

EMK Capital

Enterprise Management Knowledge

Modelling Test (2 hours and 30 minutes)

Introduction

The objective of this exercise is for you to create a working LBO model from scratch. This exercise will be evaluated based on i) how effective you are in creating a functional model, ii) the basis for your assumptions, iii) how much of the exercise you complete within the given time frame, iv) and the presentation of your analysis (i.e., formatting and how clear the analysis and its findings are conveyed).

You will have **2 hours and 30 minutes** after the start time of the exercise to complete as much as possible.

Background

The EMK investment committee has asked you to evaluate a potential investment in Reverse Logistics Group (“RLG”), a leading European outsourced reverse logistics and environmental compliance player. RLG is a Munich-headquartered, tech-enabled Business Process Outsourcing (“BPO”), fourth party logistics (“4PL”) company predominantly providing two services:

- After-Market Services (“AMS”): returns management and remarketing of e-commerce, fashion, electronics, printing and imaging products in Europe with a small presence in the US.
- Environmental Compliance Services (“ECS”): environmental regulatory compliance and Extended Producer Responsibility services for electronics manufacturers / OEM’s, managing their data and reporting to comply with regulations. This segment is a market leader in Europe with a smaller presence in the US, India and China.

RLG’s service offering helps its mostly retail and technology customers outsource the management of certain reverse supply chain processes, leveraging its proprietary IT infrastructure to manage an extensive network of specialised service providers.

The company’s reporting is organised along its key markets. For its core market “Europe”, RLG forecasts a 2020-’25 CAGR of c.7% for AMS and c.5% for ECS, respectively. Its market segment “Americas and Asia”, which largely consists of ECS but with increasing share of AMS, is expected to significantly outpace the growth of the European region.

Cost of sales for RLG consists of material expenses which include transportation cost of products, label services and third-party contracting cost. These are incurred on the basis of volumes /price per kg and are therefore variable. Within other operating expenses, there are two larger cost categories, (i) personnel costs and (ii) other operating expenses, which include rent, IT, marketing, legal / consulting expenses, travel and car expenses.

Deliverables

It is July 2020 and the only additional information available to you at this stage is contained in the accompanying excel file.

Please build an annual, functional five-year LBO model that incorporates each of the following modules below:

- Valuation, Purchase Price and EV-to-Equity Bridge: Propose a valuation and prepare an EV-to-Equity Bridge that outlines all assumptions on how you derived the equity purchase price.
- Sources & Uses incl. Leverage: Build a sources-and-uses table that takes into account your valuation. Propose a transaction structure including an adequate level of third-party debt financing.
- Operating Forecast: Prepare a financial forecast for the business using 2020 estimated financials for your starting point with 2021 being the first projected year.
- Returns Calculation: Calculate the returns for EMK by showing the multiple on invested capital (“MOC”) as well as the IRR. Assume an exit in year 5.
- Return Sensitivities: Prepare two different return sensitivities that show EMK’s IRRs when assuming of range of different inputs for select key return drivers. The return sensitivity should have two axis / inputs e.g. entry vs. exit multiple.

As part of the investment evaluation for RLG please answer the following questions. Please try to limit each of your answers to a few bullet points only:

1. How much would you be prepared to pay for the company?
2. What are the expected proceeds to shareholders?
3. How have you constructed the forecast/operating assumptions for the company?
4. How would you finance the acquisition (based on current financing conditions)?
5. How do you think about the appropriate exit multiple?

Overall guidance

We recommend that you first focus on preparing a 5-year business forecast. Do not get stuck on any one assumption or part of the exercise. If you do not understand a specific part of the exercise, make an assumption and show in your model what you have assumed. Although credit will be given for accuracy, getting the general framework down should be a first priority. Try to complete the exercise as much as possible within the given time frame. GOOD LUCK!