

## LEVERAGED BUYOUT ANALYSIS

# KFC Holdings Japan, Ltd.

Reconstruction of Carlyle Group's Take-Private Transaction

<b>Target</b>	KFC Holdings Japan (TSE: 9873)
<b>Acquirer</b>	The Carlyle Group
<b>Announcement Date</b>	May 20, 2024
<b>Closing Date</b>	September 2024
<b>Units</b>	JPY millions (March 31 fiscal year-end)

Prepared by Ryosuke Sato

[github.com/Ryosuke0369/ryosuke-japanese-equity-research](https://github.com/Ryosuke0369/ryosuke-japanese-equity-research)

This analysis is for portfolio demonstration purposes only. It reconstructs a historical transaction using publicly available information.

## **TRANSACTION SUMMARY & ASSUMPTIONS**

Company Overview		Transaction Structure	
<b>Company</b>	KFC Holdings Japan, Ltd.	<b>TOB Price (JPY/share)</b>	6,500
<b>Ticker</b>	TSE: 9873 (Delisted)	<b>Pre-TOB Share Price</b>	5,398
<b>Sector</b>	Quick-Service Restaurant (QSR)	<b>Acquisition Premium</b>	20.4%
<b>Brand</b>	Kentucky Fried Chicken	<b>Shares Outstanding (k)</b>	22,354
<b>Franchisor</b>	Yum! Brands, Inc.	<b>Equity Value</b>	145,301
<b>Major Shareholder</b>	Mitsubishi Corporation 35.12%	<b>Enterprise Value</b>	123,510
<b>Acquirer</b>	The Carlyle Group	<b>EV/EBITDA</b>	14.9x
		<b>EV/EBIT</b>	21.1x
		<b>P/E</b>	33.5x

## Sources & Uses

Sources		Uses	
Term Loan A	50,000	32.8%	Share Acquisition
Term Loan B	25,000	16.4%	Debt Refinancing
Mezzanine	0	0.0%	Transaction Fees
Sponsor Equity	77,646	50.9%	Financing Fees
<b>Total Sources</b>	<b>152,646</b>	<b>100.0%</b>	<b>Total Uses</b>
			<b>152,646</b>
			<b>100.0%</b>

## Debt Terms

	Amount	Rate	Type	Maturity (Yrs)
Term Loan A	50,000	2.5%	Amortizing	7
Term Loan B	25,000	3.5%	Bullet	7
Total Debt	75,000			
Total Debt / EBITDA		9.1x		
Equity / Total Sources		50.9%		

## INCOME STATEMENT

(JPY millions, March 31 FYE)

	Actual					Projected				
	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025E	FY2026E	FY2027E	FY2028E	FY2029E
Revenue	79,634	89,652	97,520	99,926	110,685	115,112	119,141	122,716	126,397	130,189
Revenue Growth		12.6%	8.8%	2.5%	10.8%	4.0%	3.5%	3.0%	3.0%	3.0%
Cost of Goods Sold	44,674	50,954	56,610	59,395	65,367	67,916	70,055	71,911	73,942	76,161
COGS % Revenue	56.1%	56.8%	58.0%	59.4%	59.1%	59.0%	58.8%	58.6%	58.5%	58.5%
<b>Gross Profit</b>	<b>34,960</b>	<b>38,698</b>	<b>40,910</b>	<b>40,531</b>	<b>45,318</b>	<b>47,196</b>	<b>49,086</b>	<b>50,804</b>	<b>52,455</b>	<b>54,028</b>
Gross Margin	43.9%	43.2%	42.0%	40.6%	40.9%	41.0%	41.2%	41.4%	41.5%	41.5%
SG&A Expenses	30,173	32,344	34,802	36,909	39,454	39,714	40,508	41,110	41,711	42,702
SG&A % Revenue	37.9%	36.1%	35.7%	36.9%	35.6%	34.5%	34.0%	33.5%	33.0%	32.8%
Operating Income (EBIT)	4,787	6,354	6,108	3,622	5,864	7,482	8,578	9,695	10,744	11,326
Operating Margin	6.0%	7.1%	6.3%	3.6%	5.3%	6.5%	7.2%	7.9%	8.5%	8.7%
Depreciation & Amortization	1,955	1,477	1,463	1,924	2,411	2,532	2,621	2,577	2,654	2,604
D&A % Revenue	2.5%	1.6%	1.5%	1.9%	2.2%	2.2%	2.2%	2.1%	2.1%	2.0%
<b>EBITDA</b>	<b>6,742</b>	<b>7,831</b>	<b>7,571</b>	<b>5,546</b>	<b>8,275</b>	<b>10,015</b>	<b>11,199</b>	<b>12,272</b>	<b>13,398</b>	<b>13,930</b>
EBITDA Margin	8.5%	8.7%	7.8%	5.6%	7.5%	8.7%	9.4%	10.0%	10.6%	10.7%
Interest Expense	10	5	5	11	55	1,857	1,679	1,500	1,321	1,143
Earnings Before Tax (EBT)	4,777	6,349	6,103	3,611	5,809	5,625	6,900	8,195	9,422	10,184
Income Taxes	1,854	2,316	1,952	1,757	2,646	1,969	2,415	2,868	3,298	3,564
Effective Tax Rate	38.8%	36.5%	32.0%	48.7%	45.6%	35.0%	35.0%	35.0%	35.0%	35.0%
<b>Net Income</b>	<b>2,923</b>	<b>4,033</b>	<b>4,151</b>	<b>1,854</b>	<b>3,163</b>	<b>3,656</b>	<b>4,485</b>	<b>5,326</b>	<b>6,125</b>	<b>6,619</b>
Net Margin	3.7%	4.5%	4.3%	1.9%	2.9%	3.2%	3.8%	4.3%	4.8%	5.1%
<b>Levered Free Cash Flow Bridge</b>										
EBITDA	6,742	7,831	7,571	5,546	8,275	10,015	11,199	12,272	13,398	13,930
(-) Income Taxes	1,854	2,316	1,952	1,757	2,646	1,969	2,415	2,868	3,298	3,564
(-) Capital Expenditure	1,867	1,740	1,853	4,360	2,550	2,878	2,979	2,945	2,907	2,994
Capex % Revenue	2.3%	1.9%	1.9%	4.4%	2.3%	2.5%	2.5%	2.4%	2.3%	2.3%
(-) Change in Working Capital	500	800	600	1,200	1,000	500	500	500	500	500
<b>Levered Free Cash Flow</b>	<b>2,521</b>	<b>2,975</b>	<b>3,166</b>	<b>(1,771)</b>	<b>2,079</b>	<b>4,668</b>	<b>5,306</b>	<b>5,958</b>	<b>6,693</b>	<b>6,872</b>

# BALANCE SHEET

(JPY millions, March 31 FYE)

		FY2024	+/-	FY2024					
<b>Assets</b>									
Current Assets:									
Cash & Equivalents		24,636	(4,500)	20,136	16,364	13,319	11,105	9,815	8,894
Accounts Receivable		12,805		12,805	13,246	13,709	14,121	14,544	14,981
Inventory		3,200		3,200	3,349	3,455	3,546	3,646	3,756
Other Current Assets		2,500		2,500	2,648	2,740	2,822	2,907	2,994
<b>Total Current Assets</b>		<b>43,141</b>	<b>(4,500)</b>	<b>38,641</b>	<b>35,607</b>	<b>33,224</b>	<b>31,594</b>	<b>30,912</b>	<b>30,625</b>
Non-Current Assets:									
PP&E (Net)		8,500		8,500	8,845	9,203	9,571	9,824	10,214
Intangible Assets		1,200		1,200	1,200	1,200	1,200	1,200	1,200
Goodwill		0	69,512	69,512	69,512	69,512	69,512	69,512	69,512
Other Non-Current Assets		5,900		5,900	5,900	5,900	5,900	5,900	5,900
<b>Total Non-Current Assets</b>		<b>15,600</b>	<b>69,512</b>	<b>85,112</b>	<b>85,457</b>	<b>85,815</b>	<b>86,183</b>	<b>86,436</b>	<b>86,826</b>
<b>Total Assets</b>		<b>58,741</b>	<b>65,012</b>	<b>123,753</b>	<b>121,064</b>	<b>119,039</b>	<b>117,777</b>	<b>117,348</b>	<b>117,451</b>
<b>Liabilities</b>									
Current Liabilities:									
Accounts Payable		9,800		9,800	10,234	10,556	10,836	11,142	11,476
Accrued Expenses		8,500		8,500	8,864	9,174	9,449	9,733	10,025
Current Portion of LT Debt		0		7,143	7,143	7,143	7,143	7,143	7,143
Other Current Liabilities		3,700		3,700	3,700	3,700	3,700	3,700	3,700
<b>Total Current Liabilities</b>		<b>22,000</b>	<b>0</b>	<b>29,143</b>	<b>29,940</b>	<b>30,573</b>	<b>31,128</b>	<b>31,717</b>	<b>32,344</b>
Non-Current Liabilities:									
Long-Term Debt		2,845	65,012	60,714	53,571	46,429	39,286	32,143	25,000
Other Non-Current Liabilities		3,200		3,200	3,200	3,200	3,200	3,200	3,200
<b>Total Non-Current Liabilities</b>		<b>6,045</b>	<b>65,012</b>	<b>63,914</b>	<b>56,771</b>	<b>49,629</b>	<b>42,486</b>	<b>35,343</b>	<b>28,200</b>
<b>Total Liabilities</b>		<b>28,045</b>	<b>65,012</b>	<b>93,057</b>	<b>86,712</b>	<b>80,202</b>	<b>73,614</b>	<b>67,060</b>	<b>60,544</b>
<b>Shareholders' Equity</b>									
Share Capital		7,769		7,769	7,769	7,769	7,769	7,769	7,769
Retained Earnings		23,000		23,000	26,656	31,141	36,468	42,592	49,211
Other		(73)		(73)	(73)	(73)	(73)	(73)	(73)
<b>Total Shareholders' Equity</b>		<b>30,696</b>	<b>0</b>	<b>30,696</b>	<b>34,352</b>	<b>38,837</b>	<b>44,164</b>	<b>50,288</b>	<b>56,907</b>
<b>Total Liabilities &amp; Equity</b>		<b>58,741</b>	<b>65,012</b>	<b>123,753</b>	<b>121,064</b>	<b>119,039</b>	<b>117,777</b>	<b>117,348</b>	<b>117,451</b>
<b>Balance Check</b>									
<b>Total Assets - Total L&amp;E</b>		<b>0</b>							
<b>Check</b>		<b>✓ Balance</b>							
<b>Working Capital Assumptions</b>									
Days Sales Outstanding (DSO)		42							
Days Inventory Outstanding (DIO)		18							
Days Payable Outstanding (DPO)		55							
Other Current Assets / Revenue		2.3%							
Accrued Expenses / Revenue		7.7%							

# CASH FLOW STATEMENT

(JPY millions, March 31 FYE)

		FY2024	FY2025E	FY2026E	FY2027E	FY2028E	FY2029E
Cash Flow from Operations							
Net Income		3,163	3,656	4,485	5,326	6,125	6,619
(+) Interest Expense		2,125	1,857	1,679	1,500	1,321	1,143
(+) Depreciation & Amortization		2,411	2,532	2,621	2,577	2,654	2,604
(+) Goodwill Amortization		0	0	0	0	0	0
Working Capital Changes:							
Change in A/R		0	(441)	(464)	(411)	(424)	(436)
Change in Inventory		0	(149)	(105)	(92)	(100)	(109)
Change in Other Current Assets		0	(148)	(93)	(82)	(85)	(87)
Change in A/P		0	434	322	280	306	334
Change in Accrued Expenses		0	364	310	275	283	292
Total Working Capital Change		0	60	(29)	(30)	(19)	(7)
<b>Total Operating Cash Flow</b>		<b>7,699</b>	<b>8,106</b>	<b>8,755</b>	<b>9,373</b>	<b>10,081</b>	<b>10,359</b>
Cash Flow from Investing							
Capital Expenditure		(2,550)	(2,878)	(2,979)	(2,945)	(2,907)	(2,994)
<b>Total Investing Cash Flow</b>		<b>(2,550)</b>	<b>(2,878)</b>	<b>(2,979)</b>	<b>(2,945)</b>	<b>(2,907)</b>	<b>(2,994)</b>
Cash Flow from Financing							
TLA Repayment (Scheduled)		(7,143)	(7,143)	(7,143)	(7,143)	(7,143)	(7,143)
TLA Voluntary Prepayment		0	0	0	0	0	0
TLB Repayment		0	0	0	0	0	0
Interest Payments		(2,125)	(1,857)	(1,679)	(1,500)	(1,321)	(1,143)
Dividends		0	0	0	0	0	0
<b>Total Financing Cash Flow</b>		<b>(9,268)</b>	<b>(9,000)</b>	<b>(8,821)</b>	<b>(8,643)</b>	<b>(8,464)</b>	<b>(8,286)</b>
<b>Cash Summary</b>							
Beginning Cash Balance		20,136	20,136	16,364	13,319	11,105	9,815
<b>Net Change in Cash</b>		<b>(4,119)</b>	<b>(3,772)</b>	<b>(3,045)</b>	<b>(2,215)</b>	<b>(1,290)</b>	<b>(921)</b>
<b>Ending Cash Balance</b>		<b>16,017</b>	<b>16,364</b>	<b>13,319</b>	<b>11,105</b>	<b>9,815</b>	<b>8,894</b>
<b>Consistency Check</b>							
CF Statement Ending Cash		16,017	16,364	13,319	11,105	9,815	8,894
BS Cash & Equivalents		20,136	16,364	13,319	11,105	9,815	8,894
Difference		(4,119)	0	0	0	0	0
<b>Check</b>		<b>X Error</b>	<b>✓ Match</b>				

## DEBT SCHEDULE

(JPY millions, March 31 FYE)

		FY2024	FY2025E	FY2026E	FY2027E	FY2028E	FY2029E
Term Loan A (Amortizing)							
Beginning Balance		50,000	42,857	35,714	28,571	21,429	14,286
Scheduled Repayment		7,143	7,143	7,143	7,143	7,143	7,143
Voluntary Prepayment		0	0	0	0	0	0
<b>Ending Balance</b>		<b>42,857</b>	<b>35,714</b>	<b>28,571</b>	<b>21,429</b>	<b>14,286</b>	<b>7,143</b>
Interest Rate		2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Interest Expense (TLA)		1,250	982	804	625	446	268
Term Loan B (Bullet)							
Beginning Balance		25,000	25,000	25,000	25,000	25,000	25,000
Repayment		0	0	0	0	0	0
<b>Ending Balance</b>		<b>25,000</b>	<b>25,000</b>	<b>25,000</b>	<b>25,000</b>	<b>25,000</b>	<b>25,000</b>
Interest Rate		3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Interest Expense (TLB)		875	875	875	875	875	875
<b>Debt Summary</b>							
<b>Total Debt Outstanding</b>		<b>67,857</b>	<b>60,714</b>	<b>53,571</b>	<b>46,429</b>	<b>39,286</b>	<b>32,143</b>
Total Principal Repayment		7,143	7,143	7,143	7,143	7,143	7,143
<b>Total Interest Expense</b>		<b>2,125</b>	<b>1,857</b>	<b>1,679</b>	<b>1,500</b>	<b>1,321</b>	<b>1,143</b>
<b>Credit Metrics</b>							
EBITDA		8,275	10,015	11,199	12,272	13,398	13,930
<b>Total Debt / EBITDA</b>		<b>8.2x</b>	<b>6.1x</b>	<b>4.8x</b>	<b>3.8x</b>	<b>2.9x</b>	<b>2.3x</b>
EBITDA / Interest (ICR)		3.9x	5.4x	6.7x	8.2x	10.1x	12.2x
(EBITDA - Capex) / Interest		3	4	5	6	8	10

## RETURNS ANALYSIS

(JPY millions)

### Exit Valuation & Returns

				15.0x	15.0x	15.0x	15.0x	15.0x
Exit EV/EBITDA Multiple								
EBITDA (Exit Year)				10,015	11,199	12,272	13,398	13,930
Exit Enterprise Value				150,222	167,989	184,073	200,971	208,953
(-) Exit Debt Outstanding				60,714	53,571	46,429	39,286	32,143
(+) Exit Cash				10,000	10,000	10,000	10,000	10,000
Exit Equity Value				99,507	124,418	147,645	171,686	186,810
Sponsor Equity (Investment)			77,646					
MOIC				1.3x	1.6x	1.9x	2.2x	2.4x
IRR				28.2%	26.6%	23.9%	21.9%	19.2%

### Sensitivity Analysis

MOIC by Exit Multiple & Year

Sensitivity Analysis: Exit MOIC		12.0x	13.0x	14.0x	15.0x	16.0x	17.0x	Exit EV/EBITDA →
Exit Year ↓								
Year 3		1.4x	1.6x	1.7x	1.9x	2.1x	2.2x	
Year 4		1.7x	1.9x	2.0x	2.2x	2.4x	2.6x	
Year 5		1.9x	2.0x	2.2x	2.4x	2.6x	2.8x	

IRR by Exit Multiple & Year

Sensitivity Analysis: IRR		12.0x	13.0x	14.0x	15.0x	16.0x	17.0x	Exit EV/EBITDA →
Exit Year ↓								
Year 3			12.6%	16.6%	20.4%	23.9%	27.2%	30.4%
Year 4			14.1%	16.9%	19.5%	21.9%	24.3%	26.4%
Year 5			13.3%	15.4%	17.4%	19.2%	20.9%	22.6%

## INVESTMENT THESIS

### Why This Deal Works

1.	Brand Power
2.	Margin Expansion
3.	Store Expansion
4.	Exit Optionality
5.	Downside Protection

### Key Return Metrics (Base Case: 15x Exit, Year 5)

Sponsor Equity Invested	77,646	Exit Equity Value	186,810
MOIC (5-Year)	2.4x	IRR (5-Year)	19.2%