



# **How Leveraged Buyouts Work**

**January 19, 2021**

# What is Leveraged Buyout Investing?

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- **Value-added Investing Based Upon the Following Fundamentals**
  - Structure
  - Risk
  - Price
  - Strategy
  - Management

# Structure

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- **Combination of Equity, Debt and Non-cash Consideration**
  - Like Buying a House, but More Moving Parts
- **Debt Enhances Equity Return but Increases Risk**
  - Debt Service and Covenant Compliance
  - Lending Environment Unpredictable

# Risk

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- **Financial Risk vs. Business Risk**
  - Minimize Business Risk
    - *Sustainable Historical Cash Flow*
    - *Defensible Market Position*
    - *Passionate, Committed Management*
  - Control Financial Risk
    - *Reasonable Leverage*
    - *Flexible Financial Covenants*
    - *Adequate Liquidity*
  - Pandemic/Cyclical Risks

# Price

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- **Function of Historical Cash Flow and Growth Prospects**
  - Offer Based on Multiple of Cash Flow
    - *Rate of Return Objectives*
    - *Acceptable Debt Ratios*
    - *Reasonable Risk/Reward Relationship*
  - Equity Value to Sellers
    - *Purchase Price less Debt*
  - Structural Limitations

# Strategy

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- **Need Value-added Proposition**
  - Pro Forma Cost Savings
  - Outside Management Expertise
  - Growth Capital
  - Bargain Purchase Price (Multiple Arbitrage)

# Management

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- **Experience**
  - Proven Track Record
- **Managing Management / Align Interests**
  - Significant Personal Financial Commitment
  - Attractive Incentive Program
    - *Cash Bonuses*
    - *Equity Upside*
  - Preserve Control

# Keys to Success

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- **Buy Right**
- **Partner Well**
- **Closely Monitor**
- **Preserve Flexibility**
- **Exit Opportunistically**



# Contact Information

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