**Case description**

In this Leveraged Buyout (LBO) case study, you will analyze the acquisition of an Italian company called ABC. ABC has a significant presence in the US market, and its revenues are primarily in USD. The LBO transaction will take place on December 31, 2022, and the first forecast year is 2023. This exercise will provide valuable insights into the intricacies of an LBO transaction and its associated financial modeling.

**The Story:**

ABC, an Italian company with a strong US market presence, is being targeted for an LBO acquisition. The current share price of ABC stands at $150, with 1,000,000 fully diluted shares outstanding. Bidders are expected to pay a 25% acquisition premium on top of the share price. The company's fiscal year ends on December 31, and all financial data is reported in thousands of US dollars.

As the domestic tax rate in Italy is 27%, the model should account for this. ABC’s business requires the company to maintain a minimum cash balance of $8,000,000. Following the transaction, certain fair value adjustments will be made: trade receivables will decrease by $548,000, inventory will decrease by $798,000, and property, plant, and equipment (PP&E) will increase by $4,215,000.

Key assumptions in this case study include no new equity issuance or repurchases, no dividends paid, and no new debt issuance besides a revolving credit facility. Investment bankers and other advisors will assist bidders, with investment bank and sponsor fees equal to 0.8% of the transaction value each, payable at closing.

Debt financing for the transaction will be issued in three tranches: Senior note, Term A, and Term B. Origination fees for these tranches are 2.5%, 2.25%, and 2.0% of the transaction value, respectively, and are also payable at closing. Legal fees for the transaction amount to 0.5% of the transaction value.

The LIBOR curve will play a crucial role in determining the cost of debt financing. Historical LIBOR rates are provided for 2020 (1.82%), 2021 (0.3%), and 2022 (1.1%). The expected LIBOR rates for the years 2023 to 2032 are also given. Each debt tranche carries a spread above LIBOR: Senior note at 3%, Term A at 3.5%, Term B at 4%, and the revolver at 5%.

Repayment schedules for the debt tranches are as follows: Senior note has a bullet repayment in year 7, Term A is repaid 10% annually with the remainder in year 8, and Term B is repaid 5% annually with the remainder in year 9.

Capital expenditure (Capex) investments and historical Capex are depreciated over ten years. Goodwill is tested for impairment, with no impairment found in this case. Loan capitalization fees are amortized throughout the loan duration using the straight-line method.