Mergers & Acquisition

**INDIVIDUAL PROJECT DESCRIPTION**

Each student will be assigned a publicly traded company. You need to do the following:

1. You need to spread at least **3-year historical financials** including the Balance Sheet, Income Statement and summary Cash Flow Statement that includes Working Capital, Capex and Depreciation expense. If the company’s fiscal year end is not December 31, use Last Twelve Months (LTM) for Income and Cash Flow Statement and last reported quarter for the Balanced Sheet.
2. You need to build the **transaction sources and uses** and pro-forma balance sheet using the following assumptions:
   1. Purchase Stock Price: Any premium to the current price – (i.e., 20%)
   2. Refinance total debt (including short term and long term)
   3. Total Transaction fees and expenses of 3.0% of total (Purchase Price + Debt)
   4. New acquisition Debt should be structured as follows:
      1. The lowest amount of either:
         1. Senior Debt to total Acquisition Cost (Including transaction fees) of 50%; or
         2. Senior leverage of 4.0x (Senior Bank Debt 4.0x to the last reported EBITDA)
      2. The lowest amount of either:
         1. Subordinated Bonds to total Acquisition Cost (including transaction cost) of 20%; or
         2. Subordinated Debt to last reported EBITDA of 2.0x
      3. The Balance will be cash equity from the Private Equity Investor.
3. Your need to build **Projections** using reasonable assumptions (sales growth, margins, Capital Expenditures, Depreciation, Working Capital as % of Revenues, – based on historical experience – You may adjust them based on your independent work justifying the projected levels). Other assumptions will be as follows:
   1. Tax Rate: 22%
   2. Bank Loan Interest (Floating SOFR + 4.0% with Libor 50 bps escalation for the next 3 years) – use starting SOFR rate of 2.0%
   3. Bank Loan Schedule Amortization Yr 1-Yr 6: 1.0%, Yr 7: 94%
   4. Subordinated Debt Interest Rate – Fixed Rate 8.0%
   5. Subordinated Debt Scheduled Amortization Yr1-Yr7: 0%, Yr8: 100%
   6. No Dividends
   7. No Divestitures

1. Need to construct an **Equity Return and DCF Analysis** page.
   1. Calculate the Private Equity Investor’s IRR based on the following assumptions:
      1. To Calculate the WACC use 20% Equity Return (Not CAPM)
      2. Use the average of Terminal Value based on the following two methods:
         1. EBITDA Multiple method (use the same multiple you are purchasing the company.
         2. TV based on perpetuity method (Use WACC and growth rates at 80% of WACC or lower) based next year’s unlevered cash flow.
2. Use Goal Seek to calculate the premium you need to pay for the company to meet 20% equity return.