Financial Modeling – Certification Quiz Questions

Module 13 – More Complex LBO Modeling Topics

1. Consider the screenshot below, which shows the Term Loan A, Senior Notes, Mezzanine, and Preferred Stock balances over three years of a leveraged buyout:

Financial Figures:	Year 1	Year 2	Year 3
LIBOR:	0.50%	1.00%	1.50%
Term Loan A:	$ 160.0	$ 140.0	$ 120.0
Senior Notes:	110.0	90.0	70.0
Mezzanine:	70.0	70.0	70.0
Preferred Stock (PIK):	50.0		

Interest Rates:	
Term Loan A:	L + 400 bps; 1.00% LIBOR floor.
Senior Notes:	L + 700 bps.
Mezzanine:	11% fixed interest rate.
Preferred Stock (PIK):	12% fixed interest rate, paid-in-kind (PIK).

The Preferred Stock balance is blank in Years 2 and 3, so you must calculate it yourself.

Based on the information above, please calculate the company's <u>total interest expense</u> in Year 3. Use the BEGINNING debt balances in each year to calculate interest expense in that year.

a. $29.1

b. $30.5.

c. $28.0.

d. $29.8.

e. $28.5.

2. Consider the screenshot below, which shows the pre-deal and post-deal Balance Sheet of a company acquired in a leveraged buyout, along with the adjustments to both sides:

			Adjustments		
Balance Sheet:	*Units*	**Pre-Deal**	**Debit**	**Credit**	**Post-Deal**
ASSETS:					
Current Assets:					
Cash and Cash Equivalents:	$ M	$ 20.7	$ -	$ -	$ 20.7
Accounts Receivable:	$ M	24.9	-	-	24.9
Inventories:	$ M	19.3	-	-	19.3
Prepaid Expenses:	$ M	20.1	-	-	20.1
Deferred Tax Assets:	$ M	2.1	-	(2.1)	-
Total Current Assets:	$ M	**87.0**			**84.9**
Noncurrent Assets:					
Property and Equipment, Net:	$ M	691.5	27.7	-	719.1
Goodwill:	$ M	-	459.1	-	459.1
Other Intangible Assets:	$ M	-	414.1	-	414.1
Other Noncurrent Assets:	$ M	13.1	-	-	13.1
Total Noncurrent Assets:	$ M	**704.6**			**1,605.5**
Total Assets:	$ M	**$ 791.6**			**$ 1,690.4**
LIABILITIES AND EQUITY:					
Current Liabilities, Excluding Debt:					
Accounts Payable:	$ M	$ 35.8	$ -	$ -	$ 35.8
Accrued Expenses:	$ M	34.0	-	-	34.0
Unearned Revenues:	$ M	14.5	-	-	14.5
Other Current Liabilities:	$ M	1.4	-	-	1.4
Total Current Liabilities, Excl. Debt:	$ M	**85.7**			**85.7**
Noncurrent Liabilities, Including All Debt:					
Existing Debt:	$ M	361.5	(361.5)	-	-
Total Capital Leases:	$ M	21.4	-	-	21.4
Other Noncurrent Liabilities:	$ M	104.4	-	-	104.4
Deferred Tax Liability:	$ M	57.8	(57.8)	170.7	170.7
Revolver:	$ M	-	-	-	-
Term Loan - A:	$ M	-	-	248.5	248.5
Term Loan - B:	$ M	-	-	248.5	248.5
Senior Notes:	$ M	-	-	198.8	198.8
Subordinated Note:	$ M	-	-	149.1	149.1
Mezzanine:	$ M	-	-	149.1	149.1
Total Noncurrent Liabilities + Debt:	$ M	**545.2**			**1,290.5**
Total Liabilities:	$ M	**$ 630.8**			**$ 1,376.2**
Equity:					
Common Stock & APIC:	$ M	$ 459.9	$ (459.9)	$ -	$ -
Retained Earnings:	$ M	853.5	(888.4)	-	(35.0)
Accum. Other Compr. Income:	$ M	4.8	(4.8)	-	-
Treasury Stock:	$ M	(1,157.3)	1,157.3	-	-
Equity Rollover:	$ M	-	-	-	-
Sponsor Common Equity:	$ M	-	-	349.2	349.2
Total Equity:	$ M	**$ 160.8**			**$ 314.2**
Total Liabilities and Equity:	$ M	**$ 791.6**			**$ 1,690.4**
Balance Sheet Check:		*OK!*			*OK!*

Which of the following is a DEFINITE PROBLEM with this Combined Balance Sheet?

a. The existing Deferred Tax Liability is written down, but the existing Deferred Revenue ("Unearned Revenues") is not.

b. The Post-Deal Retained Earnings are negative $35 million rather than $0 – this is incorrect because the existing Common Shareholders' Equity should be written down to $0.

c. The Financing Fees on the new Debt raised to fund the leveraged buyout do not appear anywhere on this Balance Sheet.

d. The Cash balance does not change, which doesn't make sense because some Cash must be used to pay for the Transaction and Financing Fees.

e. Answer choices 2 and 3.

f. Answer choices 2, 3, and 4.

g. Answer choices 1, 2, and 3.

h. None of the above; i.e., none of these is a definite problem.