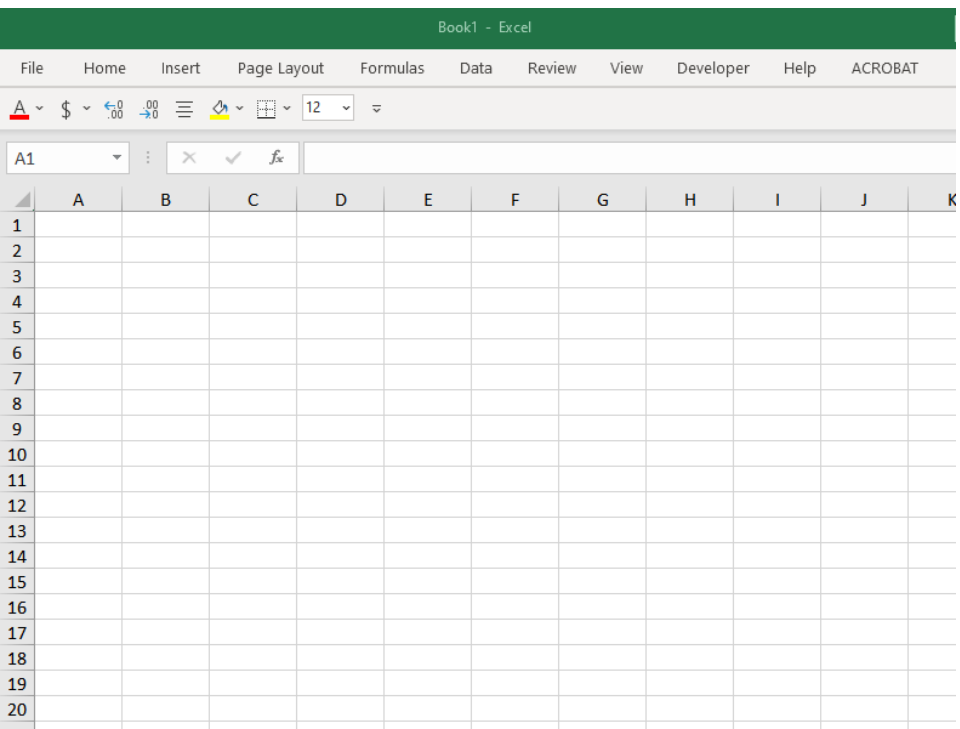




# The LBO Modeling Test, Starting from a Blank Sheet in Excel

Financial Modeling Test, or Excel Shortcut  
Test?



## A Very Common Question...

“I’ve seen your coverage of **detailed case studies** in private equity interviews, but what about **timed modeling tests**?”

How should I **prepare** if I have 1, 2, or 3 hours to complete an LBO model, and what are the most common formats and requirements?”

# This Lesson: LBO Modeling Test Tutorial

If you want this entire tutorial in writing, as well as the Excel file, case study prompt, and written answers, go to:

<https://www.mergersandinquisitions.com/lbo-modeling-test/>

# The Short Answer...

- There are **different types** of “modeling tests” and “case studies,” so we need to start there:
- **Type 1:** “Paper LBO” (or “mental” version)
- **Type 2:** 1-3-Hour LBO Model (on-site or via email/Zoom)
- **Type 3:** Take-Home LBO Model and Presentation
- **Our Focus:** The second type of case study, which is arguably more of an Excel/shortcut test than a “financial modeling” test



# LBO Modeling Tests: Lesson Plan

- **Part 1:** Likely Requirements in Modeling Tests **2:24**
- **Part 2:** Transaction Assumptions and Sources & Uses **7:43**
- **Part 3:** Model Drivers and Income Statement **17:24**
- **Part 4:** Free Cash Flow and Debt Schedule **32:14**
- **Part 5:** Returns and Sensitivities **46:04**
- **Part 6:** Answers to the Case Study Questions **56:22**

# Likely Requirements in LBO Modeling Tests

Case Study / Test Type:	No Excel Template Provided				Excel Template Provided	
	Paper LBO (<= 30 Minutes)	60- or 90-Minute Test	2- or 3-Hour Test	“Take Home” (Few Days)	60- or 90-Minute Test	2- or 3-Hour Test
# Rows in Excel:	N/A	50 – 150	150 – 250	200 – 300+	200 – 250	300 – 400
3-Statement Model:	N/A	No	Likely	Possible	No	Likely
Outside Research:	No			Yes	No	
Revenue and Expenses:	Simple % assumptions		More complexity (e.g., units sold * average price for different segments)			
Scenarios:	No		Possible		No	Possible
Debt:	1 tranche	2-3 tranches	3-4 tranches ( <i>possibly</i> 5+ if you have 3+ hours)			
Revolver:	No	Possible	Likely	Possible	Likely	
Additional Debt Features:	N/A	Interest Rate Floors, Cash vs. PIK Interest, Amortization and Cash Flow Sweeps, Call Premiums, Fees, OID, Shareholder Loans, Equity Percentages, and Commitment and Overdraw Fees				
Likely # of Debt Features:	N/A	1-2	2-3	Varies	3-4	4-5

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Supplemental Schedules:	N/A	N/A	Value Creation, Returns Attribution, Taxes/NOLs, and Credit Stats and Ratios			
Likely # of Sup. Schedules:	N/A	N/A	1	Varies	1	2-3
Add'l Returns Features:	N/A	Management Earn-Outs, Options Pools, Rollovers, and Waterfalls; Equity Granted to Lenders; Variable Exit Years and IPO vs. M&A Exit				
Likely # of Add'l Returns Features:	N/A	0-1	1-2	Varies	1-2	2-3
Sensitivity Tables:	N/A	0-1	1-2	Varies	1-2	2-3+
Additional Requirements:	N/A	Several short questions		Investment recommendation slides	Several short questions	
Grading Criteria:	Model accuracy, speed, and correct question responses			Model accuracy, research, and thesis quality	Model accuracy, speed, and correct question responses	

# Our Focus: LBO Model from Blank Sheet

- **Why:** Less common and arguably more difficult to learn since you *need* to know Excel and modeling quite well
- **Logistically:** Easier to cover in a YouTube video because most tests with templates are longer, and I don't want to record a 2-3-hour video for this
- **Key Point #1:** Must make decisions *quickly* and avoid “traps” that overcomplicate the model
- **Key Point #2:** Must be able to enter formulas and data quickly and skip all formatting except for the bare minimum



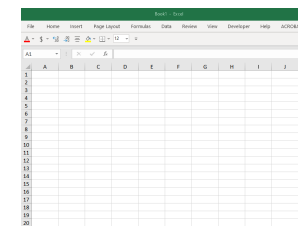
# 60-Minute Test from Scratch: What to Expect

- **Assumptions:** Purchase Enterprise Value or Equity Value and a simple Sources & Uses schedule
- **Debt:** Perhaps 2-3 tranches with slightly different interest rates and repayment terms
- **Revenue/Expenses/Cash Flow:** Simple percentage estimates for these, *maybe* with Units Sold \* Avg. Unit Price (but we make it more complicated here!)
- **Cash Flow:** Simple Income Statement and partial Cash Flow Statement down to FCF and CF Available for Debt Repayment



# 60-Minute Test from Scratch: What to Expect

- **Debt Schedule:** 2-3 tranches with a mix of Term Loans, Subordinated/Mezzanine, maybe Seller's Notes or a Shareholder Loan, and *maybe* a Revolver (but not too likely)
- **Returns Calculations:** These should be simple; *maybe* an earn-out, options pool, or mgmt. rollover, but little else
- **Sensitivities:** Maybe 1-2 tables if the returns calculations were easy; if they had any complexities, skip these
- **Total # Rows:** < 100 in a single sheet; maybe 100 – 130 with sensitivities included



# 60-Minute Test from Scratch: What to Skip

- **UNNECESSARY:** Full 3-statement projections, detailed Working Capital calculations, purchase price allocation and Goodwill, complex Debt schedules with multiple repayment options, scenarios...
- **Maybe:** *Sometimes* they will ask you to calculate returns to lenders or to use a rollover, options pool, earn-out, or waterfall structure to compensate management...
- **But:** In 60-minute cases, these tend to be *very, very* simple, so do not stress too much – and if you run low on time, skip this part and just calculate total returns to everyone



# Recap and Summary

- **Part 1:** Likely Requirements in Modeling Tests
- **Part 2:** Transaction Assumptions and Sources & Uses
- **Part 3:** Model Drivers and Income Statement
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- **Part 5:** Returns and Sensitivities
- **Part 6:** Answers to the Case Study Questions

