***LBO DYNAMIC MODEL – 5 STEP PROCESS W NOTES***

An LBO is a valuation methodology that ultimately measures the internal rate of return (IRR) from purchasing a company funded with cash (sponsor equity) and a significant amount of debt

A PE firm aims to improve the operational efficiency of the company to generate cash flow that will pay down the debt over time to increase the firm’s equity ownership in the company, which is ultimately sold after 5+ years.

***Overview of the 5 Steps:***

1. Transaction Assumptions
2. Build out your Sources and Uses table (NOTE)
3. Calculate Levered Free Cash Flow
4. Create your Debt Schedule
5. Calculate Exit Value and IRR