Capital Structure Modeling

Building an LBO Model

Summary

This hands-on course focuses on the skills required to build and incorporate a complex capital structure into a financial model.

Participants will recapitalize a company's balance sheet and then forecast specific pieces of debt and equity so that the model can be used for credit purposes or as a Leveraged Buyout ("LBO") model.

Prerequisites

This course builds on "Building a Financial Model (of a Company)", so participants may want to complete that course prior to taking the "Capital Structure Modeling" session.

Timing

This course requires 8 - 16 hours, depending on the amount of material to be covered.

Learning Topics

1. **Incorporate an Acquisition or Financing into a Model**
   - ✓ Build a Sources and Uses schedule in a model
   - ✓ Incorporate all transaction fees
   - ✓ Recapitalize a company's balance sheet

2. **Forecast Debt and Equity**
   - ✓ Properly incorporate Senior Term Debt
   - ✓ Create a robust bank operating line (or revolving credit facility) with a cash sweep
   - ✓ Incorporate variable interest rates based on pricing grids
   - ✓ Calculate a stand-by fee on the undrawn portion of the bank operating line
   - ✓ Utilize a margining formula to monitor the size of a company's bank operating line
   - ✓ Incorporate Mezzanine Debt
   - ✓ Build a provision for non-cash Payment-in-Kind ("PIK") interest
   - ✓ Create a well-designed equity schedule
   - ✓ Properly forecast the company's balance sheet
   - ✓ Understand model circularity
   - ✓ Learn to create a "circular reference breaker" to rid a model of undesirable error messages if the model crashes

3. **Analyze Investor's Expectations**
   - ✓ Properly calculate the investor's IRR
   - ✓ Understand and incorporate operating and debt ratios
   - ✓ Include ratios with tightening covenants
   - ✓ Create "flags" if a covenant has been tripped
   - ✓ Incorporate other advanced analyses to evaluate the transaction from the perspective of the sponsor