

A PE firm, Grey Lake, is considering the leveraged buyout of ArnoldCo, a privately-owned coffee company. In the last twelve months (“LTM”), ArnoldCo generated \$1 billion in revenue and \$100mm in EBITDA. If acquired, the PE firm believes ArnoldCo’s revenue can continue to grow 10% YoY while its EBITDA margin remains the same.

To finance the deal, Grey Lake secured 4x EBITDA in Term Loan B financing – which will come with a 7-year maturity, 5% mandatory amortization, and will be priced at LIBOR plus 400 with a 2% floor. The deal also includes a \$50 mm revolving credit facility—priced at LIBOR plus 400 and imposing a 0.25 percent unused-commitment fee—in addition to the TLB. For the final debt layer, Grey Lake raised 2.0x in Senior Notes that carries a 7-year maturity and an 8.5% coupon rate. The financing fees were 2% for each tranche while the total transaction costs were \$10mm. Because the \$50 mm revolving credit facility is expected to remain fully **undrawn** at close, you can presume that there is no financing fee for the revolver in I16.

On ArnoldCo’s balance sheet, there is \$200mm of existing debt and \$25mm in cash, of which \$20mm is considered excess cash. The business will be transferred to the buyer on a “cash-free, debt-free basis”, which means the seller is responsible for discharging the outstanding debt and keeps all the excess cash. The remaining \$5mm in cash will come over in the sale, as this is cash that both parties determined is required to keep the business operating smoothly.

Assume for each year that ArnoldCo’s depreciation & amortization expense will be 2% of revenue. ArnoldCo’s NWC will stand at 1% of revenue, capex requirements will amount to 2% of revenue, and the tax rate for ArnoldCo will be 35%.

Presume that Grey Lake will purchase ArnoldCo at 10.0x LTM EV/EBITDA on 12/31/2020 and then exit at the same LTM multiple after a 5-year time horizon.

*For the LIBOR, you can presume that it is equivalent to the FED Interest Rate. We want to find our LIBOR for 2021 as of May 2021, and then for each subsequent year we expect the LIBOR rate to increase by 20 basis points.*

*We want to find our exit multiple by averaging the relevant 2021 multiple from 3 comparable companies we believe are similar: Hub Group, Inc., Landstar System, Inc., and TFI International Inc. We then want this to persist for each of our following projection years.*

*Using the information available above, fill out the Excel model. Round all values to the nearest tenth (i.e. one decimal place).*

*Here's a few additional notes about our model:*

- *Values marked "Less:" in the line item description should be treated as negative numbers*
- *Cells 39-57 and 62-65 in column D shouldn't be filled out - we are trying to project the FCF and ending cash balance values for after the acquisition would have taken place*
- *For each debt tranche, we are expecting to utilize roll-forward calculations. You need to fill out the interest and mandatory amortization line items of the free cash flow projection section. The interest expense line item will be calculated as the sum of all of the interest payments from each debt tranche, as well as the unused commitment fee. Use the TLB mandatory amortization to find the mandatory amortization for the free cash flow projection section.*
- *The model assumptions have already been filled out. You need to fill out the FCF projection, the Operating Assumptions section, the Debt Schedule and the Returns Calculation*