Large Cap Buyouts and Take-Privates (Private Equity)

Interview preparation summary · PE track

IN THIS SUMMARY

- Large cap deals and their financing
- Take-privates and complex structures
- Carve-outs, value creation and exits

INT.LC.1.a · Large cap deals and their financing

Explain what sets a large cap buyout apart, size the equity cheque against fund concentration limits and co-investment, and describe how a disciplined bidder behaves in an auction.

There is no fixed line for a large cap buyout, but it usually means an enterprise value in the billions, often a listed company or a large corporate division, sold in a competitive auction run by advisers, with a global footprint and a more complex structure than a mid-market deal. The equity cheque can run to billions, so one deal may be a big share of a fund. The fund agreement normally caps how much of commitments can go into one company, often somewhere in the range of 10% to 20%, so the manager fills the rest with a club partner or with co-investment, where limited partners invest directly alongside the fund, often on lighter fee and carry terms that vary by manager. Because many bidders can pay full prices, large cap returns lean less on buying cheaply and more on operational improvement, cash generation that repays debt and sound structuring. In an auction the discipline is to set a walk-away price from the investment case before the final round and to hold to it. Interview point: say why you want scale, name its trade-offs, and show you would lose a deal rather than overpay.

WORKED EXAMPLE: A FUND FILLS A VERY LARGE EQUITY CHEQUE

A fund with commitments of 12.0 billion limits any one company to 15% of commitments. It wins a take-private with a target EBITDA of 0.9 billion, bought at an enterprise value of 9.0 billion (10.0x EBITDA). Fees and expenses are 0.3 billion and debt is 6.0x EBITDA. How much equity is needed, how much can the fund put in, and how is the rest filled if a club partner takes 0.9 billion?

Answer: Equity of 3.9 billion is needed; the fund invests up to 1.8 billion (about 46%), a club partner puts in 0.9 billion and co-investors 1.2 billion.

> **Interview tip:** Show the order: size the cheque, apply the fund limit, then say who fills the gap. Add that co-investors are offered the deal because the manager cannot hold it alone, and that the manager still needs to allocate fairly.

INT.LC.1.b · Large cap deals and their financing

Describe the financing markets for large buyouts (syndicated loans, high yield bonds, private credit unitranche), and use coverage to judge debt capacity and the effect of market flex.

Large buyouts raise debt from several sources. Syndicated leveraged loans, usually term loan B, are arranged by banks and sold to institutional investors; they pay a floating rate over a reference rate and today are commonly covenant-lite, meaning no financial maintenance tests, only limits that bite when the borrower acts. High yield bonds pay a fixed coupon, run longer and also rely on incurrence terms. Large private credit funds provide unitranche, one blended facility held by a few lenders, often quicker and more certain but at a higher price. Ratings from agencies shape the investor pool and price. Banks usually underwrite the debt, which means they commit to fund it, and a flex clause lets them raise margin or change agreed terms within limits if demand is weak. If the market still cannot absorb the debt, the underwriters are left holding it, a failed syndication, while the sponsor must still close. Interest cost and coverage (EBITDA divided by cash interest) limit how much debt can be raised, and market conditions set both the leverage lenders offer and the price. Interview point: say that open markets raise leverage and cut spreads, and closed markets do the reverse.

WORKED EXAMPLE: COVERAGE, FLEX AND HEADROOM

A company with EBITDA of 500 million has a term loan of 2,000 million at 8.0% cash interest and a bond of 750 million at 9.0%. What are total leverage and interest coverage? Then the banks use flex to add 0.5% to the term loan margin. What is coverage after flex, and how far can EBITDA fall before coverage reaches 2.0x?

Answer: Leverage is 5.5x. Coverage is 2.20x before flex and 2.11x after, and EBITDA can fall 5.0% before coverage reaches 2.0x.

> **Interview tip:** Always say what the ratio is measured against and what moves it. A small flex looks cheap in margin terms but takes a visible slice out of headroom, so link the market to the cheque and the return.

INT.LC.2.a · Take-privates and complex structures

Outline a public-to-private transaction (premium to the undisturbed price, board recommendation, approval thresholds, break fees, financing certainty, stake-building, competing bids) and compute the premium, offer value and implied multiple.

In outline, and without being legal advice, a take-private starts with an approach to the target's board, or a public offer, at a price quoted as a premium to the undisturbed share price, the price before the bid or rumours moved the market. Premiums vary widely with the market and the situation. The board weighs price and certainty with its advisers and decides whether to recommend the offer. Shareholders then accept or vote, and the approval or acceptance threshold depends on the market and the form of the deal, with a higher level often needed to buy out the remaining holders. A bidder may build a stake before announcing, within disclosure rules, and collect commitments from large holders. A break fee, often a small percentage of equity value, can be payable by the target in agreed cases such as a change of board recommendation, and a reverse break fee can be payable by the bidder if financing or approval fails. Financing certainty matters because shareholders only gain if the deal completes, so bidders show committed debt and equity before announcing. A rival bidder or a defence by the target can raise the price. Competition and other regulatory reviews exist and take time, so counsel and the advisers manage them. Interview point: give the sequence and what each party worries about.

WORKED EXAMPLE: FROM PREMIUM TO IMPLIED MULTIPLE

A listed company has an undisturbed share price of 40.00 and 250 million shares, net debt of 3,000 million and EBITDA of 1,600 million. A sponsor offers a 30% premium. What is the offer price, the equity value, the enterprise value and the EV to EBITDA multiple, and how does that compare with the undisturbed multiple? What is a 2% break fee worth?

Answer: Offer price 52.00, equity value 13,000 million, EV 16,000 million, 10.0x EBITDA against 8.1x undisturbed, and a 2% break fee of 260 million.

> **Interview tip:** Measure the premium against the undisturbed price and quote the multiple on enterprise value, not equity value. Say that the premium is what persuades shareholders to sell, so a bid with no premium will fail.

INT.LC.2.b · Take-privates and complex structures

Explain consortium and club governance, co-investor minorities, equity bridges and rollover, and compute ownership and blocking positions after a rollover.

Large deals often use complex structures. In a consortium or club deal several sponsors bid together through a joint acquisition vehicle, which shares the cheque and the risk and pools expertise. The cost is slower decisions and the need for a clear governance agreement: board seats in proportion to ownership, reserved matters that need a supermajority or each member's consent, deadlock procedures, and exit rules such as lock-ups, tag-along and drag-along rights. Counsel also considers whether competition law has anything to say about rivals bidding together. Co-investors, usually the fund's limited partners, take minority positions with limited governance rights and rely on the lead manager. An equity bridge is short-term equity, provided by the sponsor or a bank, that funds the gap at closing so the sponsor can sign at its full commitment and sell down to co-investors afterwards; the sponsor carries the risk that the sell-down fails. A rollover is when management or a large selling holder reinvests part of its proceeds in the new equity, which cuts the cash cheque and keeps them aligned. Interview point: work out who can block what from the percentages.

WORKED EXAMPLE: OWNERSHIP AND BLOCKING AFTER A ROLLOVER

A buyout needs total equity of 2.8 billion. A founding family holds shares worth 1.2 billion and rolls over half of it. Management rolls 0.1 billion. The rest is cash: Sponsor A puts in 0.9 billion, Sponsor B 0.6 billion and co-investors 0.6 billion. What is each party's ownership? A reserved matter needs approval from holders of more than 75% of the equity. Who can block it alone?

Answer: Sponsor A 32.1%, Sponsor B, the co-investors and the family 21.4% each, management 3.6%. Only Sponsor A can block a 75% reserved matter alone.

> **Interview tip:** Convert every governance clause into percentages and test each combination. Add that the thresholds in the agreement, not the share count, decide who really has control.

INT.LC.3.a · Carve-outs, value creation and exits

Explain the issues in a carve-out (standalone financials, separation costs, transition services, stranded costs) and break down value creation at scale including deleveraging.

A carve-out is the purchase of a division or business unit from a corporate parent. The business has usually never operated alone, so its accounts are carve-out financials built with allocations of shared costs, and these can differ from what it would cost to run it standalone. Shared services such as IT, finance, HR, premises and contracts must be separated, which brings one-off separation costs in the first year or two. A transition services agreement, or TSA, has the seller supply services for an agreed period and price while the buyer builds its own. Stranded costs are costs the seller keeps after the sale that the unit used to absorb, and they are the seller's problem; standalone costs are the extra costs the buyer takes on to replace what the parent supplied, and they cut the buyer's EBITDA. Buyers often pay less for the complexity, with upside from focus and management autonomy. At scale, value comes from operating programmes, cost transformation, simplifying the portfolio, repaying debt from cash flow and, only as a bonus, market and multiple effects. Interview point: rebuild standalone EBITDA before you quote a multiple.

WORKED EXAMPLE: STANDALONE EBITDA AND THE TRUE MULTIPLE

A division reports EBITDA of 300 million after allocated parent charges that cost it 25 million. Replacing those services as a standalone company would cost 65 million. The price is 2,700 million, and one-off separation costs are 120 million. What is standalone EBITDA, what multiple is paid on it, and what price would give 9.0x?

Answer: Standalone EBITDA is 260 million; the asking price is 10.4x that, a price of 2,340 million would give 9.0x, and total outlay including separation costs is 2,820 million.

> **Interview tip:** Say that carve-out numbers are rebuilt, not read off. Name the three adjustments in order: allocations to standalone cost, one-off separation cost, and the TSA period.

INT.LC.3.b · Carve-outs, value creation and exits

Compare exit routes for a large position (IPO and staged sell-down, strategic sale, sponsor-to-sponsor, dividend recapitalisation), explain their constraints and regulatory scrutiny, and test returns against the exit multiple.

A large position is hard to sell in one move. An IPO usually floats only part of the equity, and the sponsor then sells the rest in stages through follow-on offerings or block trades after a lock-up, accepting that a large holder overhanging the shares can weigh on the price and that proceeds arrive slowly. A sale to a strategic buyer can pay more because of synergies, but antitrust and other regulatory reviews exist, take months and can force remedies or block a deal, so price must be weighed against certainty. A sponsor-to-sponsor sale depends on a short list of buyers who can write a multi-billion cheque and on open credit markets, and consortia are common. A dividend recapitalisation raises new debt to pay a dividend, which returns cash early and lifts IRR and distributions to paid-in capital, but it adds risk and cost and does not sell the holding. Many sponsors run dual tracks, preparing an IPO and a sale together. Foreign investment and political scrutiny can also follow a large deal. Counsel and the advisers handle the detail. Interview point: show how the return moves with the exit multiple.

WORKED EXAMPLE: RETURN SENSITIVITY TO THE EXIT MULTIPLE

A sponsor invested 4,500 million of equity. At exit the company has EBITDA of 1,300 million and net debt of 4,000 million. What are equity value and the money multiple at exit multiples of 9.0x, 10.0x and 11.0x, and what exit multiple is needed for a 1.5x return?

Answer: Money multiples are 1.71x, 2.00x and 2.29x at 9.0x, 10.0x and 11.0x. Each turn is worth 0.29x, and 8.3x is enough for 1.5x.

> **Interview tip:** State the sensitivity per turn of multiple and the break-even multiple. On a large position a small multiple change is a large sum, so say what you would do if the market gave you less.

Summary of the Charta interview-preparation topic. Companies and figures in the examples are invented. Draft content, not yet expert reviewed.