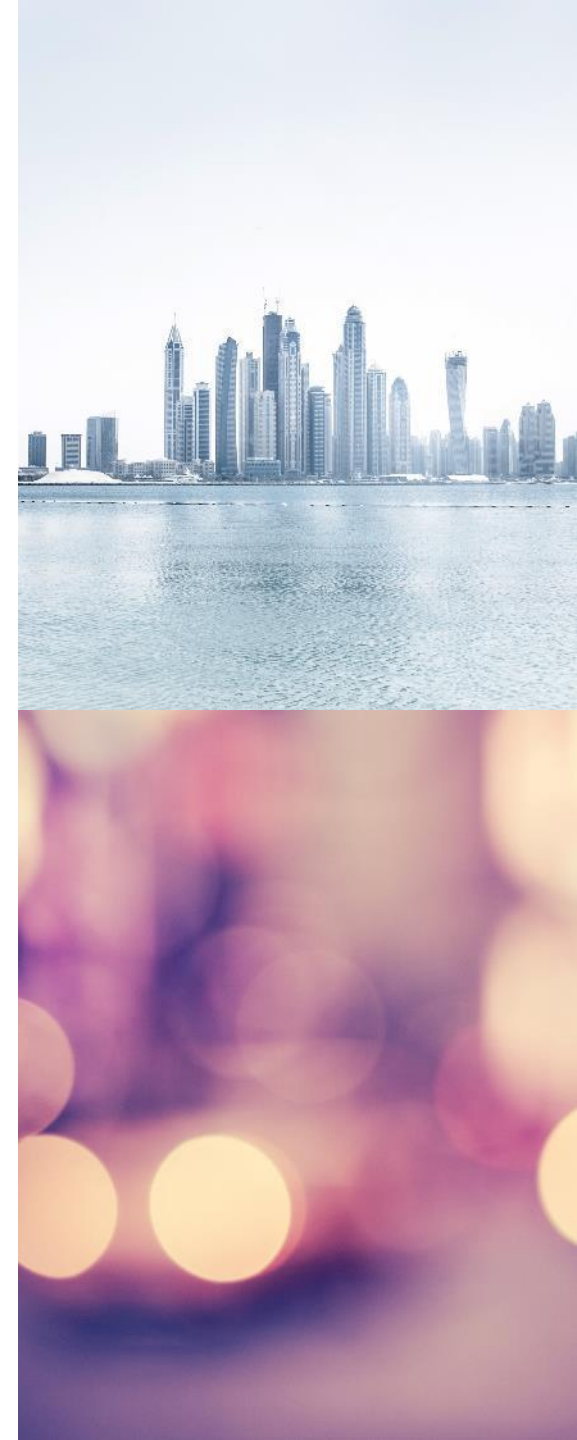




LBO Players and Roles

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3. Investors: The Driving Force Behind LBOs (Part 2)
4. Lenders: The Financial Backbone of LBOs (Part 1)
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6. Sellers, Management, and Advisors



2. LBO Players and Roles

The LBO Ecosystem

- A leveraged buyout is not a solo endeavour.
- Various players with distinct roles and motivations come together.
- Together they orchestrate a significant financial transaction.

Key Players

- Investors, typically private equity firms, architect the deal and seek substantial returns.
- Lenders (banks, mezzanine funds, bond investors) assess risk and structure the debt.
- Sellers are current owners: entrepreneurs, family businesses or large corporations.
- The existing management team's knowledge and expertise help buyers and sellers.
- Advisors guide the process: investment banks broker, lawyers handle legal complexities, consultants advise.

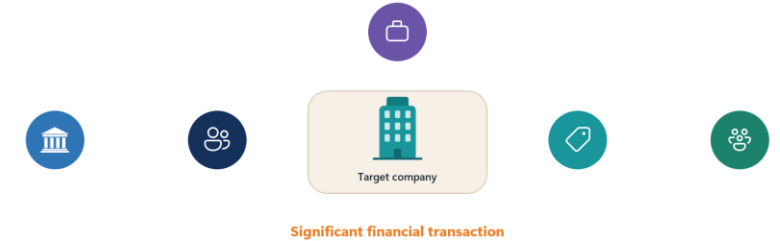
Interconnected Roles

- Each player's role is intricately linked to the others.
- Investors need lenders' capital; sellers need buyers with a compelling offer.
- All parties rely on advisors for their expertise.
- Structure, valuation and success hinge on negotiation among stakeholders.

Ensuring Alignment

- Investors must address the concerns of all stakeholders.
- Lenders: cash flow projections and a solid business plan reassure repayment.
- Mezzanine lenders: clear exit strategies, such as sales or IPOs, ensure returns.
- Sellers: reasonable valuations and flexible deal terms provide incentives.
- Earn-out provisions or seller financing can bridge valuation gaps.

The LBO Ecosystem

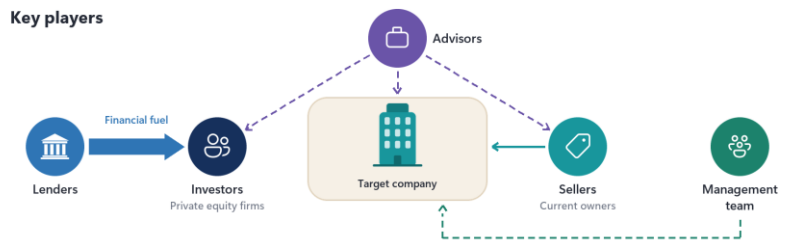


The LBO Ecosystem



The LBO Ecosystem

Key players



2. LBO Players and Roles (Part 2)



Investors: The Driving Force Behind LBOs

- Investors are the catalysts and primary drivers of LBOs.
- They identify potential targets and secure financing.
- They execute the complex acquisition process.



Types of Investors

- Private equity firms, the most common, pool institutional and high-net-worth capital.
- They acquire companies, improve operations and sell them for a profit.
- Prominent examples: Blackstone, KKR and Carlyle Group.
- Strategic investors: corporations seeking new markets, technology or IP, or cost synergies.
- Special situation funds turn around companies in distress, restructuring or ownership transitions.



Motivations and Objectives

- Primary objective: attractive returns exceeding those of traditional investments.
- Operational improvements: cost-cutting, restructuring and best practices raise efficiency and profitability.
- Financial engineering: refinancing debt and reducing interest expenses improve cash flow.
- Strategic growth: market share, new markets or strategic acquisitions.
- Multiple expansion: a higher valuation multiple, e.g. the EBITDA multiple.

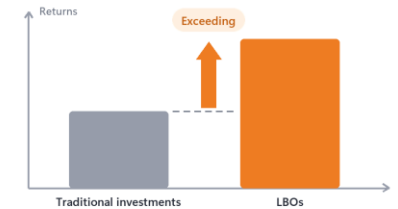
Investors: The Driving Force Behind LBOs (Part 1)

Private equity firms



Investors: The Driving Force Behind LBOs (Part 1)

Motivations and objectives



Investors: The Driving Force Behind LBOs (Part 1)

Multiple expansion



2. LBO Players and Roles (Part 3)

Key Considerations

- Stable cash flows: predictable cash flows ensure the debt can be serviced.
- Growth potential: untapped opportunities realised through operational or strategic initiatives.
- Strong management teams: capable, experienced teams execute the plan and create value.
- Asset quality: assets serve as collateral, so their quality and value matter.
- Exit strategy: a sale to another company or a public offering realises returns.

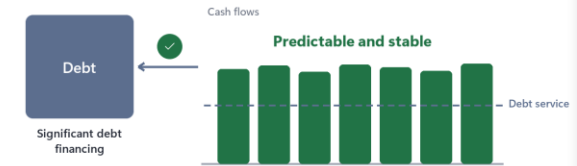


Due Diligence

- Thorough due diligence is paramount in LBOs.
- It assesses financial health, operational efficiency, legal compliance and market position.
- It identifies potential risks and opportunities.
- It shapes the investment thesis and deal terms.

Investors: The Driving Force Behind LBOs (Part 2)

1 Stable cash flows



Key considerations	
1 Stable cash flows	☒
2	☐
3	☐
4	☐
5	☐

Investors: The Driving Force Behind LBOs (Part 2)

5 Exit strategy



Key considerations	
1 Stable cash flows	☒
2 Growth potential	☒
3 Strong management teams	☒
4 Asset quality	☒
5 Exit strategy	☒

Investors: The Driving Force Behind LBOs (Part 2)

Due diligence



2. LBO Players and Roles (Part 4)

💰 Lenders: The Financial Backbone of LBOs

- Lenders provide the debt financing that fuels LBO transactions.
- Their involvement is essential: borrowed capital often exceeds 70% of the purchase price.
- LBOs involve diverse lenders with varying risk appetites and investment preferences.

🏦 Senior Banks

- Traditional commercial banks often provide the most senior debt in LBOs.
- Secured by the target's assets, it has the lowest rates due to its lower risk.

🔄 Mezzanine Lenders

- Provide subordinated debt, below senior debt in the repayment hierarchy.
- Equity features like warrants or conversion options give lenders upside in the company's growth.

📄 High-Yield Bond Investors

- Purchase unsecured bonds issued by the LBO target.
- Higher interest rates compensate for greater risk than secured debt.

⚡ Direct Lending Funds

- Specialise in direct loans to companies, including LBOs.
- Offer flexibility and speed compared to traditional bank financing.
- Often fill the gap between senior and mezzanine debt.

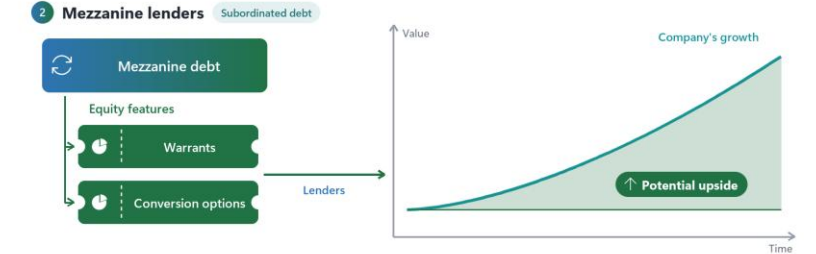
🎯 Motivations

- Primary motivation: attractive returns on capital while minimising risk.
- Lenders seek stable interest income and principal repayment.
- They prioritise capital preservation over potential equity upside.

🔍 Key Concerns

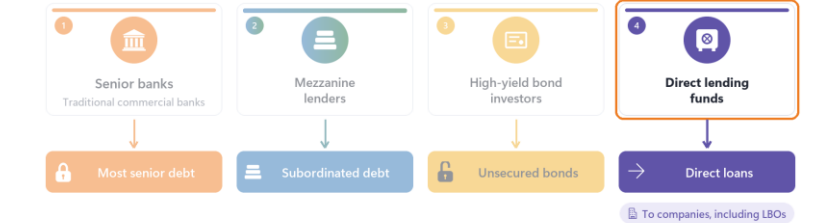
- Creditworthiness: rigorous credit analysis of cash flow to service the debt.
- Collateral quality: value and liquidity of the assets pledged to secure the loan.
- Financial covenants restrict the borrower and give early warning of financial distress.
- Market conditions: interest rates, credit availability and industry trends.

Lenders: The Financial Backbone of LBOs (Part 1)



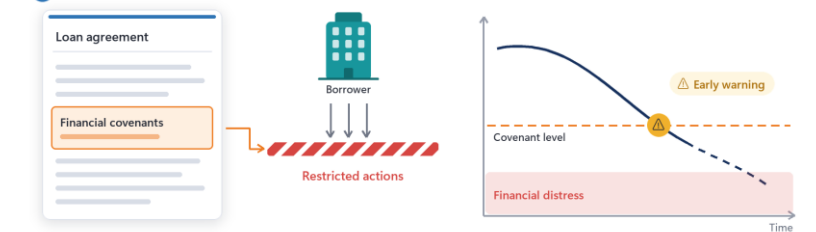
Lenders: The Financial Backbone of LBOs (Part 1)

Types of lenders



Lenders: The Financial Backbone of LBOs (Part 1)

3 Financial covenants



2. LBO Players and Roles (Part 5)

Credit Analysis

- Lenders use a comprehensive credit analysis process to evaluate the risk of lending to an LBO.
- It covers financial statements, the industry, cash flow projections and management.

Financial Statement Analysis

- Scrutinise the target company's historical financial performance.
- Key items: revenue, profitability, cash flow and leverage ratios.

Industry Analysis

- Assess the competitive landscape and market trends.
- Judge the growth potential of the target company's industry.

Cash Flow Projections

- Analyse the company's projected cash flows under various scenarios.
- Assess its ability to service debt and meet financial obligations.

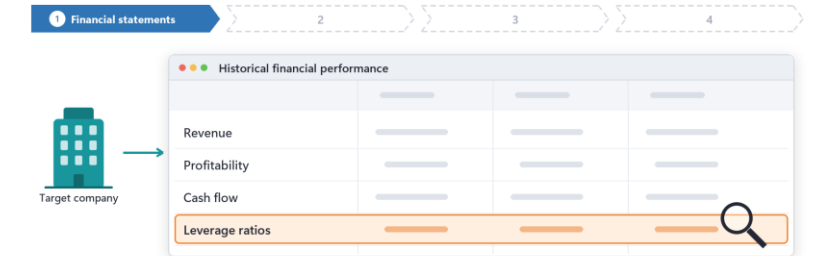
Management Assessment

- Evaluate the management team's experience, track record and capabilities.
- Key question: whether the team can execute the business plan.

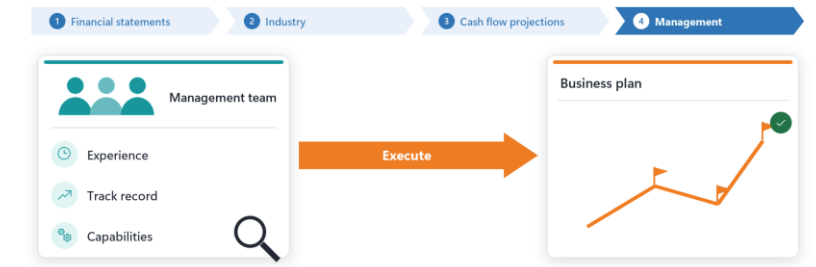
Loan Structuring

- Loan structures are tailored to the transaction's specific needs and risk profile.
- The debt stack combines senior and subordinated debt, sometimes mezzanine or high-yield bonds.
- Interest rates, maturity and covenants are negotiated between lenders and the PE sponsor.
- Lenders balance risk and return: the loan adequately secured and priced for its risk.

Lenders: The Financial Backbone of LBOs (Part 2)

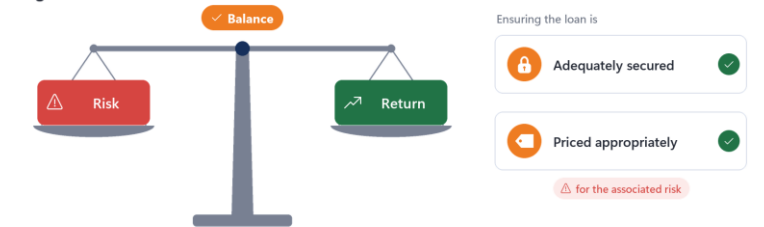


Lenders: The Financial Backbone of LBOs (Part 2)



Lenders: The Financial Backbone of LBOs (Part 2)

Striking a balance



2. LBO Players and Roles (Part 6)

👛 Sellers, Management, and Advisors

- Investors and lenders provide the capital and strategic vision for an LBO.
- Sellers, management and advisors bring the deal to fruition and ensure its success.

🏠 Sellers: Business Owners

- Often entrepreneurs or families who built their businesses from the ground up.
- Motivations vary: retirement, succession planning or diversifying personal wealth.

🏢 Sellers: Corporations

- Large corporations may divest non-core assets or subsidiaries through LBOs.
- Reasons: focusing on core competencies or raising capital for other investments.
- All sellers share one goal: maximising the value they receive.

🔄 Existing Management

- Management rollovers: managers reinvest their equity into the new company structure.
- This aligns them with the new owners and gives them a stake in future success.
- Post-acquisition, management keeps running day-to-day operations.
- Their expertise and knowledge are critical for a smooth transition and strategic initiatives.

🎁 Incentives

- Additional equity stakes, performance bonuses and retention packages are often offered.
- They ensure commitment and motivation and align efforts with strategic goals.

🕒 Role of Advisors

- Advisors facilitate the LBO process, guiding both buyers and sellers.
- Investment banks advise the seller: buyers, marketing materials, negotiation, structure.
- Lawyers draft and review documents, negotiate terms and ensure regulatory compliance.
- Accountants provide financial due diligence, tax assessment and structuring advice.
- Consultants bring industry expertise, market research and operational improvement advice.

