**FINAL EXAM REVIEW**

**SECTION I: FINANCIAL ANALYSIS**

[**http://www.celeritymoment.com/sitebuildercontent/sitebuilderfiles/chapter\_15\_financial\_statements\_cash\_flow\_and\_ratio\_analysis\_practice\_v3.xlsx**](http://www.celeritymoment.com/sitebuildercontent/sitebuilderfiles/chapter_15_financial_statements_cash_flow_and_ratio_analysis_practice_v3.xlsx)





**SECTION II: VALUATION ANALYSIS**

<http://www.celeritymoment.com/sitebuildercontent/sitebuilderfiles/hyatt_analysis_financial_analysis_valuation.xlsx>

(Methods 1-5)

* METHOD 1: Market Value Method - Current Stock Price: Enterprise Value = (Share Price \* OS) + Debt - Cash

EV = (SP x SO) + D – C

SP = (EV – D + C ) / SO

* METHOD 2: Intrinsic Value Method – CAPM (Beta) – CAPM= Rf + Beta \*(Rm – Rf)

V = (Target Stock Price + Div.) / (1 + CAPM)

* METHOD 3: Dividend Discount Method – discount the expected future dividend at the CAPM less the growth rate – Dividend Perpetuity Method (same as real estate cap rates)

V = (Div this year or Next Year’s Div) / (CAPM – Growth)

Next Year’s Div = Div x (1+g)

* METHOD 4: Comparable Company Method – Use an EBITDA Multiple from comparable traded companies (to generate Enterprise Value) \* EBITDA less Net debt = Equity Value
	+ [(Multiple \* EBITDA) – Net debt] / Shares Outstanding

EV = EBITDA X EBITDA MULTIPLE (INDUSTRY)

The average industry multiple is 10x and the company has EBITDA of $100 million. What is the EV or Stock Price?

* METHOD 5: Comparable Transaction Method – Use an EBITDA Multiple from recent transactions involving comparable companies (to generate Enterprise Value) \* EBITDA] less Net debt = Equity Value
	+ [(Multiple \* EBITDA) – Net debt] / Shares Outstanding

EV = EBITDA X EBITDA MULTIPLE (TRANSACTION)



**SECTION III: CREDIT ANALYSIS**

1. CREDIT PORTFOLIO

<http://www.celeritymoment.com/sitebuildercontent/sitebuilderfiles/chapter_4_clo_credit_risk_management_model.xlsx>

Loss Given Default = Default Rate x (1 – Recovery Rate) x Portfolio Amount

Equity Profit = Portfolio Income – Debt Payment – Management Fee



1. Transaction Sources & Uses, Debt Capacity, WACC and EBITDA Multiples

[***http://www.celeritymoment.com/sitebuildercontent/sitebuilderfiles/fu\_MBA\_transaction\_sources\_uses\_and\_wacc\_fixed\_rate.xlsx***](http://www.celeritymoment.com/sitebuildercontent/sitebuilderfiles/fu_MBA_transaction_sources_uses_and_wacc_fixed_rate.xlsx)

***TRANSACTION:***

*KW Ltd, a Private Equity firm, is interested in buying Alexandria Hotel, a 300-room hotel in South Beach, Miami, Florida. The asking price is $120 million. After few due diligence visits, KW Ltd will need $15 million of renovation to bring the hotel up to today’s modern standards. The purchase of the hotel, the renovation and transaction fees (calculated as 3.0% of total debt raised) will be financed by combination of traditional bank loan, private mezzanine note, and equity provide by KW Ltd.’s Fund II. The Company reported $40 million of Revenues and $20 million of EBITDA (Year 0).*

***CAPITAL RAISING:***

***BANK LOAN***

|  |  |
| --- | --- |
| ***Amount:*** | *Based on 3.0x Year 0’s EBITDA* |
| ***Interest*** | *Fixed Rate 6.126%* |
| ***Term*** | *7 years* |
| ***Scheduled Principal Payments*** | *Yr 1: $3mm, Yr 2: $4mm, Yr3: $5mm, Yr4: $5mm. Yr5: $6mm, Yr 6: $7mm. Yr 7: The balance (balloon payment)* |

***MEZZANINE NOTE***

|  |  |
| --- | --- |
| ***Amount:*** |  *Based on Total Debt/Yr 0’s EBITDA of 5.0x (Including Bank Loan)* |
| ***Interest*** | *FIXED 8.0%* |
| ***Term*** | *8 years* |
| ***Scheduled Principal Payments*** | *Yr 1- Yr 9= $0, Yr 10: the balance (100% redemption)* |

***EQUITY FINANCING***

*Equity will be investing the balance of the financing. The minimum expected return is based on CAPM (use Risk Free rate of 1.0%, Hotel Industry Beta of 1.727x and Market premium return of 11.0%. Ideally KW Ltd needs 25% per year Return.*



Equity Return & NPV

<http://www.celeritymoment.com/sitebuildercontent/sitebuilderfiles/Leveraged_buyout_summary_model_with_debt_ratios_and_debt_capacity_spirit_air.xlsx>

