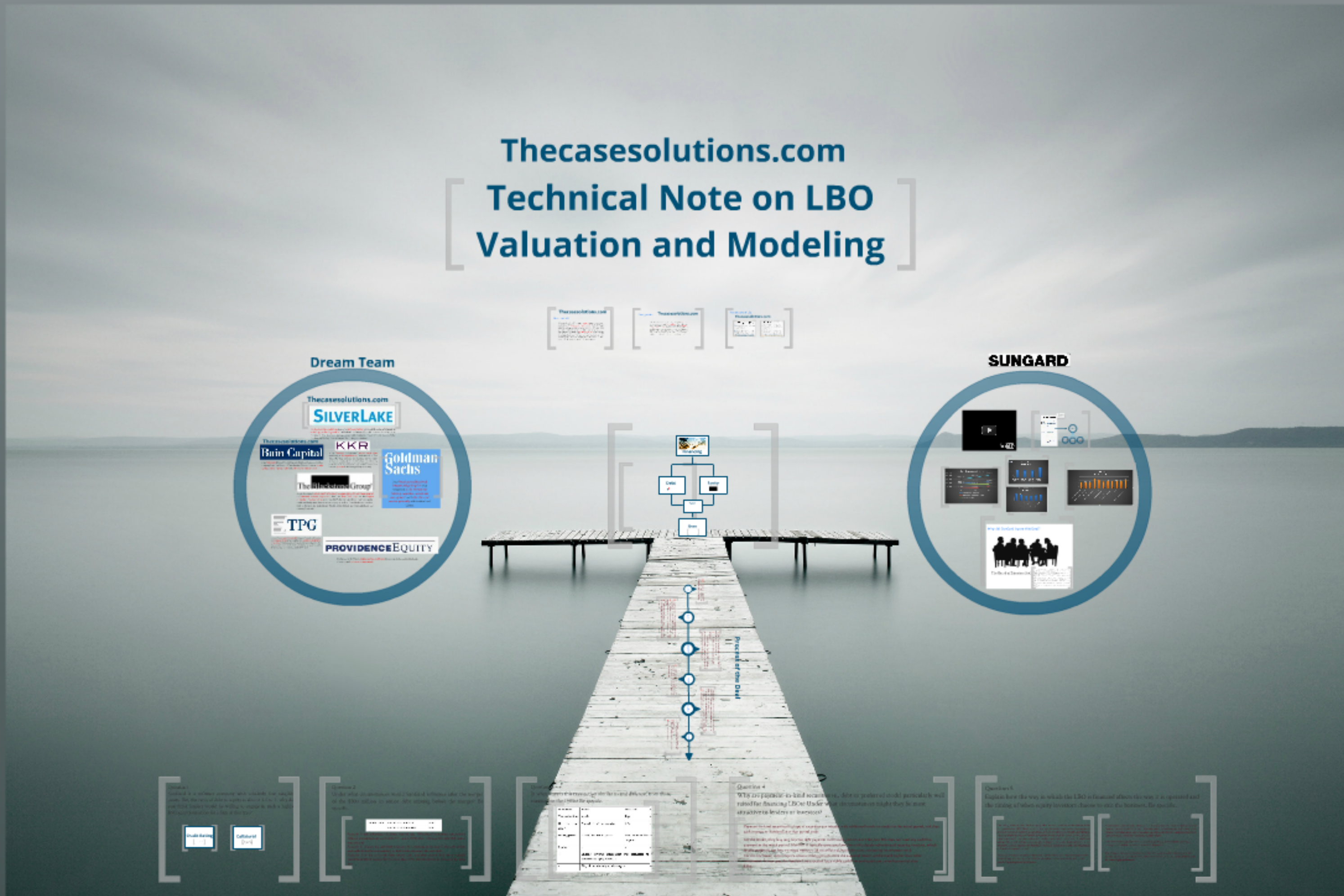
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Technical Note on LBO Valuation and Modeling
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What is a LBO?

A leveraged buyout or LBO is a type of aggressive business practice whereby investors or a larger corporation utilizes borrowed funds (junk bonds, traditional bank loans, etc.) or debt to finance its acquisition. Both the assets of the acquiring corporation and acquired company function as a form of secured collateral in this type of business deal. Often times, a leveraged buyout does not involve much committed capital, as reflected by the high debt-to-equity ratio of the total purchase price (an average of 70% debt with 30% equity). In addition, any interest that accrues during the buyout will be compensated by the future cash flow of the acquired company. Other terms used synonymously with an LBO are "hostile takeover," "highly-leveraged transaction," and "bootstrap transaction."

Going private

Once the control of a company is acquired, the firm is then made private for some time with the intent of going public again. During this "private period," new owners (the buyout investors) are able to reorganize a company's corporate structure with the objective of making a substantial profitable return. Some comprehensive changes include downsizing departments through layoffs or completely ridding unnecessary company divisions and sectors. Buyout investors can also sell the company as a whole or in different parts in order to achieve a high rate on returns.

Pros and cons of LBO

	PROS	CONS
Corporate restructuring	One positive aspect of leveraged buyouts is the fact that poorly managed firms prior to their acquisition can undergo valuable corporate reformation when they become private. By changing their corporate structure (including modifying and replacing executive and management staff, unnecessary company sectors, and excessive expenditures), a company can revitalize itself and earn substantial returns.	Corporate restructuring from leveraged buyouts can greatly impact employees. In addition, unemployment after leveraged acquisition of a company can result in negative effects of the overall community, hindering its economic prosperity and development.
Small amount of capital requirements	Since this type of acquisition involves a high debt-to-equity ratio, large corporations can easily acquire smaller companies with very little capital. If the acquired company's returns are greater than the cost of the debt financing, then all stockholders can benefit from the financial returns, further increasing the value of a firm.	However, if the company's returns are less than the cost of the debt financing, then corporate bankruptcy can result. In addition, the high-interest rates imposed by leveraged buyouts may be a challenge for companies whose cash-flow and sale of assets are insufficient. The result cannot only lead to a company's bankruptcy but can also result in a poor line of credit for the buyout investors.

	PROS	CONS
Management buyout	Management buyout of a company is a common business practice. Often times, MBOs occur as a last resort to save an enterprise from permanent closure or replacement of existing management teams by an outside company. Many analysts strongly believe management buyouts greatly promote executive and shareholder interests as well as management loyalty and efficiency.	Not every MBO turns out to be successful as planned. Management buyouts can generate substantial conflicts of interest among employees and managers alike. Management and executive teams can easily be lured to propose a short-term buyout for personal profit. In addition, they can also corruptly mismanage a company, leading to an enterprise's depreciated stock.
Economy	Every leveraged buyout can be considered risky, especially in reference to the existing economy. If the existing economy is strong and remains solid, then the leveraged buyout can greatly improve its chances for success.	On the other hand, a weak economy is highly indicative of a problematic LBO. During an economic crisis, money may be difficult to come by and dollar weakness could make acquiring companies result in poor financial returns. In addition, acquisition can affect employee morale, increase animosity against the acquiring corporation, and can hinder the overall growth of a company.

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US-based private equity firm focused on leveraged buyout and growth capital investments in technology, technology-enabled and related industries. Founded in 1999, the firm is an investment firm in the technology sector and among its investments are Avaya, Sabre Holdings, UGS Corp., Skype, Seagate Technology and Instinet.

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Bain Capital

is an American alternative asset management and financial services company based in Boston, Massachusetts. It specializes in private equity, venture capital, credit and public market investments.

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