Accelerated depreciation
about, 222–223
accelerated vs. straight-line depreciation, 372–376
diminishing balances, 223
modified accelerated cost recovery system (MACRS), 224–227, 367–372
sum of the years digits, 224
Accounts payable (AP), 10, 182–183, 259, 268, 293–300
Accounts receivable (AR), 179–180
Accrued expenses (AE), 10
Accrued income taxes, 251
changes in, 275, 277
Heinz operating working capital, 260–261
projecting operating working capital, 269–270
Accrued liabilities, 183, 259–260, 268–269
Accrued marketing, 189
Acquisitions
338(h)(10) elections, 22
net of cash required, 168
types, 20–24
Additional paid-in capital (APIC), 194
Advertising and marketing, 77
Amortization projection, 241–243
Anchoring formula references, 66–68
Annual report, 52, 84
Asset acquisition, 20–21
types, 23–24
Assets
accounts receivable, 179–180
cash and cash expenditures, 179
current assets, 179–182, 247
inventory, 180–181
net value of, 20
noncurrent assets, 182
prepaid expense, 181–182
stepped up, 20, 201
Assumptions
about, 51–57
purchase price, 57–62
sources of funds, 63–69
uses of funds, 69–74
Automatic debt paydowns, 337–339
Balance sheet
assets, 179–182
Heinz balance sheet, 184–197
lack of, 48
liabilities, 182–184
restating operating working capital, 252–254
Balance sheet adjustments
about, 199–220
goodwill, 200–208
Heinz balance sheet adjustments, 208–220
modeling, 49
Balance sheet formula, 9
Balance sheet projections
about, 279–282
balancing an unbalanced balance sheet, 301–307
cash flow drives balance sheet vs. balance sheet drive cash flow, 283–300
Balancing an unbalanced balance sheet
about, 301–303
New York School of Finance balance sheet balancing method, 304–307
Bank debt, 29
Basic shares, 105
Basic switches, 339
Berkshire Hathaway
preferred dividends to, 378–388
preferred securities to, 377–378
returns to, 388–393
Beyond EBITDA, 97
Book value, 7
Capital expenditures (CAPEX), 40, 42
Cash, 11, 32–33
Cash and cash equivalents, 185
Cash and cash expenditures, 179
Cash availability, 3
Cash available to pay down debt, 316, 319–328
Cash equivalents, 248–250
Cash flow
projections, 48
unlevered, 34–35
Cash flow from financing activities
about, 171–172
cash generated or spent, 137–138
categories, 149–154
earn-out settlement, 172–173
effect of exchange rates on cash, 175–178
other items, net, 173–174
Cash flow from investing activities, 135–137
about, 166–168
acquisitions, net of cash required, 168
cash flow from financing activities, 171–178
change in restricted cash, 168–170
lines laid out, 148–149
other items, net, 170–171
proceeds from disposals of property, plant and equipment, 168
proceeds from divestiture, 168
sale of short-term investments, 168
Cash flow from operating activities
about, 133–135, 160–161
cost of goods sold (COGS), 135
definition of, 144–148
depreciation, 135
interest, 135–136
nonrecurring events, 161
operating expenses, 135
revenue, 135
seven methods of projections, 161–166
taxes, 136–137
Cash flow from operations, 87
Cash flow statement, 40
cash flow from financing activities, 137–138
cash flow from investing activities, 135–137
cash flow from operating activities, 133–137
financial statement flows example, 138–144
Heinz cash flow statement, 144–153
Heinz last twelve months (LTM) cash flow, 154–159
projections, 160–178
restating operating working capital, 252–254
Cash flow statement projections
cash flow from investing activities, 166–171
cash flow from operating activities, 160–166
Cash flow vs. balance sheet
about, 283–285
accounts payable, 293–300
inventories, 286–291
liabilities, 292–293
receivables, 285–286
revolving line of credit, 293
Changes
in accounts payable, 275
in accrued income taxes, 275, 277
in accrued liabilities, 275
in inventories, 274
to prepaid expenses and other current assets, 274
to receivables, 273–274
in restricted cash, 168–170
Circular references
about, 326–332
basic switches, 339
Excel iteration statements, 331
# value errors, 333–336
COGS (cost of goods sold). See Cost of goods sold (COGS)
Comparable company analysis, 15
Consolidated balance sheet adjustments, 188
Consolidated income statements, 104, 113, 116
Consolidated Statements of Income, 84
Control premium, 20
Core methods to determine value, 14–17
Cost of goods sold (COGS), 21, 76–77, 92–93, 122–124, 135, 180
gross profit, 76–77
Cost savings, 95, 125–126
Cost synergies, 125
Coverage ratios
about, 395–396
debt service coverage, 396
fixed charge coverage, 397
interest coverage, 396–397
Current assets, 179–182, 185–186, 247
Current liabilities, 247
accounts payable, 182–183
accrued liabilities, 183
Heinz history, 189
nonconcurrent liabilities, 182–184
short terms debts, 183

Data software, 118
Data sources, 118
Debt, 29–31, 64–65
Debt covenant ratios and debt free amortization
coverage ratios, 395–397
debt fee capitalization and amortization,
399–408
leverage ratios, 397–399
Debt fee capitalization and amortization,
399–408
Debt fees, 28
Debt paydown, 3, 364
Debt schedule
modeling of, 49, 310–328
structure, 309–310
Debt service coverage, 396
Declining balances, 223
Deferred tax adjustments, 203–205
Deferred tax liability, 229–230
Deferred taxes
vs. accrued income taxes, 251
deferred tax liability, 229–230
depreciation schedule, 227–230
depreciation schedule projection, 244
liabilities, 184
NOL carryback, 227–229
nonconcurrent liabilities, 190
projection, 244
Depreciation, 135
Depreciation and amortization, 78–80,
88–92, 97, 126
EBIT, 80
Depreciation and amortization (D&I) expenses, 42, 80
Depreciation projection, straight line depreciation, 231–240
Depreciation schedule
about, 221–222
accelerated depreciation, 222–227
amortization projection, 241–243
deferred taxes, 227–230
deferred taxes projection, 244
depreciation projection, 231–240
straight line depreciation, 222
Discount rate, 17
Discounted cash flow (DCF) analysis,
12, 17
Distributions, 82–83, 105
Divestiture, proceeds from, 168
Dividend recapitalization, 5
Due diligence costs, 27

Earning per share (EPS), 83, 105–107
Earnings, 194
Earnings before interest and taxes (EBIT).
See EBIT (earnings before interest and taxes)
Earnings before interest, taxes, depreciation and amortization (EBITDA).
See EBITDA (earnings before interest, taxes, depreciation and amortization)
Earnings calls, 118
Earnings per share (EPS), 105
Earn-out settlement, 172–173
EBIT (earnings before interest and taxes), 12, 80–81, 97–98, 100–101
EBITDA (earnings before interest, taxes, depreciation and amortization), 12, 78–80, 95–96
fairness opinions, 358–361
getting to, 87–88
improvements, 357–361
EBT margin, 101
Effect of exchange rates on cash, 175–178
Enterprise value, 8–12, 25–26
Environment assessment, 28
Equity, 32, 64, 194
Equity (out of pocket) capital, 3
Equity and shareholder’s equity, 194–197
Equity fees, 28
Equity formula, 192
Excel hotkeys, 87
Excel iteration statements, 331
Exit debt, 44, 46
Exit debt calculation, 44–45
Exit enterprise value, 42–43
Exit multiple, 48
Exit opportunities, 5
Exit value, 351–355
Exit value method, 33–34, 42
Fairness opinions, 358–361
Fairness research, 118
Finalizing model, 339–349
Financial instruments, 191
Financial metrics, 12–14, 108
Financial Modeling and Valuation: A Practical Guide to Investment Banking and Private Equity (Pignataro), 17, 19, 230, 293, 371
Financial sponsors, 5
Financial statement flows example, 138–144
Firm value, 8
Fixed charge coverage, 397
Fund management fee, 94–95, 125

Generally accepted accounting principals (GAAP), 82, 184
Goodwill
  attribution, 21–22
  balanced sheet adjustment, 200–208
coding, 187
defered tax adjustments, 203–205
and intangible assets, 48, 209–210
net debt balance sheet adjustment, 206
new tangible assets, 201–203
purchase price balance sheet adjustment, 205–206
sources balance sheet adjustment, 206–207
step up of existing assets, 201
transaction fees balance sheet adjustment, 207–208
Gross profit, 76–77, 87, 93–94

Heinz
  consolidated income statements, 113, 116
  LTM income statement, 115
  LTM revenue, 113
  LTM tax rate, 114
  nine-month historical financials, 112
  nine-month income statements, 110
  outstanding debt assumption, 70
  projected EBITDA, 127
  Q3 depreciation, 111
  uses of funds, 71
Heinz balance sheet, 184–197
  about, 184–185
  current assets, 185–186
  noncurrent assets, 186–188
Heinz balance sheet adjustments about, 208–209
  balance sheet adjustments, 211–220
  goodwill and intangible assets, 209–210
  net debt, 209
Heinz cash flow statement
  cash flow from financing activities, 149–154
  cash flow from investing activities, 148–149
  cash flow from operating activities, 144–148
Heinz cash flow statement projections, 245–246
Heinz income statement
  beyond EBITDA, 97
  consolidated income statements, 113, 116
cost of goods sold (COGS), 92–93
cost savings, 95
depreciation and amortization, 88–92, 97
distributions, 105
EBIT, 97–98, 100–101
EBITDA, 95–96
fund management fee, 94–95
getting to EBITDA, 87–88
gross profit, 93–94
interest, 98–99
LTM income statement, 115
net income, 102
net income (after recurring events), 104–105
net income (as reported), 105
nine-month historical financials, 112
nonrecurring events and extraordinary items, 102–104
other expenses, net, 99–100
other income, 95
projections, 116–132
revenue, 84–87
selling, general and administration expenses, 94
shares and EPS, 105–107
taxes, 101–102
Heinz last twelve months (LTM) cash flow, 154–159
Heinz leveraged buyout, 5–6
Heinz operating working capital
  about, 251–252
  accounts payable, 259
  accrued income taxes, 260–261
  accrued liabilities, 259–260
  inventories, 256–257
  prepaid and other current assets, 257–258
receivables, 254–255
restating operating working capital, 252–254
Heinz ownership
percentage of equity outstanding, 69
percentage of total capital, 68
Heinz projected consolidated statement of cash flows, 276
Heinz projected EBITDA, 127
High yield debt, 29–30
Human resources, 28

Income statement. See also Heinz income statement
about, 75–76
cost of goods sold (COGS), 76–77
depreciation and amortization, 78–80
distributions, 82–83
EBITDA, 78–80
Heinz income statement, 84–107
interest, 80–81
last twelve months (LTM), 108–116
nonrecurring extraordinary items, 82
operating expenses, 77
other income, 78–81
revenue, 76
shares, 83
synergies, 48
taxes, 81–82
Initial assumptions, 33–34
time horizon, 33
Initial public offering (IPO), 5
Intangible assets
amortization, 48, 80, 88, 90, 97, 126, 146, 155, 160, 201, 241
goodwill, 48, 202, 209–210
intellectual property, 182
tax benefits, 22
trademarks, 187
Interest
about, 80–81
in cash flow statement, 135–136
EBIT, 81
Heinz modeling, 98–99
Interest coverage, 396–397
Interest expense, 48, 98
Interest income, 98, 126
Interest misplaced, 3
Interest rate, 47
Investment banking fees, 27
Investment presentation, 116–117
Investment value, 116
Investor rate of return (IRR), 1, 42, 61
Investor return steps
exit debt calculation, 44–45
exit enterprise value, 42–43
IRR calculation, 45–48
unlevered free cash flow projections, 34–42
IRR (internal rate of return) analysis, 33–48
initial assumptions, 33–34
investor return steps, 34
IRR calculation, 45–48
Last twelve months (LTM), 108–116, 184
Legal fees, 27
Leverage ratios, 397–399
Leveraged buyout
advanced, 365–366
assumptions, 51–74
capital structure, 29
full-scale model, 49–50
overview, 1
Leveraged buyout, analysis
IRR analysis, 33–48
purchase price, 19–22
sources and uses of funds, 22–23
Leveraged buyout, returns
conclusion, 364
debt paydown, 364
exit value, 351–355
multiple expansion, 361–363
returns to capital, 355–361
Leveraged buyout, theory
cash availability, 3
debt-paydown, 3
exit opportunities, 5
good functioning, 4–5
Heinz leveraged buyout, 5–6
interest misplaced, 3
multiple expansion, 4
operation improvement, 4
Liabilities
current liabilities, 182–184, 247
deferred taxes, 184
long-term debt, 184
noncurrent liabilities, 183–184
short terms debt, 292–293
working capital, 247–248
Long-term debt, 184
LTM income statement, 115

Mandatory and nonmandatory issuance (retirements), 311–314
Market capitalization (market value), 7–8.
   See also Enterprise value definition of, 9
Market value multiples, 14, 16, 25
Metrics
   average, 261
   average formula, 263
   comparative, 144
cost of goods sold (COGS), 92–93
   earnings per share, 105
   EBDITA, 78
   financial, 12–14
   historical, 95, 258
   LTM, 108, 118, 352
   operational, 359
   12 month, 164
   unlevered cash flow, 34, 42, 76
Mezzanine, 31
Mezzanine lender, 29
Model projections, 17
Model tips, 87, 104, 161–166, 183
Modeling
   notes, 315–316
   of positive vs. negative format, 102–103
Modeling etiquette
   formulas, 60
   hard-coded numbers, 60
   rounding, 62
   unanchored formulas, 66
Modeling of debt schedule
   automatic debt paydowns, 337–339
cash available to pay down debt, 316, 319–325
circular references, 329–336
   finalizing model, 339–349
   mandatory and nonmandatory issuance (retirements), 311–314
   notes, 315–316
   revolving line of credit, 310–311
term facilities, 314–315
total interest expense, 316
total issuances (retirement), 316
Modiﬁed accelerated cost recovery system (MACRS), 224–227, 367–372
Mortgage, 3
Multiple expansion, 4, 361–363
Multiples
   purchase, 15–16
   in purchase price, 25
   value, 12–14
Net debt, 25–27, 70–71
Net debt balance sheet adjustment, 206
Net debt responsibility, 26
Net income, 81–82, 102
   after recurring events, 104–105
   as reported, 83, 105
New tangible assets, 201–203
New York School of Finance balance sheet balancing method, 304–307
Nine-month historical ﬁnancials, 112
NOL carryback, 227–229
Noncompete agreements, 31
Noncurrent liabilities
   about, 189
definition, 191
goodwill, 187
intangible assets, 182, 187
nonconcurrent liabilities, 189–190
other noncurrent assets, 187–188
property, plant and equipment, 182
Noncurrent liabilities, 183–184
Nonpension post-retirement beneﬁts, 190
Nonrecurring events, 161
Nonrecurring events and extraordinary items, 102–104, 129–130
Nonrecurring extraordinary items, 82
Operating expenses, 77, 124–125, 135
Operating working capital, cash equivalents, 248–250
Operating working capital and cash ﬂow statement
   about, 271–273
   changes in accounts payable, 275
   changes in accrued income taxes, 275, 277
   changes in accrued liabilities, 275
   changes in inventories, 274
changes to prepaid expenses and other current assets, 274
changes to receivables, 273–274
Heinz projected consolidated statement of cash flows, 276
Operation improvement, 4
Operations performance, EBITDA projections, 47
Other expenses, net, 99–100, 102
Other income, 78–81, 95, 126
Other items, net, 170–171, 173–174
Other noncurrent liabilities, 190
Other noncurrent assets, 187–188
Other payables, 189
Other receivables, net, 185
Paid in kind (PIK) securities, 409–414
Percentage of equity ownership, 63–69
Percentage of total capital, 65–68
Pignataro, Paul, 17, 19, 230, 293, 371
# value errors, 333–336
Precedent transactions analysis, 15, 21
Preferred dividends, to Berkshire Hathaway, 378–388
Preferred securities, 31
to Berkshire Hathaway, 377–378
Prepaid assets and other current assets,
257–258
Prepaid expenses, 181–182
Prepaid expenses and other current assets,
266–267
Private company, 25
Proceeds from disposals of property, plant and equipment (PP&E), 168
Proceeds from divestiture, 168
Projecting operating working capital accounts payable, 268
accrued income taxes, 269–270
accrued liabilities, 268–269
inventories, 265
prepaid expenses and other current assets,
266–267
receivables, 262–265
Projections, 124–125, 160–178
about, 115–117
cost of goods sold (COGS), 122–124
cost savings, 125–126
depreciation and amortization, 126
detailed, 49
fund management fee, 125
Heinz projected EBITDA, 127
interest income, 126
noncontrolling interest, shares and earnings per share, 130–132
nonrecurring events and extraordinary items, 129–130
operating expenses, 124–125
other income, 126
revenue, 116–122
taxes, 128–129
Property, plant and equipment (PP&E)
book value, 7
described, 182
noncurrent assets, 186
proceeds from disposals of, 168
Proxy document, 52
Public company, 25
Public vs. private purchase price, 20
Purchase multiples, 15–16
Purchase premium, 61–62
Purchase price
about, 19–20, 57–59
actual, 62
balance sheet adjustment, 205–206
basis of, 25
IRR (internal rate of return) analysis,
46–47
public vs. private purchase price, 20
purchase premium, 61–62
target share price, 60–61
treasury method, 59–60
types of acquisitions, 20–22
Put and call options, 193
Quarterly report, 84
Receivables, 254–255, 262–265,
285–286
Redeemable noncontrolling interest,
190–194
Research and development (R&D), 77
Restating operating working capital,
252–254
Returns. See also Leveraged buyout, returns
Returns to 3G capital
about, 355–357
EBITDA improvements, 357–361
Returns to Berkshire Hathaway, 388–393
Revenue, 76, 84–87, 116–122, 135
Revolver amount, 65, 189
Revolving line of credit, 293, 310–311
Rollover equity, 32
S corporations, 22
Sale of short-term investments, 168
Seller notes, 31
Selling, general and administration (SG&A) account, 181
expenses, 77, 94
Seven methods of projections, 161–166
Share count, 57
Shareholder’s equity, 7, 10
SHIPCO example, 21, 27–28, 32, 34, 42, 46–47
Short terms debts, 183
Sources and uses of cash, 33
Sources and uses of funds, 22–23
Sources balance sheet adjustment, 206–207
Sources of cash, 47
Sources of funds about, 63–64
anchoring formula references, 66–68
cash, 32–33
debt, 29–31, 64–65
equity, 32, 64
mezzanine, 31
percentage of equity ownership, 63–69
percentage of total capital, 65–68
uses of, 22–23
Step up of existing assets, 201
Stock acquisition, 21–22
Straight-line depreciation vs. accelerated, 372–376
projection, 231–240
schedule, 222
Strategic sale, 5
Sum of the years digits, 224
Synergies, 48
Target share price, 60–61
Taxes. See also Accrued income taxes; deferred taxes
cash flow from operating activities, 136–137
Heinz income statement, 101–102
income statement, 81–82
net income, 81–82
projections, 128–129
10-Ks, 52, 84
10-Qs, 52
Term facilities, 314–315
Terminal value, 17
338(h)(10) elections, 22
Time frame, 47
Time horizon, 33
Total debt, 26
Total interest, 44
Total interest expense, 316
Total issuances (retirement), 316
Trade payables, 189
Trade receivables, net, 185
Trademarks, 187
Transaction fees, 27–29, 71–72
Transaction fees balance sheet adjustment, 207–208
Treasury method, 59–60
Unlevered free cash flow (USCF)
discounted cash flow (DCF) analysis, 17
EBIT (earnings before interest and taxes), 40–43
projections, 34–42
total cash, 44
U.S. GAAP companies, 193
U.S. Securities and Exchange Commission (SEC), 52
Uses of funds about, 22–24
elements of, 69–74
net debt, 25–27, 70–71
purchase price, 25
solving for, 63
transaction fees, 27–29, 71–72
Valuation methods about, 14–15
comparable company analysis, 15
discounted cash flow analysis, 17
precedent transactions analysis, 15
purchase multiples, 15–16
Value book value, 7
core methods to determine, 14–17
enterprise value, 7–12
market value, 7–8
multiples, 12–14
Wall Street research, 118
Working capital assets, 247
Heinz operating working capital, 251–261
liabilities, 247–248
operating working capital, 248–250
operating working capital and cash flow statement, 271–277
projecting operating working capital, 262–265