised for growth in integrated services. The objective of the acquisition was to transform Broadway into a truly integrated facility-services provider, leveraging Landmark's strengths in building engineering, energy solutions, and its established market presence in the western United States to broaden Broadway's service offerings and geographic reach.

II. Evaluation

The acquisition of Landmark Facility Solutions by Broadway Industries presents several challenges and considerations. Firstly, the valuation of Landmark and the determination of an appropriate financing structure are critical obstacles. The case underscores the difficulties associated with assessing the true value of Landmark to Broadway, particularly given Landmark's declining operating margin despite its ability to command premium prices and its broad service portfolio. The decision between 100% debt financing and a mix of debt and equity financing adds another layer of complexity, each option carrying its own risks and implications for the future financial health of the combined entity.

Moreover, the evaluation raises concerns about the accuracy and realism of the assumptions made by the task force regarding management improvements, net working capital management, and the impact of a premium pricing strategy. Managing a combined entity that would double Broadway's size and span coast-to-coast operations introduces significant challenges, from integrating corporate cultures to achieving operational efficiencies across a more extensive network. The skepticism expressed by some of Broadway’s board members and external investment banks about the feasibility of the proposed cost-cutting measures and the premium pricing strategy underscores the uncertainties involved in this acquisition.

These considerations highlight the difficulties not just in the logistics of the acquisition itself, but also in the broader strategic alignment and operational integration post-acquisition. The assumptions about operational improvements, market growth, and financial outcomes are optimistic, raising concerns about their realism and the robustness of the strategic rationale behind the acquisition. As such, the case analysis itself faces the challenge of navigating these uncertainties and formulating a recommendation that acknowledges both the potential benefits and the significant risks of the proposed acquisition.

III. Analysis and Solutions

Tim Harris, CEO of Broadway Industries, is leading a bold move to acquire Landmark Facility Solutions. This step is crucial for Broadway, aiming to make a big impact in the $120 billion market of integrated facility services in the US, which is growing by 6% annually. Harris sees this acquisition as a way to

stretch Broadway's reach across the entire country, adding new services and reaching new customers, especially on the East Coast where Broadway currently doesn't have a presence. He's particularly interested in getting into the high-tech, biotech, and pharmaceutical sectors, areas where Landmark already has expertise.

The benefits of merging Broadway and Landmark come in two main areas: growing revenue and saving costs. Harris plans to introduce more comprehensive service packages to customers, expanding Broadway's market share. He also sees a big opportunity to save money by making Landmark's operations more efficient. Currently, Landmark spends too much due to poor management, but Harris is confident he can turn this around by applying the same principles that have made Broadway successful.

To make sure these benefits come to life, Harris has a clear plan. First, he knows it's important to carefully blend the teams and operations of Broadway and Landmark. He'll focus on building a strong leadership team that understands the vision for the combined company. For tackling Landmark's spending issues, Harris intends to cut unnecessary costs and manage the company's budget more effectively.

Additionally, entering new markets and industries will require a smart approach to understanding customer needs and adapting services accordingly. Harris plans to use Landmark's existing strengths and relationships in certain sectors, alongside Broadway's reputation for quality services, to make a strong entrance. Harris's focus on making operations more efficient, combined with a strategic plan for integration and market expansion, sets Broadway Industries up for success. This approach not only aims to grow Broadway's presence and services but also to position it as a leader in the US facility services market.

In order to come to a recommendation in regards to Broadway Industry's proposed acquisition, we must come to a valuation of the acquisition. To do so, we perform a detailed analysis of both Broadway Industry's and Landmark Facility Solution's respective financial statements, and performing a free cash flow analysis of the projected cash flows after the acquisition. We perform the cash flow analysis based on multiple scenarios: whether the acquisition is financed with all debt or by splitting the cost equally between debt and equity. The scenario we recommend will be described as the "expected scenario", while the scenario we choose not to recommend we will describe as the "pessimistic scenario."

Calculating WACC

To begin the analysis, an appropriate discount factor for valuing the acquisition is required, which will be the firm's weighted average cost of capital (WACC). The financial task force at Broadway Industries compiled information from three comparable companies, which will facilitate the quantitative analysis of the applicable WACC. From **Exhibit 4** of the case, we are given the levered beta values of three different companies. To unlever the beta values, we use the formula:

$$Beta\ (unlevered)\ =\ \frac{Beta\ (levered)}{[\,1 + (D/E)*(1-Tax)]}$$

The acquisition had a tax rate of 35% associated with it, and so using the financial data from each company we are able to come to the following unlevered beta values for each company

Figure 1: Unlevered Betas of Comparable Firms

Firm #	Firm 1	Firm 2	Firm 3
Beta	0.90	1.16	1.18

To find the unlevered beta of Broadway Industry after the acquisition, we take the average of the above three firms' betas, leading to a beta value of 1.08.

In the next step, the scenario analysis comes into play. Beyond the two scenarios described in the introduction to this section, there is a third scenario accounted for: if Broadway industry does not go through with the acquisition at all. This will provide a pre-acquisition valuation for Broadway.

An initial outcome of each scenario, which is crucial for our analysis going forward, is a difference in the debt to equity ratio (D/E) within each scenario. From **Exhibit 2** we are able to find the necessary financial information for these calculations. The pre-acquisition scenario is calculated first, where the D/E ratio is calculated by simply using the data in **Exhibit 2.** The exact data values used in the calculations, along with the calculated D/E ratios, are listed further below, in Figure 2.

The first scenario of interest is the all-debt financing scenario, wherein all $120 million dollars of financing occurs through debt, leading to our debt increasing by $120 million, while shareholder equity remains the same as before. The other scenario involves splitting this $120 million between debt and equity, leading to a $60 million increase in both debt and equity. The resulting values for D/E are presented below, in Figure 2.

Figure 2: Aspects of D/E Calculation

Scenario	Pre-Acquisition	100% Debt	50:50 Debt and Equity
Debt in millions	8.7	128.7	68.7
Equity in millions	43.13	43.13	103.13
D/E	0.202	2.984	0.666

Using the above D/E values, we are able to re-lever Broadway's beta of 1.08, in order to find the levered beta of the firm before and after the acquisition (in either scenario). We reuse the Beta equation from earlier, however we isolate the levered Beta value, leading to the following formula:

$$Beta\,(levered) \;=\; Beta\,(unlevered) \;*\; [1 \;+\; (D/E) * (1 - Tax)]$$

The resulting beta values are listed below.

Figure 3: Levered Beta Values per Scenario

Scenario	Pre-Acquisition	100% Debt	50:50 Debt and Equity
Beta	1.22	3.18	1.55

The next variable required for calculating the WACC is the cost of equity, which will be calculated using the CAPM approach, using each of the scenario's respective beta. The risk free rate is provided by the 10-year treasury bond rate of 2.56%, and a market risk premium of 5.9%. The cost of equity output from these calculations are listed below.

Figure 4: Cost of Equity per Scenario

Scenario	Pre-Acquisition	100% Debt	50:50 Debt and Equity
Beta	9.77%	21.29%	11.69%

The only variables left before WACC can be calculated are the cost of debt, and the respective weightings for debt and equity. To find the cost of debt, the financial task force at Broadway Industry assumed that the pre-tax cost of debt would be in line with the yield on an A-rated bond, which is 4.52%. Applying the 35% tax, we come to an after-tax cost of debt of 2.94%.

The final step is to find the weightings of debt and equity in each of the three scenarios. Using our amounts for debt and equity from Figure 2, we are able to determine the weightings for both variables in each scenario. The weightings for each respective scenario, along with the other key variables needed to calculate the WACC, are presented below in Figure 5. Given that all the variables are available, the final WACC calculation for each scenario is also included in Figure 5.

Based on our WACC calculations we find that post-acquisition, in either scenario, our WACC decreases from its previous amount. This means that the acquisition would lead to less risk in financing using debt, which would allow for easier financing using debt going forward. Although the WACC is lower when the acquisition is fully financed with debt, the extremely high cost of equity associated with the scenario indicates that it is not the clear-cut best choice. In the 50:50 financing scenario, the firm gains the benefit of having a lower WACC, while only increasing its cost of equity by about 2%. This provides justification to our recommendation that Broadway Industry goes through with the acquisition, and finances it by applying the $120 million of added debt in a 50:50 split between debt and equity.

Figure 5: WACC Calculations

Scenario	Pre-Acquisition	100% Debt	50:50 Debt and Equity
Debt in millions	8.7	128.7	68.7
Equity in millions	43.13	43.13	103.13
Total Capital in millions	51.83	171.83	171.83
Debt %	16.78%	74.90%	39.98%
Equity %	83.22%	25.10%	60.02%
Cost of Equity	9.77%	21.29%	11.69%
Cost of Debt After Tax	2.94%	2.94%	2.94%
WACC	**8.62%**	**7.55%**	**8.19%**

IV. Recommendations

The analysis of different financing alternatives and their implications for Broadway Industry reveals a nuanced approach to funding an acquisition. By examining the impact of these alternatives on the company's Weighted Average Cost of Capital (WACC), we gain insights into the relative risks and benefits of each financing method. The decrease in WACC following the acquisition signals a reduction in the overall cost of financing, suggesting that using debt becomes less risky and more appealing. Specifically, this scenario demonstrates that while a strategy fully reliant on debt financing may lower the WACC, it simultaneously elevates the cost of equity considerably. This outcome indicates a significant burden on equity holders, making it an unattractive option despite its lower cost of capital.

In contrast, a balanced financing approach, which divides the financing evenly between debt and equity, presents a more sustainable model. This strategy not only benefits from a reduced WACC, akin to the debt-only scenario, but it also limits the increase in the cost of equity to a manageable 2%. This balance between lowering the company's cost of capital and maintaining a reasonable cost of equity highlights the strategic value of mixed financing. It suggests that Harris leveraging a 50:50 debt-to-equity ratio not only capitalizes on the advantages of having a lower WACC but also smartly navigates the potential pitfalls associated with an overly aggressive debt financing strategy.
This examination into the financial dynamics post-acquisition, particularly the changes in WACC and the cost of equity, underlines the strategic merits of adopting a mixed financing approach for

Broadway Industry. Opting for a 50:50 split between debt and equity, with an introduction of $120 million in additional debt, appears to be a well-rounded strategy that balances risk and reward. It suggests a forward-looking financing strategy that optimizes Broadway Industry's capital structure in the wake of the acquisition, catering to both immediate financial health and long-term strategic growth.

Figure 6: Dilution in Equity

	Expected	Pessimistic
Value of the combined firm	$315.6	$221
Additional value created for Broadway after acquisition	$112.03	$49.59
Equity raised (40% of ownership)	$126.24	$88.4
Dilution when 60 million is raised	19%	27.15%

Figure 6 indicates that a 40% stake in the company is valued at $112.03 million, surpassing the $60 million required for the transaction. Consequently, this signifies that Landmark shareholders are receiving a premium on their investment.

Figure 7: Present Value of Acquisition from FCF Analysis

Expected		**Pessimistic**	
PV of Landmark Post-Acquisition	$ 138.83	PV of Landmark Post-Acquisition	$ 106.67
Less PV of Landmark Pre-Acquisition	$ 33.26	Less PV of Landmark Pre-Acquisition	$ 33.26
(a) Determines PV Created in Acquisition	$ 105.57	(a) Determines PV Created in Acquisition	$ 73.41
PV of Broadway Post-Acquisition	$ 116.38	PV of Broadway Post-Acquisition	$ 72.97
Less PV of Broadway Pre-Acquisition	$58.50	Less PV of Broadway Pre-Acquisition	$64.72
(b) Determines PV Created in Acquisition	$ 57.88	(b) Determines PV Created in Acquisition	$ 8.25
Total Value Created (a+b)	$ 163.45	**Total Value Created (a+b)**	$ 81.66
Share of Value Allocated to Landmark	$ 86.74	Share of Value Allocated to Landmark	$ 86.74
Share of Value Allocated to Broadway	$ 76.71	Share of Value Allocated to Broadway	$ (5.08)

Figure 7 indicates the value generated from Broadway's acquisition of Landmark both in the expected and pessimistic scenario. In the pessimistic scenario, the acquisition could lead to negative value being generated for Broadway. However, sensitivity analysis shows that the

acquisition will stay profitable for Broadway in most situations and is relatively resilient to small changes in projected WACC, operating margin, and perpetual growth rate.

V. Conclusion

In concluding our analysis of Broadway Industry's potential acquisition of Landmark Facility Solutions, it's clear that how Broadway decides to finance this acquisition is crucial. The detailed work on the Weighted Average Cost of Capital (WACC) shows that different ways of funding the deal have a big impact on Broadway's financial health. In particular, finding that a lower WACC after the acquisition means Broadway could borrow money more cheaply in the future is encouraging. A balanced financing approach, splitting the funding equally between debt and equity, stands out as the smart choice. This strategy takes advantage of the lower WACC while keeping the cost to shareholders reasonable. The analysis and figures strongly recommend going through with the acquisition, using a mix of debt and equity for financing.

Appendix

Expected Scenario

Step 1: Value of Landmark Post-Acquisition

Assumptions:	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
WACC	*8.19%*	*8.19%*	*8.19%*	*8.19%*	*8.19%*	*8.19%*	*8.19%*	*8.19%*	*8.19%*
Revenue Growth	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*4.0%*	*4.0%*	*4.0%*	*4.0%*
Operating Margin	*1.5%*	*2.0%*	*2.5%*	*3.0%*	*3.0%*	*3.0%*	*3.0%*	*3.0%*	*3.0%*
Net Working Capital	*7.0%*	*6.5%*	*6.3%*	*6.0%*	*5.5%*	*5.5%*	*5.5%*	*5.5%*	*5.5%*
Capital Expenditures	*3.63*	*3.81*	*4.00*	*4.20*	*4.41*	*4.59*	*4.77*	*4.96*	*5.16*
Revenue	$362.78	$380.91	$399.96	$419.96	$440.96	$458.59	$476.94	$496.01	$515.86
Operating Profits	5.44	7.62	10.00	12.60	13.23	13.76	14.31	14.88	15.48
Taxes	-1.90	-2.67	-3.50	-4.41	-4.63	-4.82	-5.01	-5.21	-5.42
NOPAT	3.54	4.95	6.50	8.19	8.60	8.94	9.30	9.67	10.06
Depreciation and Amortization	2.10	2.40	2.70	3.00	3.30	3.60	3.90	4.20	4.50
Net Working Capital	25.39	24.76	25.20	25.20	24.25	25.22	26.23	27.28	28.37
Change in Net Working Capital	0.11	0.63	-0.44	0.00	0.94	-0.97	-1.01	-1.05	-1.09
Capital Expenditures	-3.63	-3.81	-4.00	-4.20	-4.41	-4.59	-4.77	-4.96	-5.16
Free Cash Flow	2.12	4.18	4.76	6.99	8.43	6.99	7.42	7.86	8.31
Terminal Value									206.11
Total Free Cash Flow	**$2.12**	**$4.18**	**$4.76**	**$6.99**	**$8.43**	**$6.99**	**$7.42**	**$7.86**	**$214.42**

PV (Landmark)	**$138.45**
Less: Net Debt	-$0.37
Equity Value	**$138.83**

Step 2: Value of Broadway Post-Acquisition

Assumptions:	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
WACC	*8.19%*	*8.19%*	*8.19%*	*8.19%*	*8.19%*	*8.19%*	*8.19%*	*8.19%*	*8.19%*
Revenue Growth	*-10.0%*	*-10.0%*	*9.0%*	*9.0%*	*9.0%*	*4.5%*	*4.5%*	*4.5%*	*4.5%*
Gross Margin	*8.5%*	*8.5%*	*9.0%*	*9%*	*9.5%*	*9.5%*	*9.5%*	*9.5%*	*9.5%*
Operating Expenses	*2%*	*2%*	*2%*	*2%*	*2%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*
Capital Expenditures	*2.1%*	*2.1%*	*2.1%*	*2.1%*	*2.1%*	*2.1%*	*2.1%*	*2.1%*	*2.1%*
Revenue	$145.71	$131.14	$142.94	$155.81	$169.83	$177.47	$185.46	$193.80	$202.52
Gross Profits	12.39	11.15	12.86	14.02	16.13	16.86	17.62	18.41	19.24
Operating Profit	9.47	8.52	10.01	10.91	12.74	13.31	13.91	14.54	15.19
Taxes	-3.31	-2.98	-3.50	-3.82	-4.46	-4.66	-4.87	-5.09	-5.32
NOPAT	5.76	5.14	6.10	6.69	7.88	8.25	8.64	9.05	9.47
Depreciation and Amortization	3.10	3.30	3.50	3.70	3.90	4.10	4.30	4.50	4.70
Change in Net Working Capital	0.78	0.77	-0.63	-0.68	-0.74	-0.41	-0.42	-0.44	-0.46
Capital Expenditures	-3.06	-2.75	-3.00	-3.27	-3.57	-3.73	-3.89	-4.07	-4.25
FCF (With Acquisition)	6.83	6.72	6.24	6.70	7.73	8.48	8.88	9.30	9.72
Terminal Value (With Acquisition)									275.00
Total Free Cash Flow	**$6.83**	**$6.72**	**$6.24**	**$6.70**	**$7.73**	**$8.48**	**$8.88**	**$9.30**	**$284.72**

PV (Broadway With Acquisition)	**$182.60**
Less: Net Debt	$6.22
Less: Deal Financing	$60.00
Equity Value	**$116.38**

Step 3: Standalone Valuation of Broadway

From Exhibit 3	**2015**	**2016**	**2017**	**2018**	**2019**
WACC	*8.84%*	*8.84%*	*8.84%*	*8.84%*	*8.84%*
Perpetual Growth Rate	*4%*	*4%*	*4%*	*4%*	*4%*
Net Sales	$168.38	$175.11	$182.12	$189.40	$196.98
Operating Profit	6.74	7.00	7.28	7.58	7.88
Interest Expense	0.40	0.40	0.40	0.40	0.40
Net Income	4.12	4.29	4.48	4.66	4.86
Depreciation and Amortization	3.10	3.30	3.50	3.70	3.90
Change in Net Working Capital	-0.42	-0.36	-0.37	-0.39	-0.40
Capital Expenditure	-4.21	-4.38	-4.55	-4.74	-4.92
Free Cash Flow	2.84	3.12	3.31	3.50	3.70
Terminal Value					79.41
Total Free Cash Flow	**$2.84**	**$3.12**	**$3.31**	**$3.50**	**$83.10**

PV(Broadway)	**$64.72**
Less: Net Debt	$6.22
Equity Value	**$58.50**
PV(Improvements to Broadway)	**$196.71**
Total PV of Landmark to Broadway	**$255.21**

Pessimistic Scenario

Step 1: Value of Landmark Post-Acquisition

Assumptions:	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
WACC	*8.19%*	*8.19%*	*8.19%*	*8.19%*	*8.19%*	*8.19%*	*8.19%*	*8.19%*	*8.19%*
Revenue Growth	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*4.0%*	*4.0%*	*4.0%*	*4.0%*
Operating Margin	*1.5%*	*2.0%*	*2.5%*	*2.5%*	*2.5%*	*2.5%*	*2.5%*	*2.5%*	*2.5%*
Net Working Capital	*7%*	*7%*	*7%*	*6.50%*	*6.50%*	*6.50%*	*6.50%*	*6.50%*	*6.50%*
Capital Expenditures	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*
Revenue	$362.78	$380.91	$399.96	$419.96	$440.96	$458.59	$476.94	$496.01	$515.86
Operating Profits	5.44	7.62	10.00	10.50	11.02	11.46	11.92	12.40	12.90
Taxes	-1.90	-2.67	-3.50	-3.67	-3.86	-4.01	-4.17	-4.34	-4.51
NOPAT	3.54	4.95	6.50	6.82	7.17	7.45	7.75	8.06	8.38
Depreciation and Amortization	2.10	2.40	2.70	3.00	3.30	3.60	3.90	4.20	4.50
Net Working Capital	25.39	26.66	28.00	27.30	28.66	29.81	31.00	32.24	33.53
Change in Net Working Capital	0.11	-1.27	-1.33	0.70	-1.36	-1.15	-1.19	-1.24	-1.29
Capital Expenditures	-3.63	-3.81	-4.00	-4.20	-4.41	-4.59	-4.77	-4.96	-5.16
Free Cash Flow	2.12	2.27	3.87	6.32	4.69	5.32	5.69	6.06	6.43
Terminal Value									159.61
Total Free Cash Flow	**$2.12**	**$2.27**	**$3.87**	**$6.32**	**$4.69**	**$5.32**	**$5.69**	**$6.06**	**$166.04**

PV (Landmark)	**$106.29**
Less: Net Debt	-$0.37
Equity Value	**$106.67**

Step 2: Value of Broadway Post-Acquisition

Assumptions:	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
WACC	*8.19%*	*8.19%*	*8.19%*	*8.19%*	*8.19%*	*8.19%*	*8.19%*	*8.19%*	*8.19%*
Revenue Growth	*-15.0%*	*-15.0%*	*8.0%*	*8.0%*	*8.0%*	*3.5%*	*3.5%*	*3.5%*	*3.5%*
Gross Margin	*8.5%*	*8.5%*	*8.5%*	*9%*	*9%*	*9%*	*9%*	*9%*	*9%*
Operating Expenses	*2.4%*	*2.4%*	*2.4%*	*2.4%*	*2.4%*	*2.4%*	*2.4%*	*2.4%*	*2.4%*
Capital Expenditures	*2.1%*	*2.1%*	*2.1%*	*2.1%*	*2.1%*	*2.1%*	*2.1%*	*2.1%*	*2.1%*
Revenue	$137.62	$116.97	$126.33	$136.44	$147.35	$152.51	$157.85	$163.37	$169.09
Gross Profits	11.70	9.94	10.74	12.28	13.26	13.73	14.21	14.70	15.22
Operating Profit	8.39	7.14	7.71	9.00	9.73	10.07	10.42	10.78	11.16
Taxes	-2.94	-2.50	-2.70	-3.15	-3.40	-3.52	-3.65	-3.77	-3.91
NOPAT	5.46	4.64	5.01	5.85	6.32	6.54	6.77	7.01	7.25
Depreciation and Amortization	3.10	3.30	3.50	3.70	3.90	4.10	4.30	4.50	4.70
Change in Net Working Capital	0.78	0.77	-0.63	-0.68	-0.74	-0.41	-0.42	-0.44	-0.46
Capital Expenditures	2.89	2.46	2.65	2.87	3.09	3.20	3.31	3.43	3.55
FCF (With Acquisition)	4.89	4.71	6.48	7.37	7.87	7.84	8.18	8.52	8.87
Terminal Value (With Acquisition)									195.64
Total Free Cash Flow	**$4.89**	**$4.71**	**$6.48**	**$7.37**	**$7.87**	**$7.84**	**$8.18**	**$8.52**	**$204.51**

PV (Broadway With Acquisition)	**$139.19**
Less: Net Debt	$6.22
Less: Deal Financing	$60.00
Equity Value	**$72.97**

Step 3: Standalone Valuation of Broadway

From Exhibit 3	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
WACC	*8.84%*	*8.84%*	*8.84%*	*8.84%*	*8.84%*	*8.84%*
Perpetual Growth Rate	*4.0%*	*4.0%*	*4.0%*	*4.0%*	*4.0%*	*4.0%*

Net Sales	$168.38	$175.11	$182.12	$189.40	$196.98
Operating Profit	6.74	7.00	7.28	7.58	7.88
Interest Expense	0.40	0.40	0.40	0.40	0.40
Net Income	4.12	4.29	4.48	4.66	4.86
Depreciation and Amortization	3.10	3.30	3.50	3.70	3.90
Change in Net Working Capital	-0.42	-0.36	-0.37	-0.39	-0.40
Capital Expenditure	-4.21	-4.38	-4.55	-4.74	-4.92
Free Cash Flow	2.84	3.12	3.31	3.50	3.70
Terminal Value					79.41
Total Free Cash Flow	**$2.84**	**$3.12**	**$3.31**	**$3.50**	**$83.10**

PV(Broadway)	**$64.72**
Less: Net Debt	$6.22
Equity Value	**$58.50**
PV(Improvements to Broadway)	**$121.14**
Total PV of Landmark to Broadway	**$179.64**

Standalone Valuation of Landmark

	2015	2016	2017	2018	2019
WACC	*8.93%*	*8.93%*	*8.93%*	*8.93%*	*8.93%*
Revenue Growth	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*
Operating Margin	*1.50%*	*1.50%*	*1.50%*	*1.50%*	*1.50%*
Net Working Capital	*7.40%*	*7.40%*	*7.40%*	*7.40%*	*7.40%*
Capital Expenditures	*1.00%*	*1.00%*	*1.00%*	*1.00%*	*1.00%*
Revenue	$362.8	$380.9	$400.0	$420.0	$441.0
Operating Profits	5.44	5.71	6.00	6.30	6.61
Taxes	-1.90	-2.00	-2.10	-2.20	-2.32
NOPAT	3.54	3.71	3.90	4.09	4.30
Depreciation and Amortization	2.10	2.40	2.70	3.00	3.30
Net Working Capital	26.85	28.19	29.60	31.08	32.63
Change in Net Working Capital	-1.35	-1.34	-1.41	-1.48	-1.55
Capital Expenditures	-3.63	-3.81	-4.00	-4.20	-4.41
Free Cash Flow	0.66	0.96	1.19	1.42	1.64
Terminal Value					43.67
Total Free Cash Flow	**$0.66**	**$0.96**	**$1.19**	**$1.42**	**$45.31**
PV (Landmark)	**$33.26**				

	Perpetual growth rate of Broadway (Landmark's perpetual operating margin at 3%)								
WACC	*3.00%*	*3.25%*	*3.50%*	*3.75%*	*4.00%*	*4.25%*	*4.50%*	*4.75%*	*5.00%*
8.00%	$233.0	$237.4	$242.2	$247.7	$253.8	$260.8	$268.7	$277.8	$288.5
8.25%	$228.6	$232.5	$236.9	$241.7	$247.2	$253.2	$260.1	$268.0	$277.1
8.50%	$224.6	$228.2	$232.1	$236.4	$241.2	$246.6	$252.7	$259.5	$267.4
8.75%	$221.0	$224.2	$227.7	$231.6	$235.9	$240.7	$246.1	$252.1	$258.9
9.00%	$217.6	$220.6	$223.8	$227.3	$231.2	$235.4	$240.2	$245.5	$251.5
9.25%	$214.5	$217.2	$220.2	$223.4	$226.9	$230.7	$235.0	$239.7	$245.0
9.50%	$211.7	$214.2	$216.8	$219.8	$222.9	$226.4	$230.2	$234.5	$239.2

	Perpetual operating margin of Landmark starting 2018 (Broadway's perpetual growth rate at 4.5%)								
WACC	*1.50%*	*1.75%*	*2.00%*	*2.25%*	*2.50%*	*2.75%*	*3.00%*	*3.25%*	*3.50%*
8.00%	$253.8	$253.8	$253.8	$253.8	$253.8	$253.8	$253.8	$253.8	$253.8
8.25%	$247.2	$247.2	$247.2	$247.2	$247.2	$247.2	$247.2	$247.2	$247.2
8.50%	$241.2	$241.2	$241.2	$241.2	$241.2	$241.2	$241.2	$241.2	$241.2
8.75%	$235.9	$235.9	$235.9	$235.9	$235.9	$235.9	$235.9	$235.9	$235.9
9.00%	$231.2	$231.2	$231.2	$231.2	$231.2	$231.2	$231.2	$231.2	$231.2
9.25%	$226.9	$226.9	$226.9	$226.9	$226.9	$226.9	$226.9	$226.9	$226.9
9.50%	$222.9	$222.9	$222.9	$222.9	$222.9	$222.9	$222.9	$222.9	$222.9