**LBO CASE STUDY**

**CASE STUDY: COLORADO DENTAL LLP**

**Transaction**

Heinz Ward & Co, (HW), a Private Equity firm signed an agreement to acquire 100% of Colorado Dental LLP (“Colorado Dental”) stock for $39 per share. The acquisition includes a purchase of 100% of the equity, refinance $320mm of existing debt and pay $50 million of transaction fees. Stock outstanding at the time of the announcement is 20 million.

**Capital Raising:**

HW is in the process of raising the necessary funds to cover the purchase price, refinance Colorado Dental’s existing debt and pay for transaction fees. The proposed structure is as follows:

**EQUITY**

HW will invest $600 million of equity.

**BANK DEBT**

Bank Debt: Spring Bank approved three tranche loan (Revolver, Term Loan A and Term B) based on the Company’s last year’s EBITDA (2020). The Money Terms were as follows:

**REVOLVER: $**100 Million ($0 funded on day one) assume no unfunded expense

**TERM LOAN A**

|  |  |  |
| --- | --- | --- |
| Amount: | 1.8x 2020 EBITDA |  |
| Interest | LIBOR + 3.5% |  |
| Term | 7 years  |  |
| Scheduled Payments | Year 2021: 5%Year 2022: 5%Year 2023: 8%Year 2024: 10% | Year 2025: 12%Year 2026:15%Year 2027:45%  |

**TERM LOAN B**

|  |  |  |
| --- | --- | --- |
| Amount: | 2.0x 2020 EBITDA |  |
| Interest | LIBOR + 4.0% |  |
| Term | 7 years  |  |
| Scheduled Payments | Year 2021: 1%Year 2022: 1%Year 2023: 1%Year 2024: 1% | Year 2025: 1%Year 2026: 1%Year 2027: 94%  |

**Bank Loan Financial Covenants:**

Coverage Ratio: EBITDA/Interest starting at 3.0x in 2021 and increase by .25x every year thereafter.

Senior Leverage Ratio: Senior Secured Debt/EBITDA starting at 4.0x in 2021 and decrease by .25x every year thereafter.

**LIBOR ASSUMPTIONS:**

Starting LIBOR at 0.60% and increase 0.5% in 2021, increase 0.5% in 2022 and increase 1.0% in 2023.

**SENIOR UNSECURED NOTES**

Morgan Stanley, an investment bank, managed to raise the Senior Unsecured Notes. The Money Terms were as follows:

|  |  |  |
| --- | --- | --- |
| Amount: | The balance of the financing |  |
| Interest | 7.50% Fixed |  |
| Term | 8 years  |  |
| Scheduled Payments | Year 2021: 0%Year 2022: 0%Year 2023: 0%Year 2024: 0% | Year 2025: 0%Year 2026: 0%Year 2027: 0%Year 2028: 100%  |

**Company Overview**

Colorado Dental operates 480 locations across 30 states, primarily in the Northeast and Midwest. The dentists supported by Colorado Dental in 2020 served 2 million patients.

**Last Year’s Operation Assumptions (2020):**

·                 Average Revenue per Patient per Visit (ARPV): $250

·                 Average number of visits per patient per year: 2 visits

·                 Number of patients in year 2020: 2 million

·                 Cost of Revenue as 60% of Revenue

·                 Operating Expenses as 30% of Revenue

·                 Depreciation as 5% of Revenue

**Projections’ Assumptions (Years 2021-2028):**

·                 ARPV: Increase of 6% per year

·                 Average number of visits per patient per year: 2

·                 Patients annual growth rate: 2%

·                 Cost of Revenue: 55% of Revenues

·                 Operating Expense: 30% of Revenues

·                 Depreciation: 5% of Revenues

·                 Amortization of Fees – use 7 years

·                 Tax Rate at 34%

·                 Deferred Taxes as % of Tax expense: 5%

·                 Accounts Receivables Days: 30 Days

·                 Inventory Days: 65 Days

·                 Accounts Payable Days: 20 Days

·                 Other Current Assets as % of Revenues: 1.0%

·                 Other Current Liabilities as % of Revenues: 1.5%

·                 Capex: 5% of Revenues per year