

The Potential Contributions of Leveraged Buyout (LBO) to the Development and Integration of African Countries

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Abstract: Leveraged buyouts (LBOs) are a financial arrangement that allows the acquisition of a company by taking on debt. To implement the LBO, a passive holding company must first be created whose sole corporate purpose is to hold equity stakes in operational SMEs. An active holding company, on the other hand, manages a portfolio of equity stakes, but also actively participates in setting group policy and overseeing its subsidiaries. LBOs stand for Leveraged Buyouts, meaning a buyout with leverage. This acquisition is made through a bank loan or by issuing bonds. At the end of the bond term, the acquired company is generally listed on the stock exchange in order to generate capital gains for all investors. Ultimately, the holding company did not commit its own funds and managed to pay off the bank financing thanks to dividends. Indeed, to ensure the success of an LBO operation, it is essential to audit the target company and verify its ability to generate profits to distribute dividends that will allow the holding company to pay off its debts. LBOs experienced remarkable growth in the United States in the early 1970s, in Europe in the 1980s, and in Africa since the 2000s. These operations, which can take various forms (leveraged buyouts, debt-financed acquisitions, acquisition through borrowing, takeover through borrowing), are financial techniques for buying companies that allow investors to acquire companies while minimizing acquisition costs and maximizing their financial returns. This article, through a simulation process, tries to show how LBOs can boost and stimulate the development and integration of African countries. These operations are becoming increasingly useful or even essential for African companies whose size has proven to be a distorting factor in their development, not to mention the consequences of the recent emergence of COVID-19. Ultimately, we propose LBOs as a real panacea to strengthen the growth, development and pooling of forces of African companies.

Keywords: Leverage Buy-out, Leverage Effect, Holding Company, Mezzanine Loan, Senior Loan

1. Introduction

LBO designates an operation of repurchase, acquisition or financing of a company by relying on the leverage effect of bank debt. Indeed, contrary to the financial doctrine which consecrates self-financing over indebtedness, [1, 4, 18] some increasingly popular views argue the opposite; as long as debt has a lower acquisition cost [5]. In a diachronic way, leveraged operations were initially approached with financial theory from the angle of the analysis of the financial performance achieved by the target company after the implementation of the LBO [12, 16]. The work of Kaplan (1989) [16, 20] shows in particular, over the period 1980-

1985, that this operation improves the efficiency and performance of the acquired company. However, the work of Summers (1990) leads to nuanced conclusions, observing the presence of more risky operations over the period 1986-1990 which did not translate into an improvement in the financial performance of the targets. This relative failure is explained by the increase in the cost of financing inherent in an increase in part of the financing of the operation by debt [7].

After the 2007/2008 financial crisis, LBO operations experienced stagnation or even a decline in Western countries in a market that was less and less attractive and offered few opportunities for acquiring new targets. This fall is due to the saturation of the markets of developed countries where the discovery of new targets is increasingly difficult; for others,

it is the result of insufficient profitability noted in recent years in all financial arrangements. Nevertheless, a recent study [6] reduces the skepticism provoked by the above-mentioned crisis. It shows that LBOs create growth and employment for acquired companies. Indeed, this study conducted on 830 LBO operations that took place in France between 1994 and 2004, showed that the acquired companies experienced strong growth after the operation, compared to those that remained independent. The same study shows that companies under LBO have seen their workforce evolve by 13%, their assets by 11% and their turnover by 13% in the four years following the LBO. It emerges that the LBO operations present a generally satisfactory balance sheet both in terms of the creation of jobs, wealth and the development of the company. In this gigantic global LBO market, where is the African continent?

The investment effort of African companies is stagnant because of the reluctance of banks to finance companies. A distinction should be made here between large companies which do not encounter many difficulties in benefiting from bank financing from SMEs which rely largely on debt financing. Faced with this difficulty, wouldn't LBO arrangements be a solution likely to boost African SMEs, and by extension the development and integration of African

countries?

To address this concern, we will first present the LBO concept, its implementation and its financing mechanisms (section 1). Then we will make an X-ray of the use of the concept in Africa (section 2) before describing the conditions for its success (section 3). Based on a practical case (section 4), we will show how the LBO arrangement can generate wealth and promote the development of the economy. Finally we will show (section 5) how the LBO can be likened to a paregoric elixir to the development problems facing Africa.

2. General Principles

2.1. What Is the LBO

The LBO is a business acquisition or takeover operation financed essentially by the use of debt. In practice, the acquirer or the buyer organizes himself with his partners to create a holding company, which goes into debt to acquire the target company. The interest of the operation is that the cash surpluses generated by the target will be regularly raised at the level of the holding company via dividends in order to enable it to pay the interest on its debt.

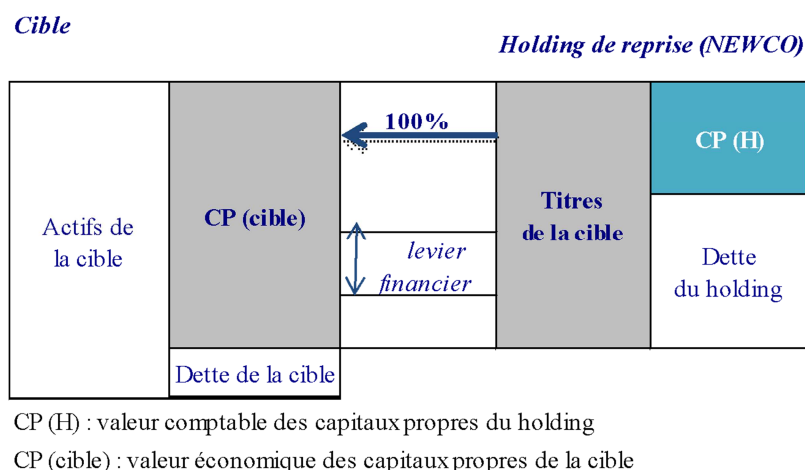


Figure 1. Schematization of the LBO (Leveraged Buyout) operation.

2.2. Different Types of LBO Financing

When the LBO relies entirely on the management team in place before the acquisition of the company, we are in the presence of a "Leveraged Management Buy-Out", or LMBO. On the other hand, when there is retention of all or part of the employees, it is a "Buyout of the Company by the Employees" (RES). Furthermore, if the buyers set up a new management team via executives outside the company, this is a "Management Buy-In" (MBI) and if the entire management team is renewed, it will be a "Buy-In and a Management Buy-Out" or BIMBO. There is also the "Leveraged Build-up" or "build-up" when a company makes acquisitions of competitors in order to create synergies in terms of cost reduction or capitalization of know-how. Such an

arrangement often obeys the imperatives of external growth. Finally, the "Owner Buy-Out" or "OBO" which is the takeover of a company by a holding company jointly owned by the current managing partners and new financial investors.

2.3. The Implementation of an LBO

An LBO operation consists in having a target company acquired by a takeover holding company by playing on the positive effects of indebtedness. Indeed, contrary to a certain schools of thought which enshrines the primacy of self-financing over indebtedness [18] LBO arrangements show how debt can improve a company's profitability and promote its growth. In concrete terms, the takeover operation is carried out through a takeover holding called (NEWCO) whose capital is associated with financial investors and the

manager(s).

The holding company finances the acquisition of the target company thanks to the equity contribution of its shareholders and the balance by a bank loan. The holding company thus owns 100% of the target and is itself 100% owned by the investors and the manager(s). The loan will then be reimbursed by the holding company thanks to the subsequent dividends that it will receive from the target. In addition, the structure is completed by the implementation of the tax consolidation regime. In effect, the success of the holding depends on the fulfillment of a certain number of conditions. The target must operate in a sector that is both profitable and not too risky, which would promote the achievement of substantial cash flows. The holding company's indebtedness must remain reasonable in order to allocate most of the cash generated by the target to the distribution of dividends to the holding company.

2.4. The Different Stages of the LBO Set-up

The completion of an LBO is carried out in several stages.

2.4.1. First Step: Creation and Constitution of the Holding Company's Own Funds

The buyers or acquirers must first raise equity in a range that can vary between 45-50% in order to create the holding company. The rest of the financing is provided by the holding company's indebtedness according to various methods. This debt first takes the form of "senior" bank debt and "mezzanine" debt. The reimbursement of the latter depends directly on the reimbursement of the former.

2.4.2. Second Step: Senior Debt

In addition to the equity contribution of the holding company, the financing of the acquisition is carried out through a bank debt called "senior", priority in its reimbursement over the other debts of the borrower. "Senior" debt corresponds to a medium- or long-term loan (between 5 and 8 years) and covers between 50-55% of the operation. Then, the mezzanine debt, in the form of a subordinated loan or a bond issue accompanied by warrants to subscribe for shares or convertible into shares. Alongside this persistent structure, the latest crisis has impacted the balance of this type of financing and the banks have become too cautious to finance this type of operation.

When the senior debt reaches a high amount given the acquisition price, it can be syndicated, that is to say, held by several banking establishments (with a leading establishment) which pool their forces in order to finance the operation. This strategy is essentially aimed at minimizing the risk of non-repayment. This process has been amplified since the last crisis so that banks can reduce risk levels and their dependence on a single company. This new configuration favored the creation of "club deals", bringing together several establishments (syndication) upstream of the operation in order to agree globally to a loan for a higher amount and to jointly carry out the LBO operation. Despite the advantage of this risk dilution, syndication also has

disadvantages insofar as it can slow down the process of setting up financing, as it is true that banks will tend to make the operation of the operation conditional on the prior achievement of their own objectives (schedule, margins, ancillary services). This can also lead to longer due diligence periods, and the establishment of significant and burdensome financing guarantees for the company.

Senior debt is generally spread over 5 or 7 years but can also be repaid early if the target company's cash flow is sustainably flourishing. Its interest rate, which is often variable, is based (in the West) on the EURIBOR increased by a margin which varies according to the clauses of the contract. This senior debt is also composed of several tranches with decreasing risk and specific interest rate. Each installment is subordinated to the payment of the main loan and the breakdown makes it possible to limit the repayment charge during the first years of the LBO since the highest portion of the loan is only repaid at the end of the operation.

In the case of LBOs mobilizing significant capital, financial institutions can sometimes use the securing of their debts, via an organization [specially created, the purpose of which will be to issue securities purchasable by other players in order to lighten their balance sheet or to liquidate the debts (his practice experienced a sharp decline with the subprime crisis symbolized by a massive securing of harmful real estate loans that caused the bankruptcy of certain banking institutions that had abused them).

2.4.3. Third Step: Subordinated Debt

Subordinated debt can take two main forms. The first, in the form of a debt bond, is used when dealing with an LBO absorbing huge sums of money. The second, called "mezzanine" debt is taken out by specialized funds, and corresponds to intermediate financing such as convertible bonds or stock warrants. Investors will demand a high return (15% at least) because of the risk taken and the later maturity of the mezzanine debt compared to the senior debt. They are remunerated by interest paid in cash each year by the company benefiting from the debt (approximately 5%), capitalized interest as well as a share in the capital gain through the conversion of bonds. This tranche of financing makes it possible to supplement the banks in the financing and to the investors to increase the financial leverage effect. It is halfway between the equity provided by the fund and the bank debt provided by the banking pool. (Before the last crisis in 2007, there were so-called "second lien" debts with a duration of 9 to 10 years, which came between the senior debt and the mezzanine debt. These debts have virtually disappeared today).

2.5. The Valuation of the Target Company

In practice, the acquisition price of the target is capped at the maximum amount of financing that the holding company can mobilize. Indeed, the amount of the acquisition debt is directly linked to the forecast profitability of the target. The valuation obeys three constraints. The first is to integrate are payment of the debt over a period that can range from 7 to 9

years using the distribution of dividends paid by the target to the holding company. The second is to calibrate the operation in such a way that the holding company retains slightly excess cash so as not to create additional financing needs. The third consists in respecting the main covenants which ensure the smooth running of the operation. Indeed, the lenders impose various obligations on the borrowers which vary according to the senior debt and the mezzanine debt. We thus distinguish the obligation of information (the borrower must send the lenders his annual accounts in addition to the management reports and the reports of the auditors but also intermediate situations at 3 or 6 months), EBITDA (earnings before interest, taxes, depreciation, and amortization) / interest charges etc. (The financial crisis of 2007-2008 led banks to tighten covenants in order to secure investments and better select targets. However, with the deterioration of the economic environment, few companies are now able to comply with 100% of the covenants) One can rightly ask the question of how is the target financed?

Equity must be set at a level enabling investors, in the event of an early exit (IPO) from the LBO, to have a minimum internal rate of return (IRR) oscillating between 20-30%, or in the event of a sale to an industrialist or another fund, to have a return calculated on the basis of a multiple of EBITDA or the operating result defined according to market conditions at the time of the creation of the LBO.

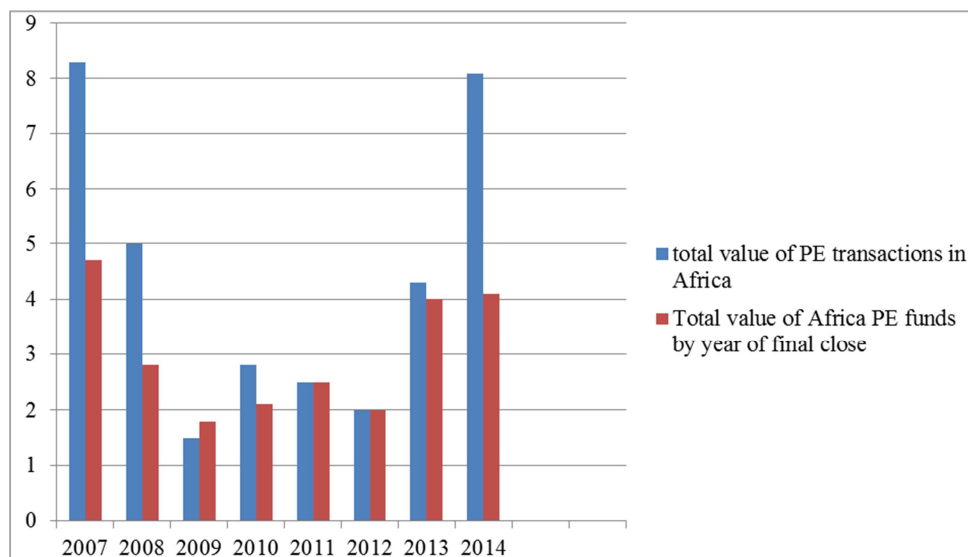
The target value is often slightly less than the sum of the equity and debt values of the holding company. Indeed, given the complexity of the financial package, the holding company is required to bear huge legal fees, accounting and tax audit fees and a commitment commission on the acquisition debt. These fees can reach 3 to 5% of the

transaction amount.

3. LBO in Africa

3.1. Africa as a Land to Conquer LBOs

Africa is no longer the continent of phantasmagoria, safaris and other legends. Several countries have understood the need to seduce investors by offering them another image of Africa. Long marginalized by international investment funds, Africa has become an attractive ecosystem (The Forbes and Build Africa summits in Brazzaville, the New York Forum Africa in Libreville, the Super Return Africa in Accra, enabled Africa to garner 4 billion dollars in 2013 [11, 19] . Similarly, Côte d'Ivoire, with its ICI 2014, had obtained 675 million euros in debt pledges.) creator of substantial capital gains whose management does not tolerate sprinkling, approximations or dilettantism. Also, the recent forecasts show that the continent is only at the dawn of a petulant growth which will only go on amplifying. [13] Africa has become an essential route for investors eager for [3, 10]. superprofits and new opportunities (So KKR, the global Private Equity juggernaut, signed its first contract in Africa in June 2014 by buying Ethiopia-based flower grower AfriFlora for \$200 million. This was the largest LBO investment made in Africa in 2014). While Western countries have experienced timorous and atomistic growth rates in recent years, those in Africa are close to subliminal levels with regard to the economic context. As shown in the graph below, investments in private equity (PE) on the African continent, despite a slight decline due to the last crisis, are on an upward phase [8, 9].



Source; [2].

Figure 2. Evolution of investment funds in Africa.

3.2. LBO in Africa: A Disorganized Market

With the exception of South Africa and a few North

African countries (Tunisia, Morocco), the LBO market in Africa is not only marginal but disorganized [15, 17]. Added to this disorganization are obstacles such as economic and

political instability, which compromises the development of LBOs. However, English-speaking countries are an exception because there are some reminiscences of LBO arrangements. This is explained by the fact that these countries are better equipped, have the same legal language and the same business mores than the Anglo-Saxon countries that are pioneers in LBO arrangements [14]. Apart from a few attempts in Senegal, Côte d'Ivoire and Cameroon, French-speaking Africa is almost absent in the vast LBO market.

4. Conditions for the Success of an LBO Arrangement

4.1. Tax Optimization

Tax optimization is an essential way for the LBO to achieve its performance objectives. Also, a tax treaty must be established between the holding company and the target. The tax group will therefore be able to use the tax deficit created by the financial charges and the amortization of the acquisition costs of the holding company. Through an equalization process, the holding company's deficit is cleared by the taxable results of the target, which substantially reduces the tax payable. Concretely, the holding company and the target sign a tax consolidation agreement which formalizes the conditions for the liquidation of the tax of the tax group. Thus, the target pays the holding company the corporation tax that it would have had to pay to the tax authorities in the absence of tax consolidation; the tax being liquidated vis-à-vis the holding company according to the principal installment payments. Technically, during year N, the holding company must pay in advance the installments of corporate tax due for year N. An adjustment of the balance between the corporate tax actually due and the provisional installments already paid is carried out in N+1. The holding company pays a tax whose base is equal to the taxable result of the target reduced by the tax deficit of the holding company.

The conditions for the reinvestment of the shareholders of the target in the capital of the holding can also be improved. You can decide to contribute part of the target's securities to the takeover holding company. The advantage being that the

capital gain generated by the contributor is subject to tax deferment until the date of transfer of the securities of the holding company having remunerated the contribution. It is also possible to sell the securities within the transferor's tax consolidation scope, which assumes that the takeover holding company is part of the transferor's tax consolidation scope before the LBO. In this case, the capital gain is also subject to tax deferment.

4.2. Financial Optimization

The LBO can only achieve its efficiency objectives if part of the repayment of the acquisition debt is deferred. Thus, the senior debt can be broken down into two tranches. The first, called tranche A, can represent up to 80% of the debt and is repayable by constant amortizations increasing slightly over 7 years. Its interest can be calculated on the basis of the 6-month Euribor plus a few basis points depending on the economic context. (Euribor refers to a group of Euro currency interest rates widely used in Europe. For example, the 6-month Euribor on 04/11/2016 = -0.133% compared to -0.131% on 04/1/15, in "6-month Euribor. Current and historical Euribor rates" en.euribor-rates.eu). The second tranche, representing the balance of the loan, can be repaid in fine if the schedule is well negotiated.

4.3. Credibility and Reliability of the Target's Business Plan

The business plan should include realistic and reliable business assumptions. The distribution to the holding company of the entire result of the target may lead to the recalculation of the financial debt and the financial result of the target. Beyond the period of the business plan, the forecasts can be extended over 7 to 9 years by using, for example, the assumptions that give credibility to the program. We can rely on an activity growth rate integrating inflation, activity ratios such as the margin rate of the IBITDA, depreciation allowances/turnover, investments/turnover, WCR/turnover). Certain financial statements are essential for the credibility of the business plan, including:

4.3.1. The Balance Sheet of the Target

It is based on projected cash flows which make it possible to determine the net financial debt. We then have:

$$\text{Change in net debt of target N (similar to cash flow)} = \text{Net result of the target in N} + \text{Depreciation allowances N} - \text{Investments net of disposals N} - \text{WCR variation N} - \text{Dividends paid under N-1}$$

Balance sheet of the target at 31/12/N obtained from that of year N-1

$$\text{Total Assets N} = \text{Total Assets (N-1)} + \text{Investments N} - \text{Allocations N} + \text{Change in WCR N}$$

$$\text{Total Liabilities N} = \text{Total liabilities (N-1)} + \text{Result N} - \text{Dividends} - \text{Cash flow N}$$

4.3.2. The Debt of the Holding Company

The maximum indebtedness of the holding must be set at a level such that its cash always remains positive. The net income of the holding company on which the determination of its cash flow and its cash is based assumes the prior calculation of the tax due under the tax consolidation

agreement. This tax is determined on the basis of the taxable result of the target, assimilated to its current result before tax (RCAI) from which are deducted on the one hand the allocations to amortization of acquisition costs, on the other hand the financial costs on the debt of acquisition to which are added, where applicable, the financial income generated

by the investment of the cash of the takeover holding company. Which gives us:

Taxable result of the tax group = Target RCAI - Allocations to amortization of acquisition costs of the holding company - Financial charges on the acquisition debt + Financial income on the investment of the holding company's cash

The corporate tax to be paid to the tax authorities will then correspond to the product of the taxable result of the tax group by the tax rate. The IS being determined, the net result of the holding company is calculated as follows:

Net profit of the holding company = Dividends received from the target under (N-1) + Tax received from the target - Allocations to amortization of acquisition costs - Financial charges on the acquisition debt + Financial income on the investment of the holding company's cash - IS transferred to the tax authorities

The holding company's balance sheet is based on its cash flow determined from the net income and the repayment schedule for the acquisition debt. Knowing the net income of the holding company, its cash flows are calculated as follows:

Holding cash flow = Net result of the holding company + Depreciation of acquisition costs - Reimbursement of the principal of the acquisition debt

Reimbursement of senior acquisition debt can be made by constant or progressive amortization. The balance sheet of the holding must highlight the cash to be maintained at a positive level.

$$N\text{-titles} = \text{Titles } (N-1)$$

$$\text{Acquisition costs } N = \text{Acquisition costs } (N-1) - \text{Allocations } N$$

$$\text{Cash } N = \text{Cash } (N-1) + \text{Cash flow } N$$

$$\text{Total Assets } N = \text{Total Assets } (N-1) + \text{Cash flow } N - \text{Allocations } N$$

$$\text{Equity } N = \text{Equity } (N-1) + \text{Result } N$$

$$\text{Financial debt } N = \text{Financial debt } (N-1) - \text{Repayment of debt } N$$

$$\text{Total Liabilities } N = \text{Total Liabilities } (N-1) + \text{Result } N - \text{Debt repayment } N$$

The replacement of the Cash-flow N by its value makes it possible to establish, by recurrence, as for the target, the balancing of the balance sheet of the holding company.

4.3.3. Equity of the Holding Company

The maximum amount of equity of the holding company must be set at a level that satisfies the minimum profitability requirements of equity investors. The IRR of equity is determined by comparing the valuation of the group (NEWCO + target) at the time of their exit from the capital of the holding company with the valuation used for the target at the time of their entry. Either:

C_N = value of group equity (NEWCO + target) in n years;

in other words, C_n is the exit value of the private equity fund;
 V/S = amount of the fund's investment;
 I = TIR required by the fund.

If we consider that the fund does not receive any dividends throughout the duration of the investment in order to optimize the service of the acquisition debt, we can verify that: $C = 0(1+i)^{-1} + 0(1+i)^{-2} + \dots + C_n(1+i)^{-n}$

In other words, C is the present value at the required TIR of the output value. The group's C_n value (NEWCO + target) derived from stock market comparisons includes its net financial debt, derived from the consolidated balance sheet:

Consolidated opening balance sheet at 31/12/N

Fixed assets target N

WCR target N

Holding costs N

Goodwill N

Total consolidated assets

Equity holding N

Consolidated reserves N

Target net debt N

Net holding debt N

Total consolidated liabilities N

Consolidated balance sheet at 31/12/N+1

Fixed assets target N+1

WCR target N+1

N+1 holding costs

Goodwill N+1

Total consolidated assets

Equity holding N +

Consolidated reserves N+1

N+1 target net debt

N+1 holding net debt

Total Consolidated Liabilities N+1

5. Simulation by Practical Case of Setting up an LBO

Assume on the basis of extracts from summary documents relating to the setting up of an LBO, the provisional income statement (in millions of francs) and the activity forecasts of the target below. The following assumptions are made:

1) linear convergence of the activity growth rate from 7% in Y+2 to 3% in Y+8. This rate of 3% is in line with the assumption used to determine the market risk premium used.

2) maintenance from N+4 of the following ratios observed in N+3: Operating margin at 7.9% and depreciation/revenue at 2.1%.

Table 1. Target operating income statement.

	N+1	N+2	N+3	N+4	N+5	N+6	N+7	N+8
THAT	3,075	3,290	3,500	3,695	3,880	4,050	4,195	4,325
Revenue growth rate	—	6.99%	6.38%	5.57%	5.00%	4.38%	3.58%	3.10%
EBITDA	240	260	275	290	305	320	330	340
EBITDA margin rate	7.80%	7.90%	7.86%	7.85%	7.86%	7.90%	7.87%	7.86%
Endowments (as a % of turnover)	70 (2.28%)	70 (2.13%)	75 (2.14%)	80 (2.17%)	85 (2.19%)	85 (2.10%)	90 (2.15%)	90 (2.08%)
Operating result	170	190	200	215	225	235	240	250

The bottom of the income statement (RCAI, IS and net income) assumes knowledge of the company's net financial debt. Its evolution from the last balance sheet published in N is based on forecast cash flows. The following assumptions are used in the calculation of cash flows:

The amortization / isochronous turnover ratio over the entire duration of the program; the same goes for rapBFR/CA exit estimated at 38 days. A dividend distribution rate of 100% is assumed in order to optimize the service of the acquisition debt of the takeover holding company.

Table 2. Target cash flow forecast.

	N+1	N+2	N+3	N+4	N+5	N+6	N+7	N+8
Net profit	105	115	125	130	140	145	150	155
Endowments	70	70	75	80	85	85	90	90
Investments	(60)	(60)	(65)	(70)	(75)	(80)	(85)	(90)
Dividends	0	(105)	(115)	(125)	(130)	(140)	(145)	(150)
BFR Δ	(25)	(25)	(20)	(20)	(20)	(20)	(15)	(15)
Δ net of debt	85	0	(5)	(5)	(5)	(5)	(10)	(10)
Payout rate	0%	100%	100%	100%	100%	100%	100%	100%

The complete income statement and balance sheet of the target are then as follows:

Table 3. Projected profit and loss account of the target.

	N+1	N+2	N+3	N+4	N+5	N+6	N+7	N+8
THAT	3,075	3,290	3,500	3,695	3,880	4,050	4,195	4,325
Revenue growth rate	—	6.99%	6.38%	5.57%	5.00%	4.38%	3.58%	3.10%
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EBITDA margin rate	7.80%	7.90%	7.86%	7.85%	7.86%	7.90%	7.87%	7.86%
Endowments (as a % of turnover)	70 (2.28%)	70 (2.13%)	75 (2.14%)	80 (2.17%)	85 (2.19%)	85 (2.10%)	90 (2.15%)	90 (2.08%)
Result of operation.	170	190	200	215	225	235	240	250
bottom line	(15)	(10)	(10)	(10)	(10)	(10)	(15)	(15)
RCAI	155	180	190	205	215	225	225	235
IS	(55)	(60)	(65)	(70)	(75)	(75)	(80)	(80)
CIT rate	34.43%	34.43%	34.43%	34.43%	34.43%	34.43%	34.43%	34.43%
Net profit	105	115	125	130	140	145	150	155

Table 4. Provisional assessment of the target.

	N+1	N+2	N+3	N+4	N+5	N+6	N+7	N+8
fixed assets	765	755	750	740	735	730	725	725
WCR	325	345	370	390	410	425	445	455
Total assets	1090	1,105	1,115	1,130	1,145	1,155	1,170	1,180
Equity	830	845	855	860	870	875	880	885
Provisions	30	30	30	30	30	30	30	30
Net debt	230	225	230	235	245	250	260	265
Total liabilities	1090	1,105	1,115	1,130	1,145	1,155	1,170	1,180
Average net debt	270	225	230	235	240	245	255	265
Cost of debt	5%	5%	5%	5%	5%	5%	5%	5%
WCR as % of turnover	10.6%	10.6%	10.6%	10.6%	10.6%	10.6%	10.6%	10.6%
BFR in days of turnover	38	38	38	38	38	38	38	38

For the determination of the acquisition debt, we adopt the use of Western LBO arrangements which integrates, a linear amortization over 7 years, a cost of the debt appended to the Euribor 6 months (with a cost of hedging 1% and a margin of

2.25%) and a level set so that the holding company's cash is always positive. Taking these prerequisites into account allows us to draw up the forecast documents below.

Table 5. Forecast accounts of the target takeover holding company.

Holding income statement	N+1	N+2	N+3	N+4	N+5	N+6	N+7	N+8
Dividends received from the target		105	115	125	130	140	145	150
Tax received from target		60	65	70	75	75	80	80
(Financial expenses)		(30)	(25)	(20)	(15)	(10)	(5)	(0)
(IS in respect of the group)		(50)	(55)	(60)	(65)	(70)	(75)	(80)
Net result of the holding company		80	100	110	120	130	140	150

IS of the tax group	N+1	N+2	N+3	N+4	N+5	N+6	N+7	N+8
Profit before tax		180	190	200	210	220	230	235
(Holding financial expenses)		(30)	(25)	(20)	(15)	(10)	(5)	(0)
Group tax result		150	165	180	195	210	225	235
Tax due		50	55	60	65	70	75	80

Holding company cash flows	N+1	N+2	N+3	N+4	N+5	N+6	N+7	N+8
Net result of the holding company		80	100	110	120	130	140	150
(Debt refund)		(80)	(80)	(80)	(80)	(80)	(80)	(80)
Δ holding company cash		0	20	30	40	50	60	70

Maturity schedule of the holding company's debt	N+1	N+2	N+3	N+4	N+5	N+6	N+7	N+8
Remain to be reimbursed	575	495	410	330	250	165	80	0
Amortization		80	80	80	80	80	80	80
In % of nominal		14.29%	14.29%	14.29%	14.29%	14.29%	14.29%	14.29%

Holding balance sheet	N+1	N+2	N+3	N+4	N+5	N+6	N+7	N+8
Target titles	1,325	1,325	1,325	1,325	1,325	1,325	1,325	1,325
Treasury	0	5	20	50	90	140	195	265
Total assets	1,325	1,330	1,345	1,375	1,415	1,465	1,520	1,590
Equity	750	835	935	1,045	1,165	1,300	1,440	1,590
Acquisition debt	575	495	410	330	250	165	80	0
Total liabilities	1,325	1,330	1,345	1,375	1,415	1,465	1,520	1,590

The amount of equity of the holding company (750) is determined such that the internal rate of return (IRR) over three years for investors is 20%.

Table 6. Determination of the amount of capital of the takeover holding company.

Target Market Cap	1,220	
Net debt	230	
Enterprise value	1,450	
Operating result	170	215
Multiple of operating profit	8.5	8.5
Exit enterprise value		1,820
Exit consolidated net debt		520
Exit equity		1,300
Internal rate of return		20%
Entry equity		750

6. Analysis and Interpretation of Results

The results of the practical case show a real profitability of the financial arrangement both for the target and for the buyers. On the diachronic level (period going from N+1 to N+8), we see that the company would be valued at 1325 million francs, or 10% more than its market capitalization.

Total debt repayment (575 in N+1 versus 0 in N+8) improves the holding company's cash flow (0 in N+1 versus 265 in N+8) and through a knock-on effect encourages new investments. Over the same period, equity rose from 750 in Y+1 to 1,590 in Y+8, i.e. a 112% increase.

7. The LBO as an Element of Support for African Development and Integration

In view of these non-exhaustive results, it can be stated that the LBO operations in Africa would constitute an alternative to a less developed and unstructured capital market thanks to the financial flows they mobilize and generate. The existence of large companies (holding companies for example) would be an advantage because they carry major projects likely to absorb investment funds. Similarly, their existence gives a good idea of the presence or absence of key factors for private equity funds, in particular, the depth and liquidity of the stock market, which are essential for funds to be able to sell their holdings under good conditions. The size of the debt market is also crucial for LBO funds, which buy companies by exploiting the leverage

effect of the debt. The number of large companies in a country also reflects its evolution in terms of governance, transparency and protection of shareholder interests. This component naturally refers to the necessary African integration.

The current African economic environment is characterized by the atomicity of its production structures. It is imperative to create transnational companies, organized around specific skills, which can better resist the assaults of large international multinationals. This movement requires the real involvement of the political authorities in order to stimulate the process and promote the emergence of countries. African integration should not be limited to an aggregation of beautiful litanies of pious wishes, consecrating the need for a grouping and pooling of skills. It should be embedded in our deoxyribonuclease, through actions and facts that show that Africa is united and speaks with one voice. The creation of large companies that drain large amounts of capital, promotes the emergence of a stable and solid economic fabric. Similarly, the development of start-ups in an open, free and expanded market is an inescapable path for African development and integration. Cooperation mechanisms must be developed between States through centers of expertise that will promote the economic and even political integration of our countries.

8. Conclusion

LBO operations have many advantages for the economy. The full deductibility of the interests of the credits taken out by the holding company to acquire the securities of the target is a value creation factor. The other, less visible advantage is that disposals have become increasingly costly due to the ensuing asset reclassifications or cascading tax frictions at each level. The existence of the holding company, an entity conducive to integration thanks to the pooling of skills, makes it possible to accommodate companies of scattered origins in appropriate legal structures. We thus have a legal organization chart in rake in which it is easy for the group and its subsidiaries to opt for a tax consolidation regime favoring significant economies of scale,

However, the LBO has certain limits which should lead to its advantages being put into perspective. The constitution of a holding company creates de facto the multiplication of structures and the increase of certain hidden costs. Similarly, setting up the group can insidiously weaken the structure because the servicing of the holding company's debt is highly dependent on the profitability of the target. Failure of the latter can compromise the homeostatic balance of the financial structure.

We come back to wondering what would Africa gain by adopting LBOs?

Africa is an emerging continent. It needs capital and production structures capable of supporting its development. Unfortunately, the share of Africa in funds devoted to private equity remains marginal, barely 4% of fundraising for emerging countries (Credit Suisse Bank, 2012). On another

level, African targets are still very small and offer few opportunities to attract investors. Across the continent, the LBO remains essentially concentrated on a few countries where the ecosystem is sufficiently structured, with South Africa in the lead and a few countries in North Africa. Much remains to be done regarding the business environment to ensure that all countries in Africa attract investment in all sectors.

The purpose of this work was not to impose the LBO as a development model for Africa, but to propose it as one of the many tools that can contribute to it. The stakes are high, as it is true, paraphrasing PF Drucker, that if a good structure does not guarantee success, a bad structure is on the other hand the guarantee of bad results. [1] It remains for us to hope that African countries will adopt this concept and make it a tool of enrichment and a vector of integration.

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