

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 1 - 2 days, 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