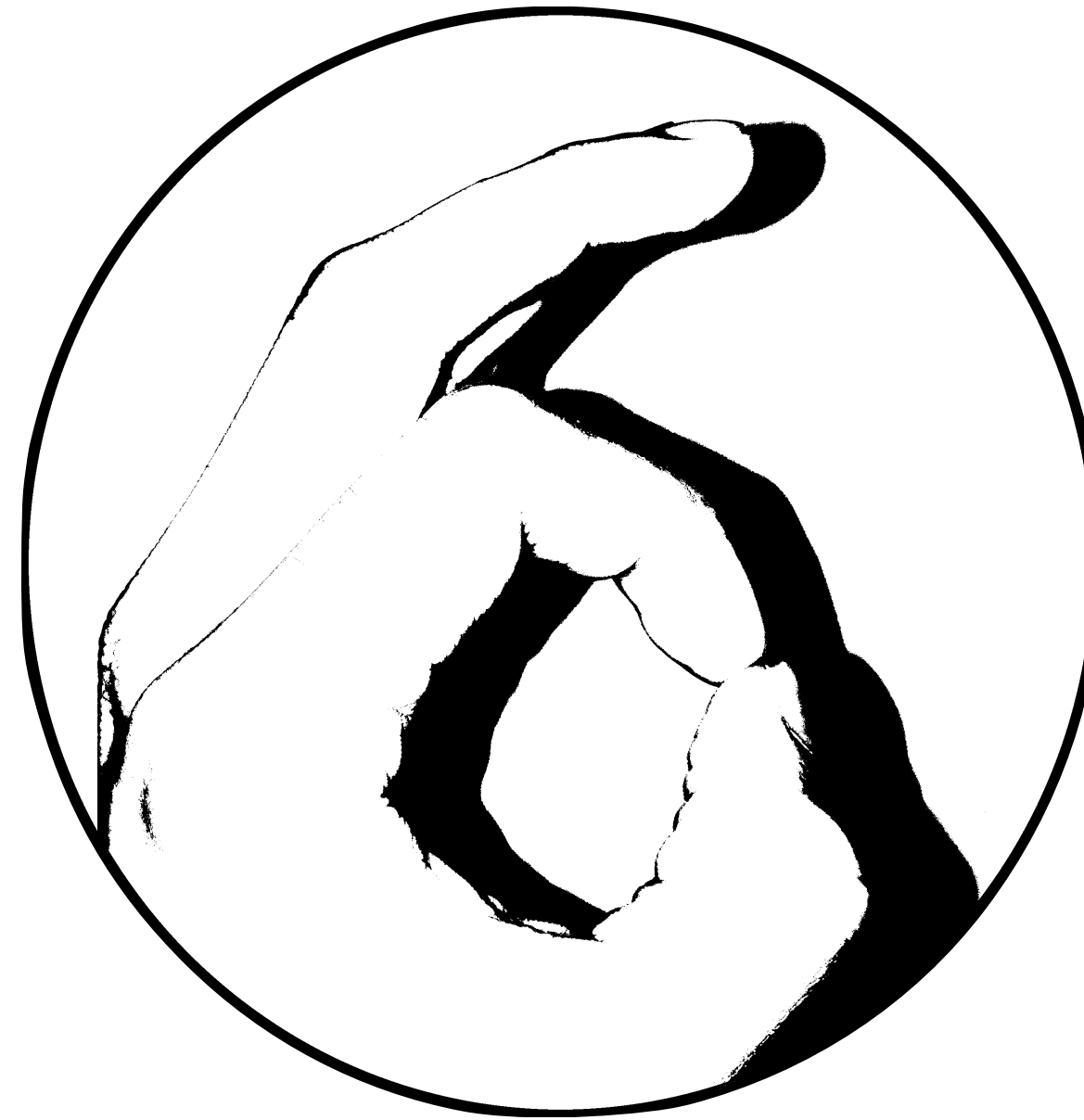


# GMCA Case Competition



**6ix Consulting**

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May 25<sup>th</sup>, 2018

# Valuation of the Sale of TeeGolf Company

## Case:

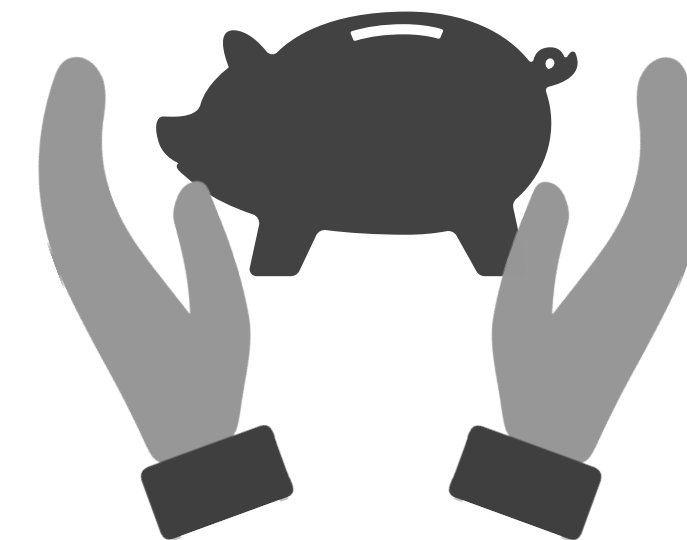
Evaluate whether to sell TeeGolf now to another private equity firm Leonard Green Partners (LGP) or hold the investment to potentially sell to GoGolf

**Kohlberg's investment committee members require an internal rate of return  $\geq 25\%$**



### Option 1: Sell now to LGP

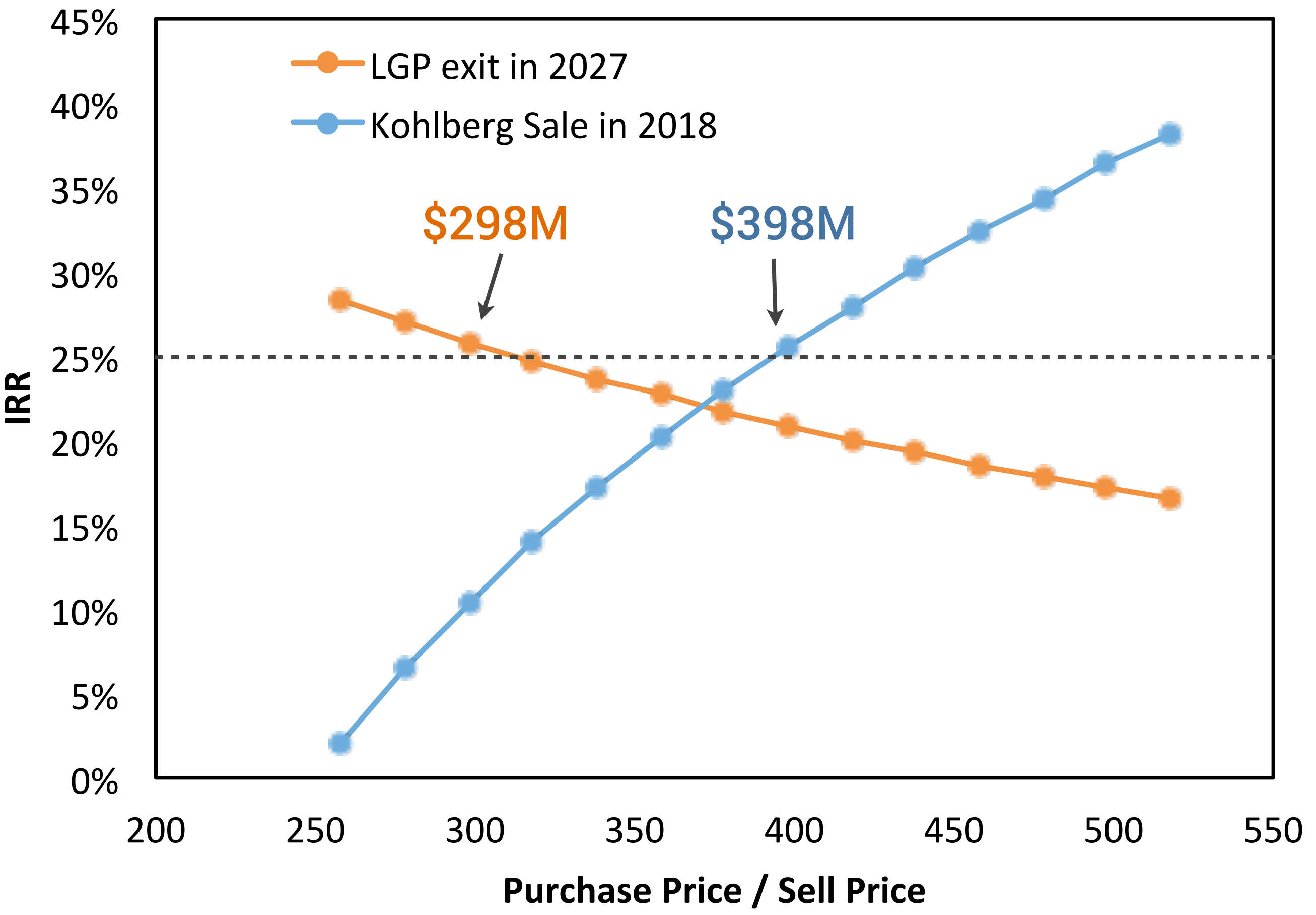
Generates earning through an LBO  
▶ 70% debt at 4.5% interest



### Option 2: Hold investment

hold until end of 2018 with 80% chance of sale to GoGolf | Fallout ends with 2019 sell at 7.0x EBITDA

# The prospects of selling to Leonard Green Partners - Option 1



**Recommendation: Do not sell to Leonard Green Partners**

Based on a leveraged buyout analysis and a forecast for TeeGolf to 2027, a purchase price of \$398M - minimum sale price for Kohlberg - would give LGP an IRR of 21%

For LGP to achieve an IRR of 25% a purchase price would need to be \$298M

**Leonard Green Partners will not purchase for more than \$298M**

# Forecasting model of TeeGolf

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Management Fees	\$70	\$77	\$85	\$93	\$102	\$113	\$124	\$136	\$150	\$165	\$182
Procurement Sales	12	13	15	16	18	19	21	23	26	28	31
Owned Courses	10	11	12	13	15	16	18	19	21	24	26
Consulting	5	6	6	7	7	8	9	10	11	12	13
Revenue	\$97	\$107	\$118	\$129	\$142	\$156	\$172	\$188	\$208	\$229	\$252
COS (27%)	(\$26)	(\$29)	(\$32)	(\$35)	(\$38)	(\$42)	(\$46)	(\$51)	(\$56)	(\$62)	(\$68)
Depreciation	3	3	3	3	3	3	3	3	3	3	3
Net Revenue	\$71	\$78	\$86	\$94	\$104	\$114	\$126	\$137	\$152	\$167	\$184
<b>Gross Margin</b>	<b>\$68</b>	<b>\$75</b>	<b>\$83</b>	<b>\$91</b>	<b>\$101</b>	<b>\$111</b>	<b>\$123</b>	<b>\$134</b>	<b>\$149</b>	<b>\$164</b>	<b>\$181</b>
%	70%	70%	70%	71%	71%	71%	71%	71%	72%	72%	72%
SG&A	(\$39)	(\$43)	(\$47)	(\$52)	(\$57)	(\$62)	(\$69)	(\$75)	(\$83)	(\$92)	(\$101)
Operating Income	\$32	\$35	\$39	\$43	\$47	\$51	\$57	\$62	\$69	\$76	\$83
<b>EBIT</b>	<b>\$29</b>	<b>\$32</b>	<b>\$36</b>	<b>\$40</b>	<b>\$44</b>	<b>\$48</b>	<b>\$54</b>	<b>\$59</b>	<b>\$66</b>	<b>\$73</b>	<b>\$80</b>
%	30%	30%	30%	31%	31%	31%	31%	31%	32%	32%	32%
Int Exp	(\$13)	(\$13)	(\$13)	(\$13)	(\$13)	(\$13)	(\$13)	(\$13)	(\$13)	(\$13)	(\$13)
<b>EBT</b>	<b>\$16</b>	<b>\$19</b>	<b>\$23</b>	<b>\$27</b>	<b>\$31</b>	<b>\$35</b>	<b>\$41</b>	<b>\$46</b>	<b>\$53</b>	<b>\$60</b>	<b>\$67</b>
Tax (35%)	(\$6)	(\$7)	(\$8)	(\$9)	(\$11)	(\$12)	(\$14)	(\$16)	(\$18)	(\$21)	(\$24)
<b>Net Income</b>	<b>\$10</b>	<b>\$13</b>	<b>\$15</b>	<b>\$17</b>	<b>\$20</b>	<b>\$23</b>	<b>\$26</b>	<b>\$30</b>	<b>\$34</b>	<b>\$39</b>	<b>\$44</b>
%	11%	12%	13%	13%	14%	15%	15%	16%	16%	17%	17%
EBITDA	\$32	\$35	\$39	\$43	\$47	\$51	\$57	\$62	\$69	\$76	\$83
NOPAT	\$35	\$39	\$44	\$49	\$55	\$61	\$68	\$75	\$84	\$93	\$104
Unlev. FCF	\$21	\$24	\$25	\$27	\$29	\$32	\$34	\$36	\$39	\$44	\$48
CAPEX	4	4	5	5	6	6	7	8	9	9	10
WC Inv	1	1	1	1	1	1	1	2	2	2	2
Net Borrowing	0	0	0	0	0	0	0	0	0	0	0
Lev. FCF	<b>\$13</b>	<b>\$15</b>	<b>\$16</b>	<b>\$19</b>	<b>\$21</b>	<b>\$24</b>	<b>\$26</b>	<b>\$27</b>	<b>\$31</b>	<b>\$35</b>	<b>\$39</b>

## Assumptions

10% growth rate on all revenue streams

LGP will fund the purchase with 70% debt at an Interest rate of 4.5%

Purchase price of \$398M (minimum selling price for 25% IRR to Kohlberg)

TeeGolf is valued at 8.8x EBITDA after 10 years

# Forecasting model of TeeGolf

Exhibit 1: Annual growth in number of rounds played in the United States

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
2011	7.4	19.4	-5.9	-16.7	-7	0.8	-1.7	-1.4	-4.4	-6.5	1.7	32.9	-2.5
2010	-18.8	-21.6	-3.7	10.5	-2.9	-2.1	-5.1	-4.9	-3.6	19.4	-10.7	-0.8	-2.3
2009	8.6	-4	3.4	1.4	0.9	-3.3	0	-1	4.1	-15.9	15.8	-14.7	-0.6
2008	-4.5	9.6	-7.8	2.2	-4.8	-2	0.5	4.4	-7.5	-0.5	-6.7	-6.8	-1.8

↑  
*decreasing*

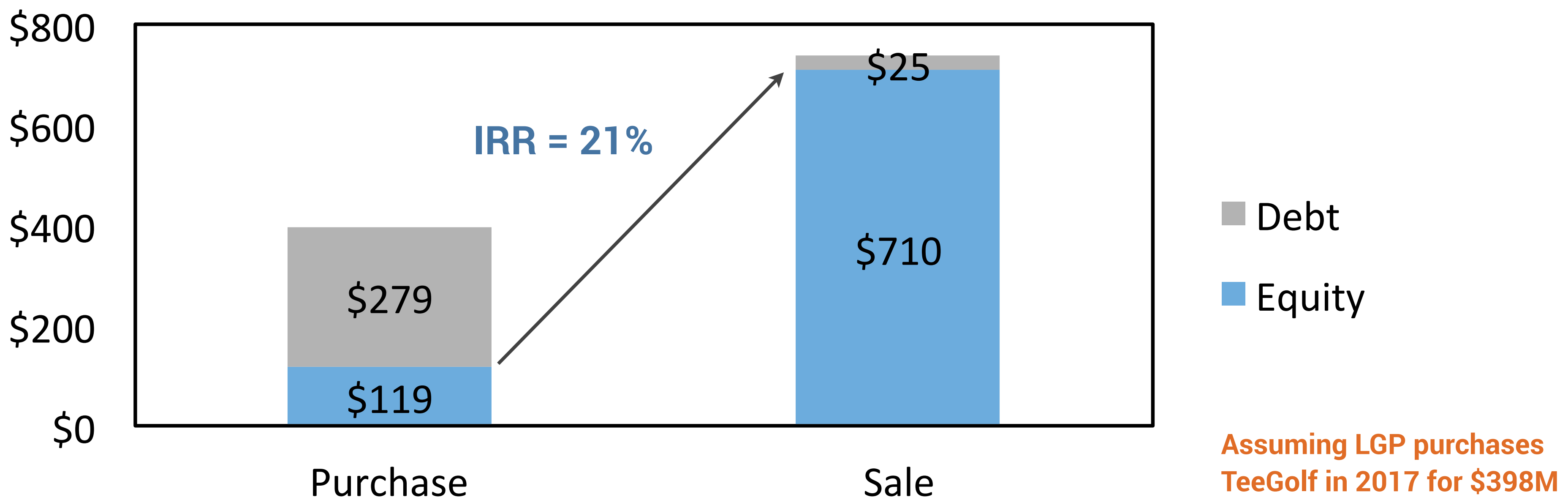
## Discrepancies

Error in taxable income of Exhibit 3

10% growth rate is unrealistic at later years, especially with a -2% growth in the golf industry

# Leveraged buyout analysis for LGP

## LBO Analysis \*



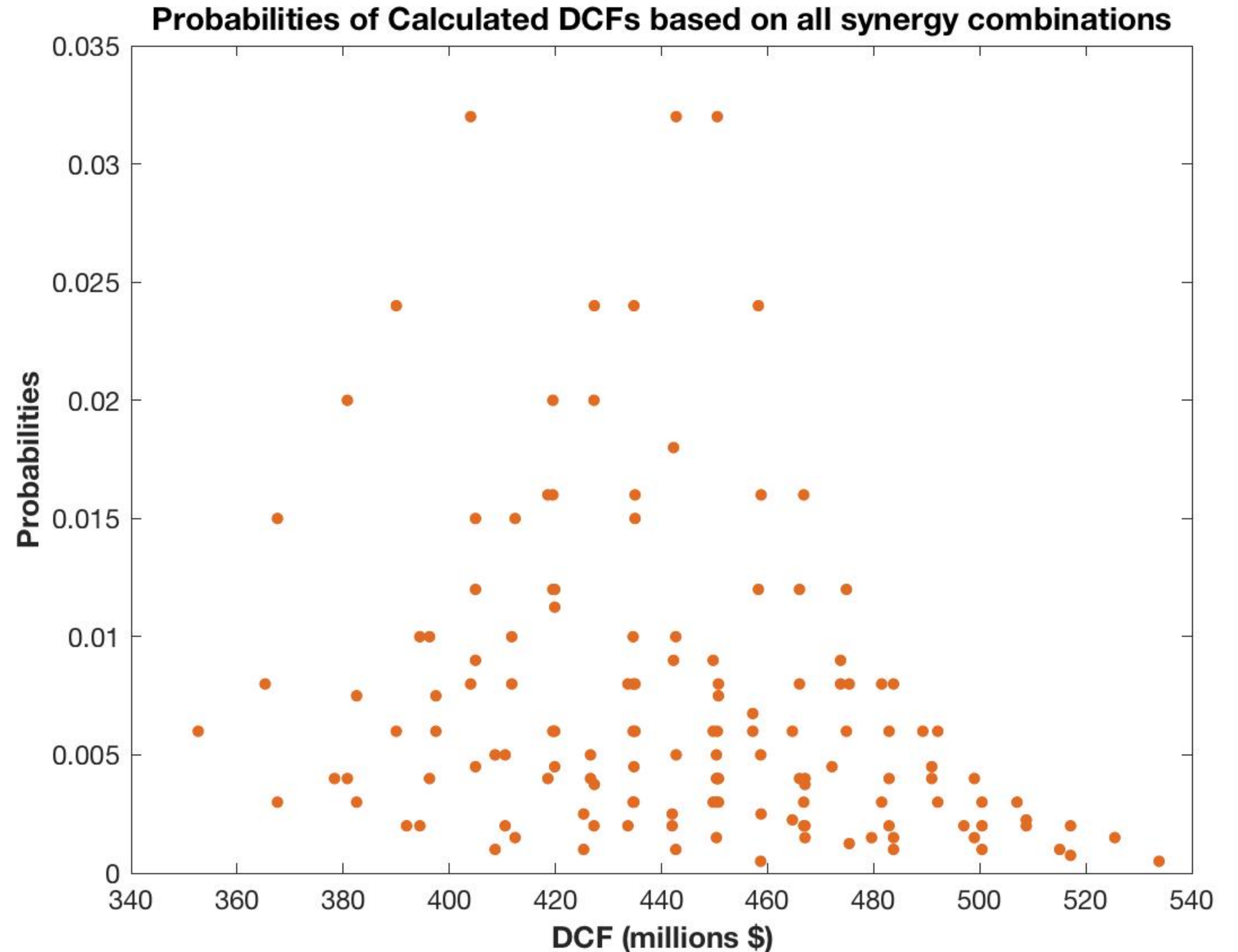
LBO Analysis	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Enterprise Value	398										735
Beg Debt		279	263	247	228	208	184	158	130	100	64
Paydown		\$15	\$16	\$19	\$21	\$24	\$26	\$27	\$31	\$35	\$39
End Debt	279	\$263	\$247	\$228	\$208	\$184	\$158	\$130	\$100	\$64	\$25
CFs to Private Equity	-119.4	0	0	0	0	0	0	0	0	0	\$710

# The prospects of holding on for GoGolf - Option 2

**Assumption:** Net income = EBT + Tax

- $DCF = \sum_{n=1}^N \frac{CF_n}{(1+r)^n}$  ,  
 $r = W.A.C.C$  ,  $n = year$
- $CF_n = N.I. + D\&A - (0.65 * t) - CapEx - W.Inv$

Value of TeeGolf at the end of 2018 calculated from a DCF analysis and probability for every 140 possible synergistic combinations



# The prospects of holding on for GoGolf - Option 2

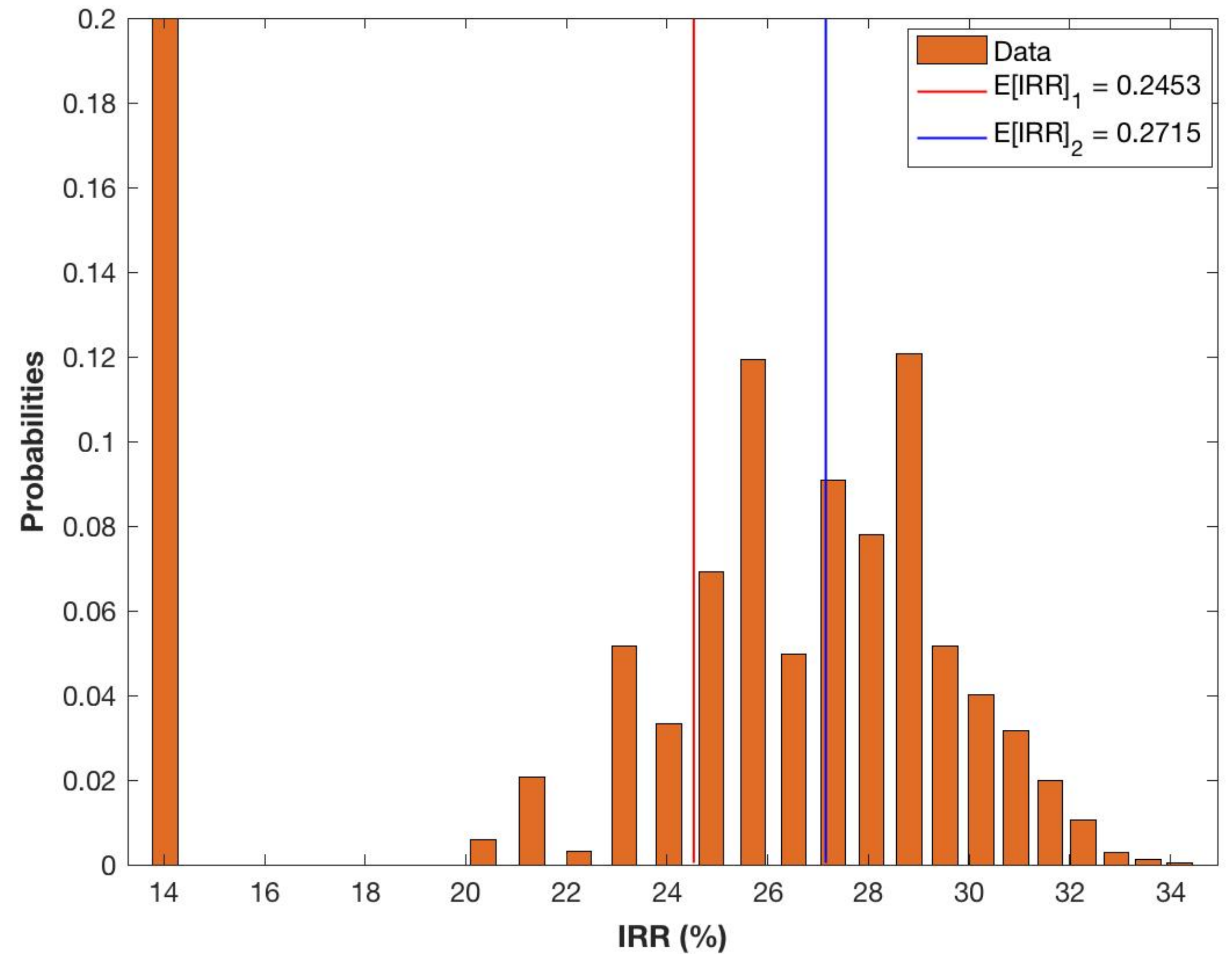
**Recommendation: Hold on and sell to GoGolf**

Highest growth rate synergy resulted in higher average DCFs

GoGolf buys end of 2018 with synergies \$434M (IRR = 27.2%)

Fallout with GoGolf and the expected IRR drops to 24.5%

Kohlberg sells in 2019 for \$273M (IRR = 14%)



$E[IRR]_1$  = including 20% probability of fallout with GoGolf  
 $E[IRR]_2$  = excluding 20% probability of fallout with GoGolf



# Case scenario outcomes

**Recommendation: Hold on and sell to GoGolf**

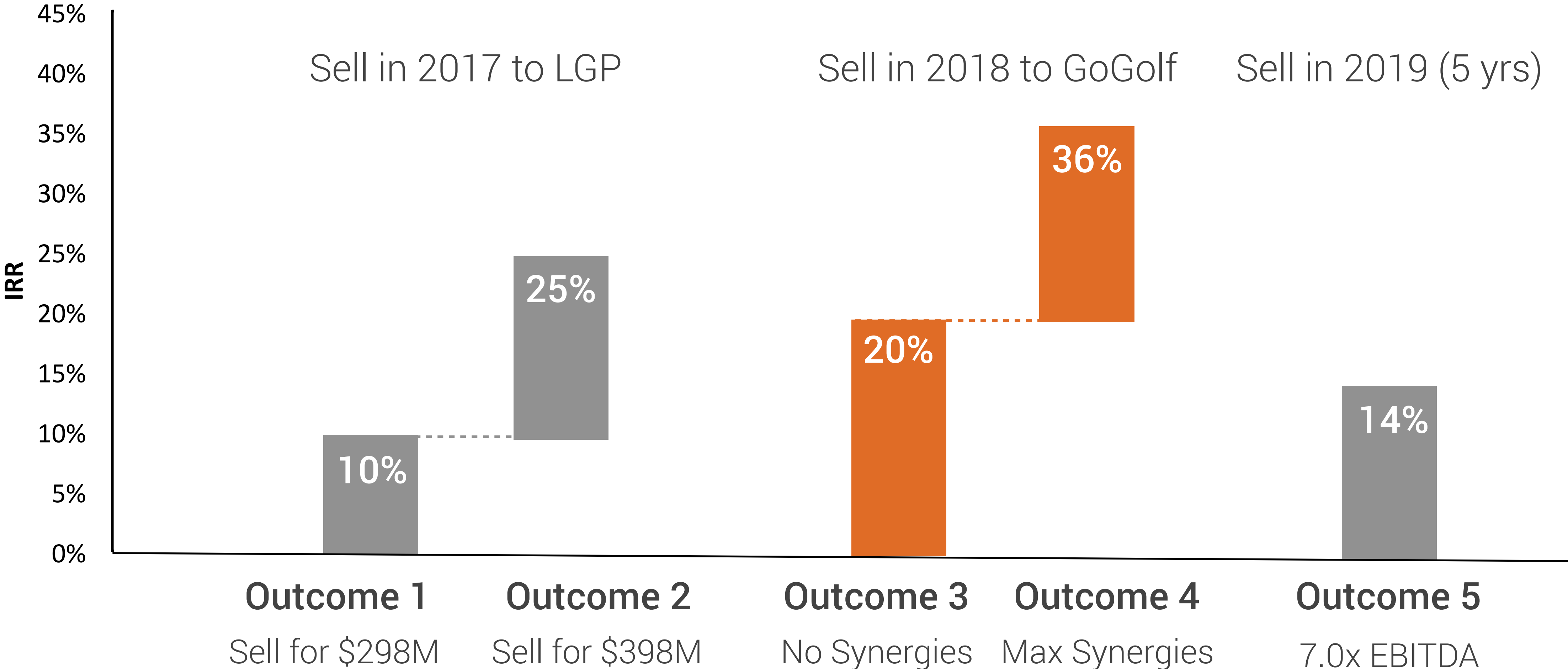
## Option 1- Sell Now

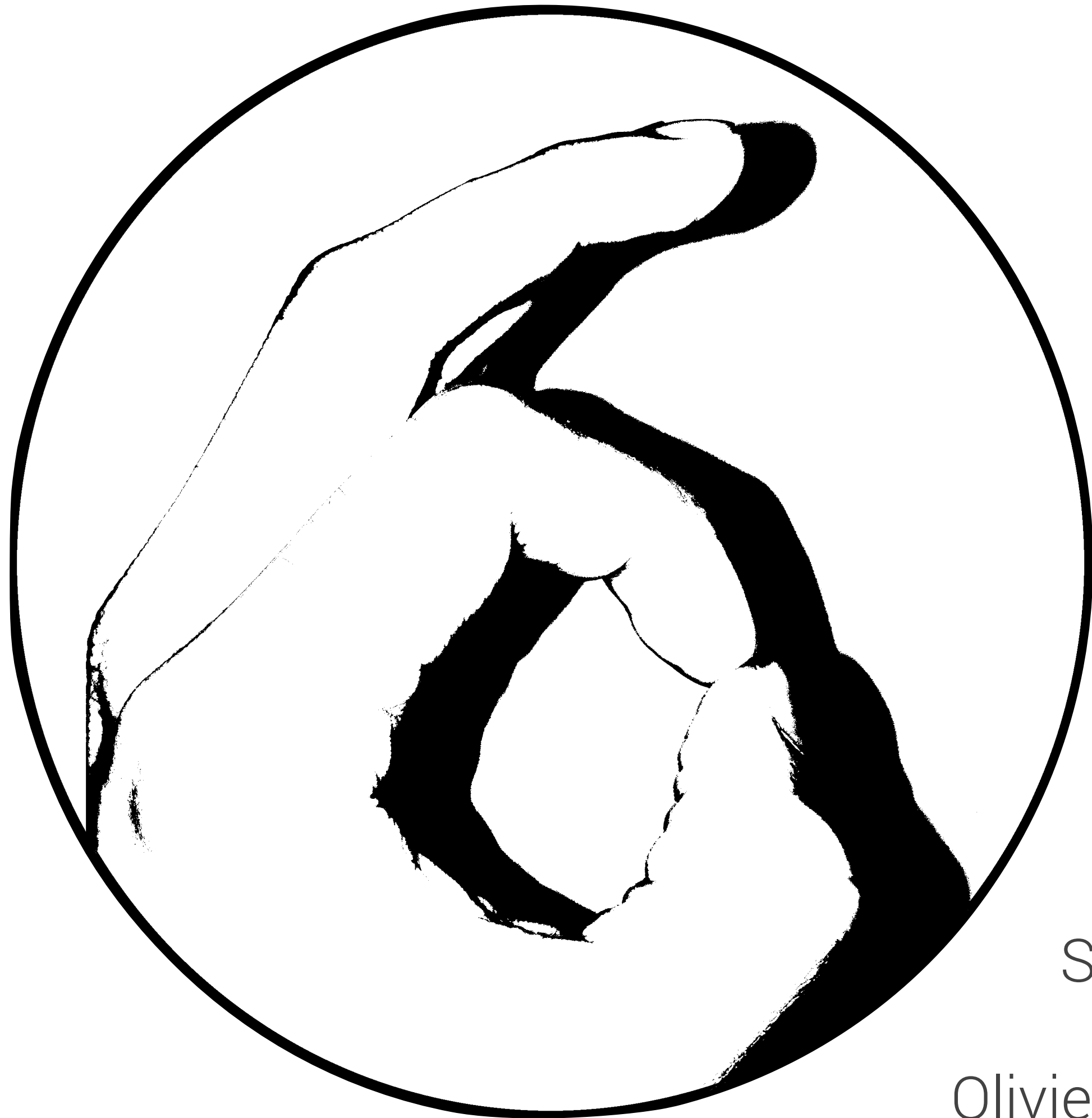
Sell in 2017 to LGP

## Option 2 - Hold On

Sell in 2018 to GoGolf

Sell in 2019 (5 yrs)





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