

Steinway Musical (LVB)

Price:	\$39.59	Net Tang. Bk Value Incl. Cash, Excl.	\$229,400,000.00	Net Tang. Book Yr. 5 (Inc. Cash):	\$285,298,050.00
Market Cap:	\$494,083,200	Goodwill (NTBVIC):		Avg. Year Op. Cash:	\$20,269,610.00
Cash:	\$106,500,000	NTBVIC/Market Downside Recovery:	46.43%	Year 5 Disposition FCF Multiple:	3.0
Debt:	\$67,970,000	Op. Cash Flow:	\$20,269,610	Year 5 Disposition Price:	\$346,106,880.00
Net Cash:	\$38,530,000	Implied Years to Fill Gap:	13.06		
Enterprise Value:	\$455,553,200	Today's Equity if 5x Op. CF:	\$290,208,830		
		Net Tang. Book+ Gain Disposition:			\$346,106,880.00
Shares Outstanding:	12,480,000	IRR:			-6.87%
				Price:	\$27.73
				Target Market Cap:	\$346,106,880
				Target Enterprise Value:	\$307,576,880

* Our future intrinsic value measures the total return, which includes both capital appreciation and dividend income.

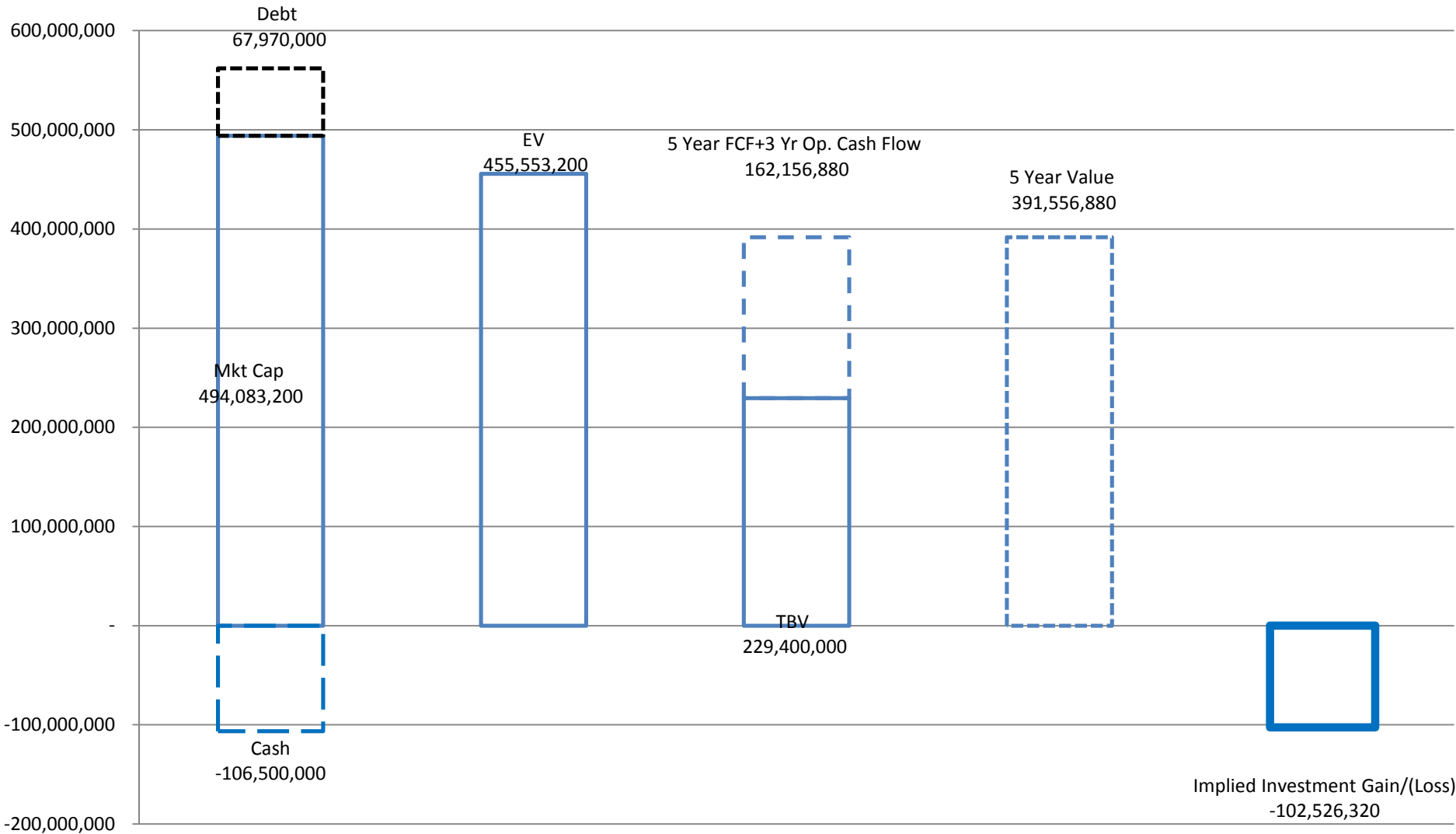
KKR and Paulson and Co. are competing to purchase the piano/musical instrument manufacturer for \$38/share. Per our calculation, this price exceeds the intrinsic value by 40%. Of course, the PE firms seek to cut costs and grow revenues in a 5 year period utilizing debt to finance the acquisition. However, we don't see how this price could be justified. The PE firm/hedge fund is willing to pay \$230MM above the tangible book value, which has to be recovered over the 5 year period, in addition to the premium in the disposition price of \$1.3BB, or a \$730MM gain to generate a 20% IRR on the deal, assuming this was a 100% cash deal.

However, if we assume a 40% equity/60% debt deal, the out of pocket investment would be \$200MM. To generate a 20% IRR, the equity piece in 5 years must be sold at \$790MM, or 60% growth from today's equity, which would be a \$294MM premium to today's price. So, the 20% IRR would be derived from a \$200MM cash investment and recoup of the \$200MM investment + \$294MM premium, or \$494MM.

The op. cash flow is \$20MM annually. To generate the \$294MM would require 15 years. Therefore, these estimates are too lofty. This is why KKR is pulling back from a buyout. The PEs don't base their investment off book value, but rather multiples, which may justify higher disposition prices attractive to the 2nd buyer.

Allan and Co. ran valuations for the Co. Their equity valuation range was from \$26.43 to \$32, so our estimate is in line.

Samick Instruments (002450), a Korean co. owns 35% of the Co. The stock rallied from 1,130 KRW/share to 2,000KRW/share, with a total market cap of 140BB KRW, which is equivalent to \$130MM. 35% of the equity is \$148MM. The Samick stock valuation is undervalued. We have written a report on Samick in the SN Korea tab.



Steinway Musical Instruments, Inc. is a Delaware corporation incorporated in 1993. The Company designs, manufactures and distributes musical instruments. The Family of Steinway-Designed Pianos is an offering pianos at three distinct price points to suit every buyer looking to purchase a quality piano. The family is comprised of its three brands: Steinway & Sons, Boston and Essex. The Company also offers Steinway & Sons upright pianos as well as two mid-priced lines of pianos under the Boston and Essex brand names. The Company offers two premium-priced product lines under the Steinway & Sons brand: grand pianos and upright pianos. The Company offers seven sizes of the grand piano ranging from the 5'1" baby grand to the largest 9'6" concert grand. The Company's upright pianos offer dealers a complete line of pianos to satisfy the needs of institutions and other customers who are constrained by space limitations. The Company also provides services such as repair, replacement part sales, tuning and regulation of pianos and restoration. Restoration services include repairs of minor damage to complete restorations of vintage pianos. The Family of Steinway-Designed Pianos increases the Company's business with its dealers, making it their primary supplier in many instances. The Company manufactures piccolos, flutes, clarinets, oboes, bassoons, trumpets, French horns, tubas, and trombones in its manufacturing facilities in Indiana and Ohio. The Company sells student level instruments in three distinct product groupings: 'good' entry-level imported instruments, 'better' mid-priced instruments, which are either imported or manufactured by it, and 'best' instruments which are manufactured by the company. In addition, the Company also manufactures intermediate and professional level woodwind and brass instruments. The Company sells its woodwind and brass products under the names Bach, Selmer, Selmer Paris, C.G. Conn, Leblanc, King, Armstrong, Holton, Yanagisawa, Vito, Emerson, Avanti, Noblet, Artley and Bengel. The Company manufactures sources and distributes acoustical and tuned percussion instruments, including outfit drums, marching drums, concert drums, marimbas, xylophones, vibraphones, orchestra bells and chimes. The Company manufactures percussion products in North Carolina and Illinois under the Ludwig and Musser names. The Company manufactures mouthpieces and distributes accessories such as music stands, batons, mallets, straps, mutes, reeds, pads, chin rests, strings, bows, cases and instrument care products. The Company sells piano's to individuals, both professional artists and amateur pianists. The Company's mid-priced pianos compete with brands such as Schimmel, Kawai, Yamaha, Young Chang and Pearl River.

Company Name:		Steinway Musical			Income Statement	
Ticker Symbol:	LVB	Market Capitalization:	\$494,083,200.00	Revenue:	\$359,220,000.00	100.0%
Last Price:	\$39.59	Total Debt:	\$67,970,000.00	Cost of Goods Sold:	\$244,580,000.00	68.1%
Net Cash/Share:	\$3.09	RCH Total Cash:	\$106,500,000.00	Gross Profit:	\$114,640,000.00	31.9%
Net Cash to Last Price:	7.80%	Net Cash/(Debt):	\$38,530,000.00	EBITDA:	\$44,910,000.00	12.5%
Shares Outstanding:	12,480,000	Enterprise Value:	\$455,553,200.00	Net Income:	\$33,370,000.00	9.3%
Industry:	Leisure	Current EV/Share:	\$36.50			
Sector:	Consumer Cyclical	EBITDA:	\$38,740,000.00	Balance Sheet		
Institutional Ownership:	80.96%	EV/EBITDA Multiple:	11.76	Cash:	\$106,500,000.00	
Mutual Fund Ownership:	20.73%	EV/EBITDA Multiple Average Year 1-5:	15.03	Short Term Investment:	\$0.00	
Insider Ownership:	2.69%	EV/FCF Multiple (excluding acquisition):	21.00	A/R:	\$44,000,000.00	
Float:	56.00%	EV/FCF Multiple Average Year 1-5 (excluding acquisition):	34.33	PP&E:	\$68,000,000.00	
			Upper Range			
			DCF: EV/EBITDA Terminal Value			
Technicals		Implied TV from 3 X EV/EBITDA Multiple	\$63,669,600.00	A/P:	\$13,000,000.00	
52 week low:	\$20.61	Enterprise Value	\$63,669,600.00	Deferred Tax:	\$700,000.00	
Today from 52 week low:	92.09%	Cash at Year 5:	\$172,848,050.00	Other Liabilities:	\$107,840,000.00	
52 week high:	\$39.90	Debt at Year 5:	\$67,970,000.00	Short term Debt:	\$67,970,000.00	
Today from 52 week high:	0.78%	Equity Value Year 5:	\$168,547,650.00	Long Term Debt:	\$0.00	
Analyst/Consensus		Equity/Share at Year 5:	\$13.51	Liabilities:	\$189,510,000.00	
Analyst Sales Growth FY1:	4.20%	Annualized Return:	-19.35%	Retained Earnings:	\$160,000,000.00	
Analyst Sales Growth FY2:	N/A	Lower Range				
SN Valuation Estimate FY1:	0.00%	DCF: Net Tangible Asset excluding Cash/Debt Terminal Value				
SN Valuation Estimate FY2:	0.00%	Year 5 Net Tangible Assets excluding cash and debt	\$176,030,000.00	Paid-In Capital:	\$163,010,000.00	
Analyst Earnings Estimate FY1:	N/A	Enterprise Value	\$176,030,000.00	Treasury Stock:	-\$45,000,000.00	
Analyst Earnings Estimate FY2:	N/A	Cash at Year 5:	\$172,848,050.00	Stockholder's Equity:	\$252,400,000.00	
SN Valuation Earnings Est. FY1:	\$0.90	Debt at Year 5:	\$67,970,000.00	Cash Flow		
SN Valuation Earnings Est. FY2:	\$0.90	Equity Value Year 5:	\$280,908,050.00	Net Income:	13,510,000.00	
Multiples		Equity/Share at Year 5:	\$22.51	Depreciation/Amortization:	9,090,000.00	
Market Value to Book:	1.96	Annualized Return:	-10.68%	Change in Working capital:	3,180,000.00	
EV to Book:	1.80	EVA				
Market Value to Tangible Net Assets:	4.57	EVA today:	\$238,391,811.51	Cash from Operating Activities:	28,710,000.00	
P/E Ratio:	14.81	EVA in 5 Years:	\$235,422,724.58	Capital Expenditures:	-7,030,000.00	
Trailing P/E Ratio:	14.39	EVA/Share:	\$18.86	Cash from Investing Activities:	-6,820,000.00	
Forward P/E Ratio:	N/A	Cash at Year 5:	\$172,848,050.00	Total Cash Dividends Paid:	0.00	
Beta:	1.54	Debt at Year 5:	\$67,970,000.00	Issuance (Retirement) of Stock:	1,610,000.00	
Dividend:	0.00	Equity Value Year 5:	\$340,300,774.58	Issuance (Retirement) of Debt:	0.00	
Dividend Yield:	0.00%	Equity/Share at Year 5:	\$27.27	Cash from Financing Activities:	1,620,000.00	
Dividend Date:	Mar 8, 2007	Annualized return:	-0.25%	Profitability Margins		
Ex-Dividend Date:	Feb 21, 2007					
Competitors		Current Net Tangible Asset		Debt to Equity:	26.93%	
Average EV to EBITDA:	N/A	Net Tangible Asset/Share:	\$17.74	Return on Assets:	3.02%	
Company EV to EBITDA:	11.76	Net Tangible Asset/Share in Year 5:	\$22.22	Return on Capital:	4.22%	
Average EV to EBIT:	N/A	Annualized return:	4.60%	Return on Equity:	5.35%	
Company EV to EBITA:	15.93	Current Equity Price:	\$39.59			
		Selling at Discount?	Premium			
		Appreciation Potential:	-55.18%			

SN VALUATION

LBO Pro Forma Income Statement

Name:

Steinway Musical

Ticker:

LVB

	Historical				Forecasted				
	12 months ending 2009-12-31	12 months ending 2010-12-31	12 months ending 2011-12-31	12 months ending 2012-12-31	2013	2014	2015	2016	2017
Revenue	306.44	318.12	346.26	353.72	353.72	353.72	353.72	353.72	353.72
COGS	221.52	222.17	241.11	247.60	247.60	247.60	247.60	247.60	247.60
Gross margin	84.92	95.95	105.15	106.12	106.12	106.12	106.12	106.12	106.12
SG&A	63.99	71.03	82.50	84.89	84.89	84.89	84.89	84.89	84.89
R&D	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Unusual expense	-2.46	-0.10	7.91	0.57	0.00	0.00	0.00	0.00	0.00
Other operating expense	0.37	0.88	0.12	0.03	0.00	0.00	0.00	0.00	0.00
Depreciation is: Excluded from COGS					0.00	0.00	0.00	0.00	0.00
Operating Income (EBITA)	18.02	24.14	14.62	29.65	21.22	21.22	21.22	21.22	21.22
Interest income/(expense)	-10.79	-8.71	-5.45	-2.63	-4.02	-4.02	-4.02	-4.02	-4.02
Gain (loss) on sale of asset	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other	2.60	-1.25	-4.48	-4.43	0.00	0.00	0.00	0.00	0.00
Income before tax	8.51	12.96	3.58	21.54	17.20	17.20	17.20	17.20	17.20
Tax	3.17	5.06	1.95	8.03	6.02	6.02	6.02	6.02	6.02
Income after tax	5.34	7.90	1.63	13.51	11.18	11.18	11.18	11.18	11.18
Minority Interest	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Equity in affiliates	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net income	5.34	7.90	1.63	13.51	11.18	11.18	11.18	11.18	11.18
*Figures are in millions (\$)									
EPS (based off today's share count)	\$0.43	\$0.63	\$0.13	\$1.08	\$0.90	\$0.90	\$0.90	\$0.90	\$0.90
P/E (historical today's price; forecasted intrinsic price)	92.52	62.54	303.12	36.57	41.16	38.33	35.70	33.24	30.96
Revenue Growth	N/A	8.85%	8.85%	2.15%	0.00%	0.00%	0.00%	0.00%	0.00%
Tax Rate	37.25%	39.04%	54.47%	37.28%	35.00%	35.00%	35.00%	35.00%	35.00%
Implied Debt Interest Rate	-6.82%	-5.64%	-8.01%	-3.87%	NA	NA	NA	NA	NA
Margins									
COGS	72.29%	69.84%	69.63%	67.59%	70.00%	70.00%	70.00%	70.00%	70.00%
Gross margin	27.71%	30.16%	30.37%	32.41%	30.00%	30.00%	30.00%	30.00%	30.00%
SG&A	22.51%	22.33%	23.83%	23.86%	24.00%	24.00%	24.00%	24.00%	24.00%
R&D	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Unusual expense	-0.80%	-0.03%	2.28%	0.16%	0.00%	0.00%	0.00%	0.00%	0.00%
Other operating expense	0.12%	0.28%	0.03%	0.01%	0.00%	0.00%	0.00%	0.00%	0.00%
Depreciation is: Excluded from COGS	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Operating Income (EBITA)	5.88%	7.59%	4.22%	8.38%	6.00%	6.00%	6.00%	6.00%	6.00%
Interest income/(expense)	-3.52%	-2.74%	-1.57%	-0.74%	-1.14%	-1.14%	-1.14%	-1.14%	-1.14%
Gain (loss) on sale of asset	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Other	0.85%	-0.39%	-1.25%	-1.25%	0.00%	0.00%	0.00%	0.00%	0.00%
Income before tax	2.78%	4.07%	1.03%	6.09%	4.86%	4.86%	4.86%	4.86%	4.86%
Tax	1.03%	1.59%	0.56%	2.27%	1.70%	1.70%	1.70%	1.70%	1.70%
Income after tax	1.74%	2.48%	0.47%	3.82%	3.16%	3.16%	3.16%	3.16%	3.16%
Minority Interest	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Equity in affiliates	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Net income	1.74%	2.48%	0.47%	3.82%	3.16%	3.16%	3.16%	3.16%	3.16%

	As of 2009-12-31	As of 2010-12-31	As of 2011-12-31	As of 2012-12-31	As of 2013-06-30	Adjustment		Adjusted Proforma	2011	2012	2013	2014	2015
						+	-						
Cash	65.87	119.81	49.89	73.41	106.50			106.50	119.77	133.04	146.31	159.58	172.85
Short term investment	0.00	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Cash and Short term	65.87	119.81	49.89	73.41	106.50			106.50	119.77	133.04	146.31	159.58	172.85
Accounts Receivable	45.07	42.38	42.32	43.54	44.00			44.00	44.00	44.00	44.00	44.00	44.00
Other receivables	0.00	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Total Receivables	45.07	42.38	42.32	43.54	44.00			44.00	44.00	44.00	44.00	44.00	44.00
Total Inventory	158.03	144.50	132.40	125.08	133.97			133.97	133.97	133.97	133.97	133.97	133.97
Prepaid Expenses	13.50	10.51	11.92	9.08	10.33			10.33	10.33	10.33	10.33	10.33	10.33
Other Current Assets	11.43	11.42	12.09	5.23	5.49			5.49	5.49	5.49	5.49	5.49	5.49
Current Assets	293.90	328.62	248.62	256.34	300.29	0.00	0.00	300.29	313.56	326.83	340.10	353.37	366.64
PP&E, Gross	195.28	197.39	202.29	175.68	176.00			176.00	183.00	190.00	197.00	204.00	211.00
Change in Depreciation	10.37	9.55	8.78	9.09	9.09			9.09	9.09	9.09	9.09	9.09	9.09
Accumulated Depreciation	105.74	110.98	115.29	107.75	108.00			108.00	117.09	126.18	135.27	144.36	153.45
PP&E, Net	89.54	86.41	87.00	67.93	68.00			68.00	65.91	63.82	61.73	59.64	57.55
Goodwill	24.06	26.02	22.68	22.92	23.00	0.00		23.00	23.00	23.00	23.00	23.00	23.00
Intangibles	14.13	12.84	12.10	13.95	14.00			14.00	14.00	14.00	14.00	14.00	14.00
Long term investments	0.00	7.83	8.21	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Other long term assets	28.15	20.37	27.88	40.99	42.66			42.66	42.66	42.66	42.66	42.66	42.66
Long Term Assets	155.88	153.47	157.87	145.79	147.66			147.66	143.48	143.48	141.39	139.30	137.21
Total Assets	449.78	482.09	406.49	402.13	447.95	0.00	0.00	447.95	459.13	470.31	481.49	492.67	503.85
Accounts Payable	9.76	12.14	10.70	12.87	13.00			13.00	13.00	13.00	13.00	13.00	13.00
Accrued Expense	24.35	27.86	27.31	18.64	19.00			19.00	19.00	19.00	19.00	19.00	19.00
Other current Liabilities	12.05	11.32	11.31	21.54	27.43			27.43	27.43	27.43	27.43	27.43	27.43
Total Current Liabilities	46.16	51.32	49.32	53.05	59.43	0.00	0.00	59.43	59.43	59.43	59.43	59.43	59.43
Notes Payables/Short Term Debt	0.00	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Current port. Of LT Debt/Capital Leases	0.54	2.46	0.65	0.58	67.97			67.97	67.97	67.97	67.97	67.97	67.97
Long term Debt	157.70	152.05	67.37	67.43	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Capital Lease Obligations	0.00	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Total Interest Earning Debt	158.24	154.51	68.02	68.01	67.97	0.00	0.00	67.97	67.97	67.97	67.97	67.97	67.97
Deferred Income tax	7.12	3.76	2.44	0.56	0.70			0.70	0.70	0.70	0.70	0.70	0.70
Minority Interest	0.00	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Other liabilities	41.77	46.88	57.00	62.21	61.41			61.41	61.41	61.41	61.41	61.41	61.41
Total Liabilities	253.29	256.47	176.78	183.83	189.51	0.00	0.00	189.51	189.51	189.51	189.51	189.51	189.51
Redeemable Preferred Stock	0.00	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Non-redeemable Preferred Stock	0.00	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Common Stock	0.01	0.01	0.01	0.01	0.01		0.00	0.01	0.01	0.01	0.01	0.01	0.01
Additional Paid-in capital	125.19	154.40	161.00	162.58	163.00	0.00	0.00	163.00	163.00	163.00	163.00	163.00	163.00
Dividends Paid	0.00	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Retained Earnings	126.42	134.21	135.52	148.93	160.00			160.00	171.18	182.36	193.54	204.72	215.90
Treasury Stock	-47.27	-47.07	-44.66	-44.07	-45.00		0.00	-45.00	-45.00	-45.00	-45.00	-45.00	-45.00
Other Equity	-7.85	-12.94	-19.28	-25.61	-25.61		0.00	-25.61	-25.61	-25.61	-25.61	-25.61	-25.61
Total Equity	196.50	228.61	232.59	241.84	252.40	0.00	0.00	252.40	263.58	274.76	285.94	297.12	308.30
Liability + Equity	449.79	485.08	409.37	425.67	441.91	0.00	0.00	441.91	453.09	464.27	475.45	486.63	497.81
Variance	-0.01	-2.99	-2.88	-23.54	6.04			6.04	6.04	6.04	6.04	6.04	6.04
Debt/Equity	0.81	0.68	0.29	0.28	0.27			0.27	0.26	0.25	0.24	0.23	0.22
Inventory Turnover	1.94	2.20	2.62	2.83	2.64			2.64	2.64	2.64	2.64	2.64	2.64
Inventory Turnover Days	188.23	165.79	139.57	129.07	138.24			138.24	138.24	138.24	138.24	138.24	138.24
Days Inventory Outstanding	260.39	237.40	200.43	190.96	197.49			204.53	197.49	197.49	197.49	197.49	197.49
Accounts Receivable Turnover	6.80	7.51	8.18	8.12	8.04			8.04	8.04	8.04	8.04	8.04	8.04
Accounts Receivable Turnover Days	53.68	48.63	44.61	44.93	45.40			45.40	45.40	45.40	45.40	45.40	45.40
Days Payable Outstanding	16.08	19.94	16.20	19.65	19.16			19.85	19.16	19.16	19.16	19.16	19.16
Days Sales Outstanding	53.68	48.63	44.61	44.93	45.40			44.93	45.40	45.40	45.40	45.40	45.40
Cash Conversion Cycle	297.99	266.08	228.84	216.24	223.73			229.61	223.73	223.73	223.73	223.73	223.73
Net tangible assets/share	\$12.69	\$15.20	\$15.85	\$16.42	\$17.26				\$18.16	\$19.05	\$19.95	\$20.84	\$21.74

	12 months ending 2009-12-31	12 months ending 2010-12-31	12 months ending 2011-12-31	12 months ending 2012-12-31	2011	2012	2013	2014	2015
Net Income	5.34	7.90	1.63	13.51	11.18	11.18	11.18	11.18	11.18
Depreciation	10.37	9.55	8.78	9.09	9.09	9.09	9.09	9.09	9.09
Net Income + Depreciation	15.71	17.45	10.41	22.60	20.27	20.27	20.27	20.27	20.27
Amortization	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deferred Taxes	-1.68	-0.46	-5.19	1.50	0.00	0.00	0.00	0.00	0.00
Non Cash Items	-0.32	1.13	12.04	1.44	0.00	0.00	0.00	0.00	0.00
Change in Working capital	10.21	17.54	5.32	3.18	0.00	0.00	0.00	0.00	0.00
Accounts Receivable	0.00	2.69	0.06	-1.22	0.00	0.00	0.00	0.00	0.00
Other Receivables	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Inventory	0.00	13.53	12.10	7.32	0.00	0.00	0.00	0.00	0.00
Prepaid Expenses	0.00	2.99	-1.41	2.84	0.00	0.00	0.00	0.00	0.00
Accounts Payable	0.00	2.38	-1.44	2.17	0.00	0.00	0.00	0.00	0.00
Cash from Operating Activities	23.92	35.66	22.58	28.72	20.27	20.27	20.27	20.27	20.27
Capital Expenditures Expenditures	-4.55	-3.73	-6.94	-7.03	-7.00	-7.00	-7.00	-7.00	-7.00
Long term investment	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other Investing Activities	-0.80	-0.23	-3.26	0.21	0.00	0.00	0.00	0.00	0.00
Cash from Investing Activities	-5.35	-3.96	-10.20	-6.82	-7.00	-7.00	-7.00	-7.00	-7.00
Financing Cash flow items	0.00	-0.06	0.30	0.01	0.00	0.00	0.00	0.00	0.00
Total Cash Dividends Paid	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Issuance (Retirement) of Stock	27.81	27.86	4.61	1.61	0.00	0.00	0.00	0.00	0.00
Issuance (Retirement) of Current Portion Debt	-	-	-	-	0.00	0.00	0.00	0.00	0.00
Issuance (Retirement) of Long Term Debt	-24.95	-3.90	-88.35	0.00	0.00	0.00	0.00	0.00	0.00
Cash from Financing Activities	2.86	23.90	-83.44	1.62	0.00	0.00	0.00	0.00	0.00
Foreign Exchange effect	0.07	-1.67	1.14	0.01	0.00	0.00	0.00	0.00	0.00
Beginning Cash Balance	-21.49	0.00	0.00	0.00	106.50	119.77	133.04	146.31	159.58
Net Change in Cash	21.49	53.94	-69.92	23.52	13.27	13.27	13.27	13.27	13.27
Ending Cash Balance	0.00	0.00	-69.92	23.52	119.77	133.04	146.31	159.58	172.85
Capex to Revenue	1.48%	1.17%	2.00%	1.99%	1.98%	1.98%	1.98%	1.98%	1.98%
Depreciation to Sales	3.38%	3.00%	2.54%	2.57%	2.57%	2.57%	2.57%	2.57%	2.57%
Amortization to Sales	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
A/R to Sales	14.71%	13.32%	12.22%	12.31%	12.31%	12.31%	12.31%	12.31%	12.31%
Distributable FCF/EV Yield	4.08%	6.96%	2.72%	4.81%	2.91%	2.91%	2.91%	2.91%	2.91%
Dividend Yield	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
FCF (Ops-Investing)	19.37	31.93	15.64	21.69	13.27	13.27	13.27	13.27	13.27

SN VALUATION

LBO Debt Schedule

Ticker:

LVB

	Proforma	2013	2014	2015	2016	2017
Net Change in Cash	23.52	13.27	13.27	13.27	13.27	13.27
Current Portion Debt Repayment						
Long Term Debt Repayment						
Outstanding Debt	67.97	67.97	67.97	67.97	67.97	67.97
Current Portion Debt Balance	67.97	67.97	67.97	67.97	67.97	67.97
Long Term Debt Balance	0.00	0.00	0.00	0.00	0.00	0.00
Forward Libor Curve		3.00%	3.00%	3.00%	3.00%	3.00%
Spread		4.00%	4.00%	4.00%	4.00%	4.00%
Interest Rate		7.00%	7.00%	7.00%	7.00%	7.00%
Interest Expense		4.76	4.76	4.76	4.76	4.76
Cash Balance		73.41				
Interest @ 1.0%		0.73	0.73	0.73	0.73	0.73
Net Interest Expense/(Income)		4.02	4.02	4.02	4.02	4.02
Net Interest Rate		#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
EBITDA		21.22	21.22	21.22	21.22	21.22
EBITDA/Interest Expense Coverage		4.46	4.46	4.46	4.46	4.46

Interest Rate Coverage Table

Debt Rating					
AAA					
AA					
A+					
A					
A-					
BBB	BBB	BBB	BBB	BBB	BBB
BB+					
BB					
B+					
B					
B-					
CCC					
CC					
C					
D					

*Source: NYU; Professor Damodaran

Altman Z Score

Company Name:

Steinway Musical

Ticker:

LVB

Period	2009	2010	2011	2012	2013	2014	2015	2016	2017
Working Capital	247.74	277.30	199.30	240.86	254.13	267.40	280.67	293.94	307.21
Total Assets	449.78	482.09	406.49	447.95	459.13	470.31	481.49	492.67	503.85
X1	0.55	0.58	0.49	0.54	0.55	0.57	0.58	0.60	0.61
Retained Earnings	126.42	134.21	135.52	160.00	171.18	182.36	193.54	204.72	215.90
Total Assets	449.78	482.09	406.49	447.95	459.13	470.31	481.49	492.67	503.85
X2	0.28	0.28	0.33	0.36	0.37	0.39	0.40	0.42	0.43
EBITDA	18.02	24.14	14.62	29.65	21.22	21.22	21.22	21.22	21.22
Total Assets	449.78	482.09	406.49	447.95	459.13	470.31	481.49	492.67	503.85
X3	0.04	0.05	0.04	0.07	0.05	0.05	0.04	0.04	0.04
Market Value of Equity	494.08	494.08	494.08	494.08	460.13	428.51	399.07	371.64	346.11
Total Liabilities	253.29	256.47	176.78	189.51	189.51	189.51	189.51	189.51	189.51
X4	1.95	1.93	2.79	2.61	2.43	2.26	2.11	1.96	1.83
Net Sales	306.44	318.12	346.26	353.72	353.72	353.72	353.72	353.72	353.72
Total Assets	449.78	482.09	406.49	447.95	459.13	470.31	481.49	492.67	503.85
X5	0.68	0.66	0.85	0.79	0.77	0.75	0.73	0.72	0.70
Altman Z Score	3.04	3.06	3.70	3.72	3.57	3.48	3.41	3.33	3.27

$$Z = 1.2 \times X1 + 1.4 \times X2 + 3.3 \times X3 + 0.6 \times X4 + 1.0 \times X5$$

Z-SCORE ABOVE 3.0 –The company is considered 'Safe' based on the financial figures only.

Blue

Z-SCORE BETWEEN 2.7 and 2.99 – 'On Alert'. This zone is an area where one should 'Exercise Caution'.

Green

Z-SCORE BETWEEN 1.8 and 2.7 – Good chance of the company going bankrupt within 2 years.

Yellow

Z-SCORE BELOW 1.80- Probability of Financial Catastrophe is Very High.

Red

Year	Present Value	Holding Period					Terminal Value			Sale Price
	0	1	2	3	4	5	6	7	8	TBV at Year 5 + 3 Years FCF
Tangible Book Value	229.40	240.58	251.76	262.94	274.12	285.30				285.30
Annual Change		11.18	11.18	11.18	11.18	11.18				
Annual FCF	21.69	13.27	13.27	13.27	13.27	13.27	13.27	13.27	13.27	39.81
Annual Op. Cash Flow	28.72	20.27	20.27	20.27	20.27	20.27	20.27	20.27	20.27	
Annual PP&E Investment	(7.03)	(7.00)	(7.00)	(7.00)	(7.00)	(7.00)	(7.00)	(7.00)	(7.00)	
Today's Tangible Book Value	229.40	239.63	250.31	261.47	273.12	285.30				325.11
Intrinsic Value IRR	4.46%									
Market Price	494.08	454.41	417.92	384.36	353.49	325.11				325.11
Market Price IRR	-8.03%									

Debt	50.00%	247.04
Equity	50.00%	247.04
Total	100.00%	494.08

	Present Value	Holding Period					Terminal Value			Sale Price	
	Historic	ProForma	1	2	3	4	5	6	7	8	
Book Equity	252.4	247.04	249.60	252.15	254.71	257.26	259.82				
Goodwill	23	264.68	264.68	264.68	264.68	264.68	264.68				
Debt	0	247.04	247.04	247.04	247.04	247.04	247.04				
Debt Interest Rate		7.00%	7.00%	7.00%	7.00%	7.00%	7.00%				
Additional Interest Expense		13.27	13.27	13.27	13.27	13.27					
Tangible Book Value	229.4	-17.64	-15.09	-12.53	-9.98	-7.42	-4.87				-4.87
Annual Change			2.55	2.55	2.55	2.55	2.55				
Annual FCF	21.69	4.64	4.64	4.64	4.64	4.64	4.64	4.64	4.64	4.64	13.93
Annual Net Income	13.51		2.55	2.55	2.55	2.55	2.55	2.55	2.55		
Annual Op. Cash Flow	28.72	11.64	11.64	11.64	11.64	11.64	11.64	11.64	11.64	11.64	
Dividend Payments											
Annual PP&E Investment	(7.03)		(7.00)	(7.00)	(7.00)	(7.00)	(7.00)	(7.00)	(7.00)	(7.00)	
Debt Paydown	0.00							0.00	0.00	0.00	
Sale Price in Year 5											9.07
Capital Left for Equity Investor											9.07
Dividend Payments											0.00
Total Cash In Flow											9.07
Invested Equity	247.04	127.56	65.86	34.01	17.56	9.07					
IRR	-48.37%										

We assume the debt taken on by the investor is now on the Co's books, so the investor has no more liability from the deal.

<u>Value Creation</u>	
TBV Growth (equals sum of NI Year 1-5)	12.77
Cash Flow (Year 6-8)	13.93
	26.71

<u>Value Dilution</u>	
Debt	247.04
Goodwill	241.68
Additional Interest	66.35
	555.07