Questions Asked During the LBO Case Study Training Session

QUESTIONS ABOUT ENROLLING IN THE COURSE

Q: Is this a per year price, or does the $497 buy us lifetime access?

A: One time charge then you have lifetime access to the program so you can come back to it whenever you want, whether that is months from now or years from now.

Q: How does the discount work for people who already bought some lessons?

A: Email us with what you've already signed up for and indicate which courses you are interested in and we will upgrade you. You can select courses so that the total dollar value is equal to the offer presented in the webinar.

Q: Is the course mentioned recognized by major firms... if I put down this coursework on my resume, will it carry any weight?

A: Yes, it will and it has actually helped quite a few customers show that they've gained transferable skills. You can take a look at some recent success stories from customers here.

Our courses are newer than some of the other ones out there, but they will definitely help you win interviews, stand out, and prove that you have a solid grasp of accounting, valuation, and finance.

Q: How current are the courses and how frequently will they be updated?

A: The courses are all based on recent deals (announced / closed in the past 2-3 years). The courses are updated if and when accounting standards and other conventions change, and we also add new case studies as bonuses periodically so that you can always refer to recent deals in interviews.

What kind of instructor support do you offer to members?

A: You have full email access to ask anything you want, and you can ask questions via the site as well under each lesson. We answer everything from quick questions to detailed reviews of your proposed interview responses, and you receive a response within 24 hours, often faster.

Q: Are there DVDs or is it all online?

A: All the videos are online and are available in both streaming and downloadable formats.

Q: Is there any material for VC and growth equity recruiting?

A: We have an upcoming course on **Venture Capital & Early-Stage Companies**, based on a case study of the upcoming **Facebook IPO**. It is set for release within the first half of this year, to coincide with the IPO. Outside of that, the other courses are still very relevant for VC and growth equity because you need to know accounting, valuation, and 3-statement modeling for those as well.

QUESTIONS ABOUT THE LBO MODEL TRAINING

Q: why we did not consider $432 million in cash on Bal Sheet as part of sources and reduced equity injection required?

A: We could have done that here, but in this case I wanted to stick as closely as possible to how the PE firms involved were actually structuring the deal (the same debt amounts and so on).

Also, just because the company has $432 million in cash on its balance sheet doesn't mean they can actually use all of it to finance the transaction – the PE firms still need to front the cash to buy all the shares in the first place, and even if they claim the cash afterward they usually just end up using the cash to repay debt anyway.

Then there's the fact that the company still has a minimum cash balance to maintain, and this minimum balance may actually be higher than normal when there's a pending transaction.

Still, this is an interesting point and something that we hope to look at in future sessions as this assumption can make a big impact on the returns depending on the company's financial profile.

Q: How come the term loan interest is not part of the mandatory debt payments line?

A: "Mandatory debt payments" actually just refers to the **principal** repayments, not the interest that you pay on term loans. That interest is still mandatory, but we typically track it in a separate section in the debt schedules.

The interest expense is still taken into account properly when we calculate the mandatory and optional debt repayments, because we're starting with the cash flow available on the company's cash flow statement… and that in turn reflects the interest expense from the debt schedules.

Q: Why are we assuming 20% allocated to intangibles?

A: This one is somewhat arbitrary, but usually you allocate 10-20% of the purchase premium to intangibles to reflect the fact that *some* of that premium corresponds to assets that "expire" over time, such as trademarks, certain customer relationships, and brand-name recognition.

In reality, to get a more accurate estimate of this you would call in an accounting/auditing firm and they would do a detailed review of the transaction so you could get a more precise number. But for purposes of an interview case study, it's best not to worry about this too much and to just assume something in the 10-20% range.

Q: Don't you have to include an amortization of Goodwill?

A: No. Goodwill is no longer amortized, per FAS 142 (issued in June 2001) and also in IFRS (as of June 2005). You do test Goodwill for impairment each year, but that is something you leave to an auditing firm and you never worry about it in the context of models, especially not time-pressured models.

This is because Goodwill, unlike Other Intangible Assets, represents the value of items that never "expire" over time and will remain valuable indefinitely (certain intellectual property, human capital, etc.).

Q: Don't we have to run an impairment test on goodwill on an annual basis?

A: Yes, you do, but there's no point in including it in the model because it's impossible to predict – goodwill impairment is a one-time, non-recurring item, and in models you typically set those to $0 in future years.

If goodwill were impaired in one year, it would just reduce pre-tax income and reduce taxes, and you'd add it back as a non-cash charge on the cash flow statement.

Q: I missed why intangibles are typically written-up to 10% to 20% of total goodwill. It seems like a lot for an intangible asset.

A: See the response above. 10-20% is actually a standard assumption in models, because you want it to be a substantial amount – a company should have to "pay" something when they acquire a company for significantly more than its book value.

The actual percentage and amount would be determined by auditors. It's beyond the scope of what bankers / other financiers do to actually give a precise number for the intangible creation / write-up, but 10-20% is common in models.

Q: Why does Goodwill remain flat, rather than amortized? Even if the PE firm will exit the investment at some future date, don't you have to amortize it?

A: See the response above. Goodwill is no longer amortized per FAS 142 and IFRS (June 2005). It stays on the balance sheet forever and is periodically tested for impairment.

Exiting the investment has nothing to do with Goodwill – even when the PE firm exits the investment, the new owner will still have to reflect Goodwill on the company's balance sheet (even if the exact number changes due to them paying a different amount for the company).

You would only amortize something if it "expires" in the future or wears down / declines over time. But Goodwill represents long-term intangible value that doesn't expire or become less valuable at a set date (some intellectual property, human capital, etc.) and so you don't amortize it.