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**FINC – 940 – A**  
**Financial Modeling for Leveraged**  
**Buyout Transactions**

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**Chirag Saraiya**

**Winter 2009**



**Kellogg**  
School of Management

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Telephone: 312-929-2483

Course Number: FINC-940-A

Scheduled Class Times: Monday's 3:15 - 6:15 pm

Office Hours: Monday's 1 - 3 pm, by appointment

### Course Objectives

This course, which builds on the foundational skills of analyzing and forecasting parts of a business, teaches students how to weave their forecasts into coherent spreadsheet-based pro-forma financials. The course starts from conceptual examples that illustrate the key intuition and explains linkages between the 3 core financial statements (IS/BS/CF). It will then build on these examples to forecast the financial statements of real companies.

The main goal of this course is to illustrate how a practitioner would analyze a leveraged buyout. Students will construct their own LBO model in Excel and, by the end of the course, should feel comfortable assessing a company and determining if it is a viable LBO candidate.

### Prerequisites

ACCT – 430  
FINC – 441

ACCT – 451 is not a pre-requisite, but is highly recommended before taking this course.

### Text

The course packet is the only required text for the course. It will be distributed the first week of class for \$45.00. If you are looking for further references, I recommend:

- *The Practitioner's Guide to Investment Banking, Mergers & Acquisitions and Corporate Finance*, by Castillo & McAniff, Circinus Business Press 2007.

### Attendance

**Attendance for all 5 sessions of the course is a requirement**

### Honor Code

Each student will be required to build their own fully functional LBO model. Sharing Excel files of assignments that are a work in progress of the financial model is a violation of the honor code. I encourage you to work together on the assignments; however, everyone must build their own financial model.

### Classroom Policy

Students should demonstrate respect for the professor and fellow students during the class period by refraining from distracting behavior such as disruptive eating, side conversations or using laptops to surf the Web or check e-mail.

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## Assignments

There will be assignments given each class, which are expected to be completed before the next class. Expect each assignment to last anywhere from 2-6 hours depending on your comfort level with Excel & Financial Statement Analysis. Since we will be building a step-by-step financial model, it is imperative that you complete each assignment before the next class.

## Grading

### 20% Class Participation

Classroom comments and questions should demonstrate knowledge of the topic being discussed and facilitate learning for the entire class. Name plates must be brought to every class: participation points will be lost if name plates are not displayed. **An unexcused absence during the course will result in a 0 for the participation score.**

### 40% Group Case

In groups of 3-5, students are required to analyze a publicly traded company, and determine if the company is a good LBO candidate based off of the current market price & current market conditions. The deliverable for the group case is a write up of the key assumptions & conclusions from the financial model, and the Excel version of the financial model. **The maximum length of the write up is 5 pages.** The group case assignment is due on Friday, February 6<sup>th</sup>, 2008 by 5:00 PM CST. More details on the case will be provided in Session #2. The case needs to be submitted via email to me at: [chirag.saraiya@trainingthestreet.com](mailto:chirag.saraiya@trainingthestreet.com)

### 40% Final Exam

The Final exam will consist mostly of short answer questions, and will be 120 minutes in length. Students will be allowed to create their own "cheat sheet" for the exam. The guide will consist of one page (8 ½" x 11") containing personalized notes. The notes can be on ONE SIDE of one piece of paper. This will be collected at the end of the exam. The final exam is scheduled for the last day of the class (Feb. 2<sup>nd</sup>)

## Other Requirements

For every session listed below, please bring:

- A computer with power access and Microsoft Excel installed
- Course Packet
- This course syllabus
- You should also make sure that your computer has access to a USB key or the network during class. Additional or revised files may be distributed
- A calculator – it is recommended that you have a financial calculator. I recommend either:
  - HP 12-C OR
  - HP 17bii+

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## **Class Schedule**

### **Class #1 – 1/5**

- Understand the theoretical basis of an LBO
- Understand the differing points of view of an LBO (target shareholders, lenders & equity sponsor)
- Calculation of Debt Capacity and sponsor's IRRs
- Overview and introduction to financial modeling

Supplemental Readings: *The Practitioner's Guide to Investment Banking, Mergers & Acquisitions and Corporate Finance, Chapter 3 & Chapter 12*

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### **Class #2 – 1/12**

- Overview of SFAS 141/142 and IFRS 3
- Purchase accounting overview (aka "acquisition method")
- Creation of goodwill and write-ups, including possible incremental D&A
- Sources and uses of funds
- Opening balance sheet and purchase accounting adjustments
- Pro forma income statement
- Working capital schedule

Supplemental Readings: *The Practitioner's Guide to Investment Banking, Mergers & Acquisitions and Corporate Finance, Chapter 14 (Accounting Treatments) & Chapter 3 (Section on Working Capital)*

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### **Class #3 – Class on 1/14 (Please note that this will be the make-up class for the MLK holiday. The Kellogg calendar states the make-up date is 1/21, however, our make-up session will be on 1/14)**

- Depreciation schedule
- Amortization schedule
- Preparing for debt & interest
- Debt & interest

Supplemental Readings: *The Practitioner's Guide to Investment Banking, Mergers & Acquisitions and Corporate Finance, Chapter 12 (Section on Depreciation & Debt & Interest)*

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### **Week 4 – 1/26**

- PIK's, Warrants & Recap's
- Advanced financial modeling topics including understanding and controlling for circular references & balancing a model
- Ratios & returns analysis
- Constructing and utilizing data tables for sensitivity analysis
- Adding switches and scenarios for sensitivities analysis

Supplemental Readings: *The Practitioner's Guide to Investment Banking, Mergers & Acquisitions and Corporate Finance, Chapter 12 (Section on IRR's & Returns Analysis)*

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### **Week 5 – 2/2**

- FINAL EXAM (3:15 – 5:15)
- Case Q&A (5:30 – 6:15)

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## Instructor Bio

With over 10 years of banking and teaching experience, Chirag launched his career at Merrill Lynch in the Private Placement Group. Following this, Chirag joined Banc of America Securities' US M&A Group, where he focused on sell-side advisory work in the Consumer & Retail sector. He then spent a number of years in Banc of America Securities' London and Paris offices helping to expand their European presence, and working closely on cross-border M&A transactions in the Industrials sector. He joined Training the Street, Inc. in 2003. Chirag graduated *Phi Beta Kappa* from Emory University and holds an MBA with concentrations in Strategy & International Business from The Kellogg School of Management, Northwestern University. His research focus at Kellogg included Private Equity & Venture Capital investing in India. Chirag has led training seminars in the United States, Europe, Asia, Australia & the Middle East. He lives in Chicago and heads the company's Midwest & International operations.

Chirag is a Principal in a firm that specializes in valuation and financial modeling training for Wall Street firms, Private Equity firms and Business Schools globally. At Training The Street, Inc. Chirag has led seminars and workshops for the following clients:

### Corporate Clients

- Bank of America
- The Blackstone Group
- Credit Suisse
- Deutsche Bank
- Dubai International Capital
- Goldman Sachs
- Greenhill
- HSBC Securities
- JPMorgan
- Key Bank
- Lazard
- Merrill Lynch
- Morgan Stanley
- Morningstar
- SG Cowen
- UBS
- Wachovia
- William Blair

### Graduate Schools and Universities

- Columbia Business School
- Cornell University (Johnson)
- Duke University (Fuqua)
- Emory University (Goizueta)
- The University of Chicago (GSB)
- Harvard Business School
- Kellogg School of Management
- Indiana University
- University of Michigan (Ross)
- University of Pennsylvania (Wharton)
- The University of Texas at Austin (McCombs)
- University of Virginia (Darden)
- UCLA (Anderson)
- Vanderbilt University (Owen)
- Washington University (Olin)
- Yale School of Management