

KFC Holdings Japan, Ltd.

Reconstruction of Carlyle Group's Take-Private Transaction

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

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

Sources & Uses

Sources			Uses		
Term Loan A	50,000	32.8%	Share Acquisition	145,301	95.2%
Term Loan B	25,000	16.4%	Debt Refinancing	2,845	1.9%
Mezzanine	0	0.0%	Transaction Fees	3,000	2.0%
Sponsor Equity	77,646	50.9%	Financing Fees	1,500	1.0%
Total Sources	152,646	100.0%	Total Uses	152,646	100.0%

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%
Gross Profit	34,960	38,698	40,910	40,531	45,318	47,196	49,086	50,804	52,455	54,028
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%
EBITDA	6,742	7,831	7,571	5,546	8,275	10,015	11,199	12,272	13,398	13,930
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%
Net Income	2,923	4,033	4,151	1,854	3,163	3,656	4,485	5,326	6,125	6,619
Net Margin	3.7%	4.5%	4.3%	1.9%	2.9%	3.2%	3.8%	4.3%	4.8%	5.1%
Levered Free Cash Flow Bridge										
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
Levered Free Cash Flow	2,521	2,975	3,166	(1,771)	2,079	4,668	5,306	5,958	6,693	6,872

BALANCE SHEET

(JPY millions, March 31 FYE)

		FY2024	+/-	FY2024					
Assets									
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
Total Current Assets		43,141	(4,500)	38,641	35,607	33,224	31,594	30,912	30,625
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
Total Non-Current Assets		15,600	69,512	85,112	85,457	85,815	86,183	86,436	86,826
Total Assets		58,741	65,012	123,753	121,064	119,039	117,777	117,348	117,451
Liabilities									
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
Total Current Liabilities		22,000	0	29,143	29,940	30,573	31,128	31,717	32,344
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
Total Non-Current Liabilities		6,045	65,012	63,914	56,771	49,629	42,486	35,343	28,200
Total Liabilities		28,045	65,012	93,057	86,712	80,202	73,614	67,060	60,544
Shareholders' Equity									
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)
Total Shareholders' Equity		30,696	0	30,696	34,352	38,837	44,164	50,288	56,907
Total Liabilities & Equity		58,741	65,012	123,753	121,064	119,039	117,777	117,348	117,451
Balance Check									
Total Assets - Total L&E		0	0	0	0	0	0	0	0
Check		✓ Balance	✓ Balance	✓ Balance	✓ Balance	✓ Balance	✓ Balance	✓ Balance	✓ Balance
Working Capital Assumptions									
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)
Total Operating Cash Flow		7,699	8,106	8,755	9,373	10,081	10,359
Cash Flow from Investing							
Capital Expenditure		(2,550)	(2,878)	(2,979)	(2,945)	(2,907)	(2,994)
Total Investing Cash Flow		(2,550)	(2,878)	(2,979)	(2,945)	(2,907)	(2,994)
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
Total Financing Cash Flow		(9,268)	(9,000)	(8,821)	(8,643)	(8,464)	(8,286)
Cash Summary							
Beginning Cash Balance		20,136	20,136	16,364	13,319	11,105	9,815
Net Change in Cash		(4,119)	(3,772)	(3,045)	(2,215)	(1,290)	(921)
Ending Cash Balance		16,017	16,364	13,319	11,105	9,815	8,894
Consistency Check							
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
Check		✗ Error	✓ Match	✓ Match	✓ Match	✓ Match	✓ Match

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
Ending Balance		42,857	35,714	28,571	21,429	14,286	7,143
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
Ending Balance		25,000	25,000	25,000	25,000	25,000	25,000
Interest Rate		3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Interest Expense (TLB)		875	875	875	875	875	875
Debt Summary							
Total Debt Outstanding		67,857	60,714	53,571	46,429	39,286	32,143
Total Principal Repayment		7,143	7,143	7,143	7,143	7,143	7,143
Total Interest Expense		2,125	1,857	1,679	1,500	1,321	1,143
Credit Metrics							
EBITDA		8,275	10,015	11,199	12,272	13,398	13,930
Total Debt / EBITDA		8.2x	6.1x	4.8x	3.8x	2.9x	2.3x
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

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

IRR by Exit Multiple & Year

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

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%