LBO

PLAIN ENGLISH

What is an LBO?

The mechanism behind almost every business acquisition.

START HERE

You already did one.

If you bought a house with 20 percent down and a mortgage, you ran a leveraged buyout. Small equity, borrowed money, an asset that carries the debt.

THE TWIST

A business pays its own mortgage.

A house takes money out of your pocket every month. A business puts it in. The company's own cash flow services the loan you used to buy it.

THE STRUCTURE

A $1M purchase, in practice.

Bank loan $750K

the business repays this, not you

Your down payment $250K

the only check you write

Secured by the company's cash flow, not your house.

WHILE YOU OWN IT

Three things happen at once.

1 The business pays the loan down.

2 Profits grow if you run it well.

3 The exit price grows with the profits.

THE HONEST MATH

Assume the business never grows.

> Buy for $1M with $250K down.
>
> Year ten: the loan is fully repaid.
>
> Sell for the same $1M you paid.

$250K became $1M. Four times your money, plus a decade of profits.

THE CAVEAT

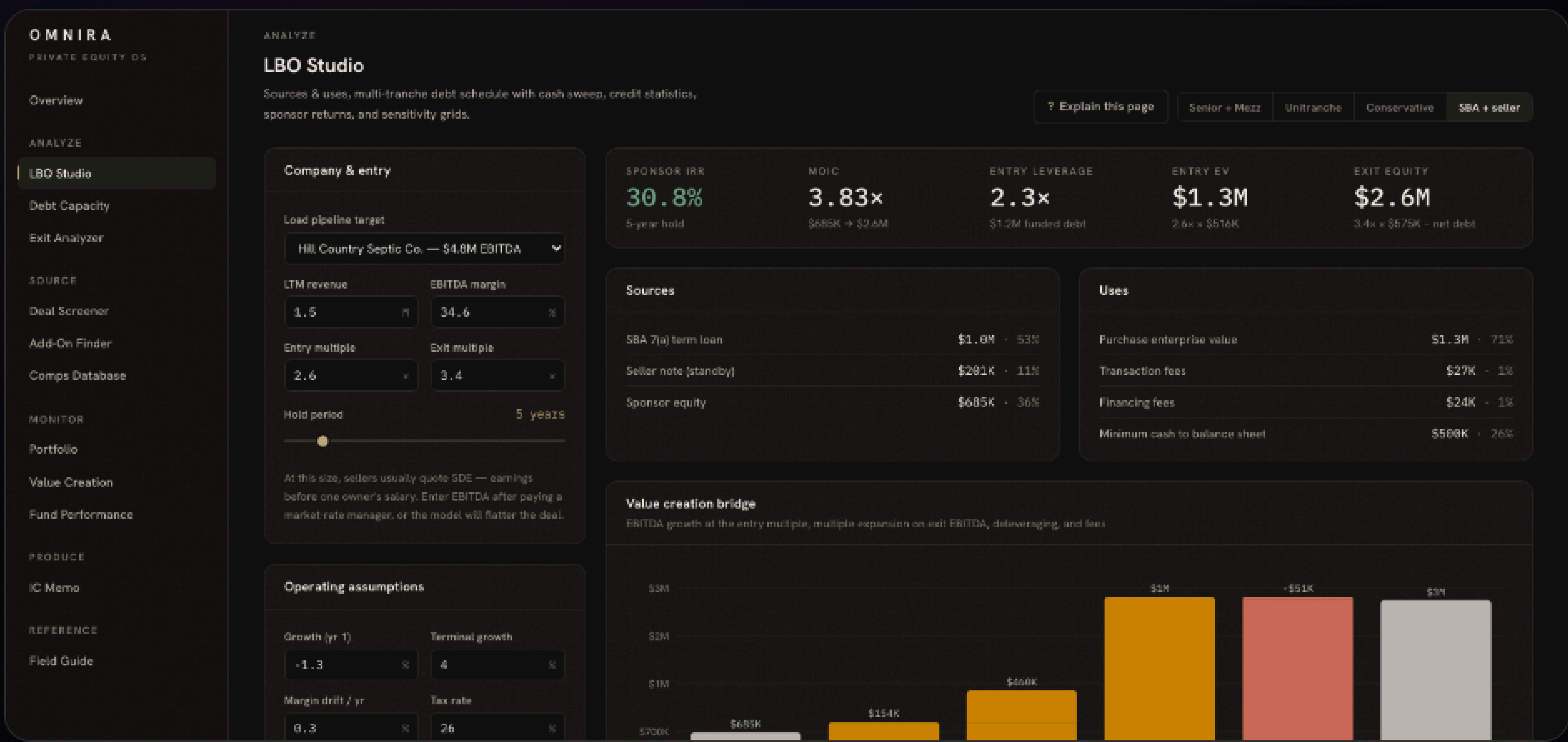
Debt cuts both ways.

Leverage multiplies good years and bad ones alike. That is why serious buyers underwrite the downside first.

The numbers matter more than the story.

TRY IT

Model one yourself.



Real LBO models, real SBA structures, free in your browser.

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