SN VALUATION
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LBO Musical Chair

A common LBO example: Buy a Co. with EBITDA of $100MM at 8x EBITDA multiple, or $800MM in market cap. Let's assume this is a P/B of 1x multiple, so the book value is $800MM, resulting in zero goodwill for the acquirer. The acquirer used $400MM in equity and $400MM debt. Zero change is made in the asset piece, but debt increases by $400MM and equity is at $400MM.

When the acquirer now wants to sell the business at 8x EBITDA, let's assume the EBITDA is the same at $100MM. So the market cap is unmoved at $800MM, but the book is the same at $400MM. So, it is now a P/B of 2x.

The 2nd acquirer agrees to the value, and now has $400MM in goodwill booked on the asset side, and he too uses $400MM in debt and $400MM in equity.

Original Value		1st Acquirer		2nd Acquirer		3rd Acquirer	
Asset	**800**	**Asset**	**800**	**Asset**	**1200**	**Asset**	**1600**
Goodwill	0	Goodwill	0	Goodwill	400	Goodwill	800
Tangible Assets	800	Tangible Assets	800	Tangible Assets	800	Tangible Assets	800
Debt	**0**	**Debt***	**400**	**Debt****	**800**	**Debt*****	**1200**
Equity	**800**	**Equity**	**400**	**Equity**	**400**	**Equity**	**400**
		Goodwill	0	Goodwill	400	Goodwill	400
		Acquisition Price	800	Acquisition Price	800	Acquisition Price	800
		P/B	1.0	P/B	2.0	P/B	2.0
		Disposition Price	800	Disposition Price	800		
		Equity Return	200%	Equity Return	200%		
		*$400MM debt is placed on the Co's book		*$400MM debt is placed on the Co's book ** Additional $400MM debt is placed on the Co's book		*$400MM debt is placed on the Co's book ** Additional $400MM debt is placed on the Co's book *** Additional $400MM debt is placed on the Co's book	

As such, this cycle can go on and on. The N+1 acquirer is essentially financing the buyout for N. Should N not be able to find an eager buyer in N+1, N will be screwed in this game of musical chairs. We all have the 1st acquirer to blame for starting this cycle.