

Contents

Preface	xi
The Heinz Case Study	xii
How This Book Is Structured	xiii
PART ONE	
<hr/>	
Leveraged Buyout Overview	1
CHAPTER 1	
Leveraged Buyout Theory	3
Cash Availability, Interest, and Debt Pay-Down	3
Operation Improvements	4
Multiple Expansion	4
What Makes Good Leveraged Buyout?	4
Exit Opportunities	5
Is Heinz a Leveraged Buyout?	5
CHAPTER 2	
What Is Value?	7
Book Value	7
Market Value	7
Enterprise Value	8
Multiples	12
Three Core Methods of Valuation	14
CHAPTER 3	
Leveraged Buyout Analysis	19
Purchase Price	19
Sources and Uses of Funds	22
IRR Analysis	33

PART TWO**Leveraged Buyout Full-Scale Model 49****CHAPTER 4****Assumptions 51**

Purchase Price	57
Sources of Funds	63
Uses of Funds	69

CHAPTER 5**The Income Statement 75**

Revenue	76
Cost of Goods Sold	76
Operating Expenses	77
Other Income	78
Depreciation and Amortization	80
Interest	80
Taxes	81
Nonrecurring and Extraordinary Items	82
Distributions	82
Shares	83
Heinz Income Statement	84
Last Twelve Months (LTM)	108
Income Statement—Projections	116

CHAPTER 6**The Cash Flow Statement 133**

Cash Flow from Operating Activities	133
Cash Flow from Investing Activities	137
Cash Flow from Financing Activities	137
Financial Statement Flows Example	138
Heinz Cash Flow Statement	144
Heinz Last Twelve Months (LTM) Cash Flow	154
Cash Flow Statement Projections	160

CHAPTER 7**The Balance Sheet 179**

Assets	179
Liabilities	182
Heinz Balance Sheet	184

CHAPTER 8	
Balance Sheet Adjustments	199
Goodwill	200
Heinz Balance Sheet Adjustments	208
CHAPTER 9	
Depreciation Schedule	221
Straight-Line Depreciation	222
Accelerated Depreciation	222
Deferred Taxes	227
Projecting Depreciation	231
Projecting Amortization	241
Projecting Deferred Taxes	244
CHAPTER 10	
Working Capital	247
Asset	247
Liability	247
Operating Working Capital	248
Heinz's Operating Working Capital	251
Projecting Operating Working Capital	262
Operating Working Capital and the Cash Flow Statement	271
CHAPTER 11	
Balance Sheet Projections	279
Cash Flow Drives Balance Sheet versus Balance Sheet Drives Cash Flow	283
Balancing an Unbalanced Balance Sheet	301
CHAPTER 12	
Debt Schedule and Circular References	309
Debt Schedule Structure	309
Modeling the Debt Schedule	310
Circular References	329
Automatic Debt Pay-Downs	337
Basic Switches	339
Finalizing the Model	339
CHAPTER 13	
Leveraged Buyout Returns	351
Exit Value	351
Returns to 3G Capital	355

Multiple Expansion	361
Debt Pay-Down	364
Conclusion	364
PART THREE	
Advanced Leveraged Buyout Techniques	365
CHAPTER 14	
Accelerated Depreciation	367
MACRS	367
Accelerated versus Straight-Line Depreciation	372
CHAPTER 15	
Preferred Securities, Dividends, and Returns to Berkshire Hathaway	377
Preferred Securities	377
Preferred Dividends	378
Returns to Berkshire Hathaway	388
CHAPTER 16	
Debt Covenant Ratios, and Debt Fee Amortization	395
Coverage Ratios	395
Leverage Ratios	397
Debt Fee Capitalization and Amortization	399
CHAPTER 17	
Paid-in-Kind Securities	409
APPENDIXES	
Appendix 1: Model Quick Steps	417
Appendix 2: Financial Statement Flows	419
Income Statement to Cash Flow	419
Cash Flow to Balance Sheet	420
Appendix 3: Excel Hot Keys	421
About the Companion Website	423
About the Author	425
Index	427