The one-hour return

At the cutoff

Return the issued template as it stands after one hour. The three short responses belong on Instructions, rows 47, 49 and 51. A partial workbook can show which steps you completed.

Purchase price and financing

FY2025 EBITDA of $15.12m supports $124.74m of EV at 8.25x. Seller equity consideration is $112.74m. Refinance $12.00m of old debt and pay $2.00m in fees. Funding of $126.74m includes $63.74m of sponsor equity. On the timed-layout reference, review Model Exercise!D15:E29. On the later worked model, use D18:E27.

Earnings, capital and cash

Revenue grows 5.5% per year while fixed overhead rises 3.0%. Use opening senior and subordinated loan balances for cash interest. Deduct interest, taxes, capex and the increase in operating working capital from EBITDA. First-year cash available to lenders is $6.846m. On the later worked model, follow Model Exercise!L30:P35.

Principal and proceeds

Pay senior principal first. In FY2030 the last $11.826m of senior principal is paid and $0.635m reduces subordinated debt. At the same 8.25x exit, sponsor proceeds are $168.134m. The timed grid reports returns at K82:K83. The later grid reports them at K79:K80.

Written answers

Identify a controllable source of return, trace the income statement to cash available for debt, and evaluate the outcome against a stated hurdle and a specific risk. At a 25% hurdle the 21.41% base return would warrant a lower price, a stronger case for earnings or a pass.

Partial credit

Give credit for a correct funding bridge even if the forecast is incomplete. A first-year cash flow that ties earns credit independently of the debt roll-forward. A sweep that pays the junior lender first needs correction even when total repayments look right. Credit a supported pass or buy at another hurdle. Identify the last completed schedule in an unfinished timed return.

Review after the timer

Two versions of the answer

Port Alder - Timed layout reference.xlsx reconstructs the grid as it stood at the cutoff. It uses the corrected tax, working-capital and interest mechanics. Port Alder - Solved.xlsx uses the later return layout and includes its full credit checks and sensitivity tables. Both carry Port Alder assumptions.

Credit evidence

On Model Exercise!L67:P68 net debt / EBITDA falls from 3.43x to 0.69x, and EBIT / cash interest rises from 3.05x to 8.10x. Senior debt is repaid by exit, with $15.365m of subordinated debt remaining.

Entry and exit price

At the center of the native exit-price tables, N88 gives 21.41% IRR and N97 gives 2.638x MOIC. An extra turn at entry costs $15.12m of equity. An extra turn at exit changes proceeds by the exit EBITDA. At a 7.25x exit with an 8.25x entry, IRR is 18.01%.

Exit timing

The early-exit tables start at K104 and K111. A year-three sale at equal entry and exit multiples produces 23.16% IRR and about 1.87x MOIC. Compare those figures with 21.41% and 2.64x over five years. Explain how duration affects the two return measures.

Discussion

What happens if 2026 collections take seven extra days? At $88.62m revenue, receivables absorb another $1.70m. With other inputs held constant, the first senior payment falls from $6.85m to about $5.15m. What if operations use cash? Loan repayment stops at zero. At 12% annual sales declines, FY2030 cash use is $7.57m and cumulative unfunded cash is $14.07m. The exercise assumes principal can be repaid at par.

Funding the stressed case

Preserve the starting receivables balance

Keep the historical collection period at 36 days. Increase year-one receivables to 43 days. The first senior payment falls from $6.846m to $5.147m.

Separate cash loss from a sponsor return

Model Exercise!L48:P52 carries cash left after debt service. Preserve historical receivable days at K38; changing the first forecast year to 43 days cuts senior repayment at L57 to $5.147m. A 12% sales decline in each forecast year uses $7.573m in FY2030 and leaves $14.066m cumulatively unfunded. Negative cash is a financing gap. Under the supplied debt structure the return is N/M until an equity injection or other funding is specified. A funded exit with no value left for common equity instead earns 0.00x and a total loss.

Test the historical exit and holding period

The 8.25x entry and exit produce 21.41% and 2.638x at five years. At the same entry, a 7.25x exit produces 18.01%. A 2028 exit at the original multiple yields 23.16% and about 1.87x.

Repair the FY2026 cash bridge

Use a copy of the timed-layout reference after returning the one-hour test. Open Model Exercise!I118:K129. The two blue cells deliberately use the wrong formulas. The completed financial model above them remains your reference.

1. Repair cash tax

K122 subtracts $7,168.35 of net income as though it were cash tax. Trace FY2026 earnings before tax and the tax rate on the income statement; replace K122 with the tax expense. How much cash is now available for repayment?

2. Repair inventory

K123 adds an increase in inventory. Separate receivables, inventory and payables. Correct the inventory sign and explain why an increase in supplier credit has the opposite effect.

Check the corrected bridge | USD thousands

Starting cash before repayment	$2,682.90
After fixing cash tax only	$7,332.65
After both corrections	$6,846.09

The correct FY2026 cash tax is $2,518.61. Operating working capital uses $322.26. The fixed bridge ties to the worked model. With the reference inputs the extra cash goes to the senior lender first.

Stress the waterfall

At 18% growth the loans are repaid by the end of FY2029. The following year has no interest and coverage reads Debt-free. At -12% growth, the unfunded gap through exit is $14,065.86 thousand. A plan needs positive opening sponsor equity and adequate cash through exit before it can report investor returns.