

VENTURE CAPITAL AND PRIVATE EQUITY

LBO Group Project

Your LBO Group Project is to propose a leveraged buyout of an existing publicly listed company, analyzing it from the perspective of a leveraged buyout (LBO) firm.

Scope of the Project

In the LBO Project, you can choose a company listed on a major stock exchange in North America to complete an LBO proposal. Alternatively, you can approach an existing LBO or investment firm and help the firm analyze a target company from an LBO perspective.

The target company must be listed on a major stock exchange in North America (NYSE, NASDAQ, or TSX) with a market capitalization of between \$500 MM and \$5,000 MM on the date the project proposal is due.

Your task will be to analyze the target company from the perspective of an LBO firm.

Liquidation Event

The proposal LBO must have a liquidation event forecasted for the LBO investment in the target company within the next three to five years. A liquidation event can be an initial public offering (IPO), a sale to a corporate buyer, or a sale to another investment firm. In the sale scenarios, the control of the target company must transfer over to the new buyer.

Task 1: Comparable Company Analysis

Put together a comparable company analysis for your target company. Use the concepts and techniques provided in the course. The sources of comparable company data should be the published financial statements and professional information providers such as Bloomberg, Thomson Reuters, Capital IQ, and so on.

Include your analysis in this task in your *Project Report*.

Task 2: Leveraged Buyout Analysis

Using the concepts and techniques provided in the course, **complete an LBO model of the target company from the perspective of an LBO firm.**

Assume that the LBO firm requires an annual return of 20% on its investment in companies such as your target company. All other assumptions (including inputs) in your analysis should be well supported. Your analysis should also include the following components:

- Debt capacity and the choice of different layers
- Cost, terms, and amortization of individual debt layers
- Sources and uses of funds at the time of the buyout

- Income statement and cash flow forecasts (including the cash flow waterfall)
- Return metrics (including the IRR, multiple of investment, and maximum premium)

Include the financial modeling, analysis, and commentary in this task in your ***Project Report***.

The Project Report and Required Submissions

A one-page **Project Proposal** – containing your team member names, the project type (that is, VC or LBO), and a brief project and company description – is ***due online earlier in the term***. (Refer to the course outline for an exact deadline date and time.)

Your **Project Report** should contain the following sections:

- **Title Page:** Group member names, student numbers, project title, and the date of the submission;
- **Main Report:** Brief introduction/background, Comparable Company Analysis and Leveraged Buyout Analysis in a maximum of **ten letter-sized** pages, using a *standard, single-spaced* font; and
- **Appendix:** Comparable Company Analysis, financial models, and any supporting work in **letter-sized** pages (but with no other page limit or specification).

You are free to decide how to divide your work between the *Main Report* and the *Appendix*. Any work included in the *Appendix* will be graded only if properly referenced from the *Main Report*. The financial model should be included in the ***Project Report***; no separate spreadsheet will be accepted.

Submit the ***Project Report*** in the Adobe PDF (preferred) or Microsoft Word format by the project due date and time **online on the course website** in the correct folder. (Refer to the course outline for an exact deadline date and time.) Only one submission (i.e. one file including all your work) is allowed for each group, but you can overwrite your previous submissions.

No printouts are required. *All questions regarding the project should be directed to the instructor.*