Wall Street Prep

Paper LBO Interview Prompt

JoeCo, a coffee company, has generated $100 million in last twelve months ("LTM") revenue and this figure is expected to grow $10 million annually. JoeCo's LTM EBITDA was $20 million, and its EBITDA margin should remain unchanged in the years ahead.

Based upon management guidance, the D&A expense is expected to be 10% of revenue, capital expenditures ("Capex") will be $5 million each year, there will be no changes in net working capital ("NWC"), and the effective tax rate will be 40%.

If a PE firm acquired JoeCo for 10.0x EBITDA and exited at the same multiple five years later, what is the implied internal rate of return (IRR) and cash-on-cash return?

Assume that the initial leverage used to fund the purchase was 5.0x EBITDA and that the debt carries an interest rate of 5% with no required principal amortization until exit.

Model Assumptions

- LTM Revenue = $100 million
- Annual Revenue Growth = $10 million per year
- LTM EBITDA = $20 million
- EBITDA Margin = 20%
- D&A % of Revenue = 10% per year
- Capex = $5 million per year
- Change in NWC = $0
- Tax Rate = 40%
- Entry Multiple = 10.0x LTM EBITDA
- Holding Period = 5 Years
- Exit Multiple = Entry Multiple
- Initial Leverage Multiple = 5.0x LTM EBITDA
- Interest Rate = 5%
- Principal Amortization = $0