Financial Modelling Case

Your fund would be interested to acquire 97% of a company which holds a large concession expiring in 2034. You are asked to prepare a clean flexible model and a first analysis (IRR, Yield, Payback…).
Because of the maturity of the fund, you know the exit has to be between 2024 and 2027.
You also know that to comply with the diversification rules of the CSSF, your maximum equity ticket (equity or shareholder loan) is €400m.

Deadline: You have two (02) hours to prepare your financial model.

Target Company Financial Data:

- Revenues 2018: € 650 million
    - Historical Real Growth Rate ~ 1.5%

- EBITDA Margin:
    - EBITDA Margin:16% (High Case)
      Assume in the High case that a cost-cutting plan launched in 2020 and fully efficient in 2021 will transform into an additional EBITDA of € 2 million.
    - EBITDA Margin: 14% (Low Case)
    - EBITDA 2018: €103 million

- Working Capital: 8% of yearly revenues

- Assume a CAPEX of €70m in 2020. You may assume that a part of financing for this capex is provided by 80% of the cash balance as of year-end 2019 while the remaining is financed through a bond issue.

- Assume an effective tax rate of 30% and that all tax loss carried forward can be fully used

- Book Value of Target's long term financial debt year end 2018 : € 300 million
    - Assume constant amortization over 20 years and a fixed interest rate of 5%

- Book Value of (Net) Fixed Assets year end 2018: € 340 million – Average residual amortization period: 25 years (assume linear amortization – no change of control clause)

- Assume zero cash in the company as of year-end 2018

Acquisition Structure:

The holding company that will acquire the target will own 97% of its equity (*fiscal integration allowed*).
- Acquisition multiple ~ 8.5 x EBITDA 2018

- Acquisition date: 1st January 2019

- Despite the credit crunch, a bank would be willing to provide up to €400m of acquisition debt with the following features:
    - Bullet repayment of the debt in 5 years
    - Interest rate : Euribor 1Y (debt is swapped) + 600 bp
    - Covenant : DSCR > 1.2x