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BUSI70585 | Advanced Company Valuation

Group 5 Buy Side – Simulation (LBO)
In-Group Class Simulation

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FRAMETASTIC

Revenue Trajectory Forecast

We forecast annual revenue growth of 4% throughout 2024–2028, directly anchored to the European window and door frame sector CAGR of 4% through 2030. A higher trajectory of 6–7% was considered, given management's confidence in the sales pipeline and the 15 new products launched in 2023, but was rejected. Historical growth never exceeded 8.2% even in strong years, and 2023 revenue of €740m already reflected a business slowdown. Our final view matched sector CAGR rather than management optimism, a strategy that proved appropriate when the lost customer announcement was made after the model submission.

Cost Lines to Investigate

SG&A was the cost line that gave us the most pause. It nearly doubled from €41m in 2022 to €74m in 2023, compressing the EBITDA margin from 16.3% to 12.2%. The sell-side materials did not explicitly explain the spike. It was therefore inferred as a one-off based on management commentary that the strategic emphasis was shifting from product development to sales and marketing. Accordingly, we normalised SG&A to 5.2% of revenue, consistent with the 2019–2022 average and excluded €30m excess cost from our projection base. The evidence that would have altered our view was any indication that the elevated cost was recurring, which would have projected SG&A at 8–10% of revenue, reducing projected EBITDA by €20–25m and materially lowering our EV bid.

One-time adjustments to EBITDA and Capex

The primary adjustment in the model was the add-back €30m of excess SG&A in 2023, moving from a reported EBITDA of €90m to a normalised base of €118m, consistent with the 2022 level. Capex had doubled from around €17m pre-2022 to €36m in 2022–2023 and we treated this elevated level as the new normal given the ongoing manufacturing investment, holding it flat in projections at €36–44m, scaled with revenue. We deliberately chose not to revert to the pre-2022 level, as doing so would have inflated free cash flow.

Leverage anchor, pricing, covenant, and collateral

On leverage, we applied the construction and building materials sector benchmark of 5.5x EBITDA against a normalised 2023 base EBITDA of €90m, yielding a TLB of €495m. We chose not to use the higher 2022 EBITDA of €118m, as the 2023 underperformance introduced meaningful uncertainty around true earnings power.

We use a rate of 4.75%, comprising EURIBOR of 2.00% plus a 275bps spread for pricing. The spread reflects a mid-market leveraged borrower with stable cash flows and tangible collateral, with meaningful cyclical exposure.

The leverage covenant was set at 6.25x (25% headroom above the 5.0x underwritten leverage), per market convention. Given the EBITDA volatility observed in 2023, covenant-lite structure would have been inappropriate.

The facility is structured as senior secured, supported by inventory (€76m), accounts receivable (€47m), and manufacturing PP&E, with the Company's substantial tangible asset base making secured the natural choice and enhancing the credit's appeal to institutional debt investors.

IRR vs. Auction-winning trade-off

We did not pursue a competitive bid in this auction. Following the announcement of the loss of a significant customer, we submitted a token bid of €5m. Our modelled EV of €1,094.9m was built to a 15% IRR floor, which is the minimum required by PE convention. Pushing above this for competitive purposes would require a reliance on an overly optimistic operating case we were not prepared to defend. The implied multiple at our modelled EV was approximately 12.2x reported 2023 EBITDA of €90m, or 9.3x on normalised 2024E EBITDA of €117m, positioned just inside the 9.5x sector average, suggesting our bid was already not aggressive. The decision to stand down was a deliberate capital allocation choice, since deploying the same equity into the other two companies offered a materially superior risk-adjusted return.

Input to Evaluate

The SG&A normalization was the most consequential assumption in the model and the least supported by disclosed data. A €10m error in either direction moves EBITDA by approximately 9% and EV by roughly €80–100m at a 9.5x multiple. Ideally, we would have stress-tested this directly with management, specifically whether the 2023 cost base reflected permanent additions or a genuine one-time transition. Moreover, we had no visibility on customer concentration across any of the three companies. For Frametastic in particular, the post-announcement customer loss made clear this was a critical unknown that our model had not captured.

Fact from sell-side changed the bidding process

The identity and revenue contribution of the lost customer changed the bidding process. If the lost customer represented 5% of revenue, our 4% growth assumption could absorb a one-year step-down before recovery; a manageable scenario. If it represented 15–20%, the near-term revenue base collapses and the entire model unravels. This single data point would have either confirmed our decision to stand down or, conceivably, revealed the loss to be immaterial and warranted a competitive bid.

STAR HOTELS

Revenue trajectory forecast

Hotel count: The 2 major assumptions were to either stick to management's target of 12 new hotels per year (i.e. between 300 and 360 by 2028), which is in line with the ODD report and the sell-side pitch or to apply the haircut growth to 8-10 per year given that the ramp-up from +1 to +15 hotels per year in prior years was uneven (273 to 285 to 300 between 2019-2023).

We finally decided to stay with 12 firstly because the setup cost per hotel is low (~€2m), making the capital commitment manageable. Secondly, because the leasehold model eliminates real estate acquisition risk. Thirdly, historical delivery supports pace. What would have caused us to change our minds would have been any sign of a tightening rental market in Italy and more broadly Europe, or any indication of a general deterioration in operational quality.

ADR & AOR: Historically flat at €69.1 from 2019 to 2023 despite improving quality and brand ratings, which could be a cause for concern because it suggests management had pricing power they did not use. Therefore, we modelled a temporary cut to €65 in 2024, a competitive repricing to arrest occupancy decline, then gradual recovery to €73.4 by 2028. The sell-side projected a sharp 11.6% revenue surge in 2025 driven by "enhanced revenue management", and we view this as partially credible but front-loaded.

Our pushback was that we modelled the ADR recovery more gradually and capped the 2025, acknowledging that occupancy recovery lags repositioning efforts by 12–18 months in practice. What pushed us to our final view were the 4+ star ratings achieved on major booking platforms, combined with the completion of refurbishments in 2023, gaving us enough confidence that ADR recovery was structurally supported. In fact, the brand repositioning was already partially done. We just smoothed the trajectory and applied a more conservative terminal steady-state (AOR capped at ~75.2%, ADR flat at €73.4 from 2028 onwards), consistent with European hotel sector occupancy averaging 69–70% with ADR growth of 2–3% YoY becoming the new normal (Reference: CBRE, H1 2025), suggesting Star Hotel's 75%+ occupancy target is achievable but at the premium end.

Cost lines to investigate

The cost line that gave us the most pause was SG&A, because it was the largest discretionary margin improvement lever but also the one where the sell-side provided the least detail. In 2023, SG&A represented ~32.3% of revenue, materially higher than prior years, so we saw a clear normalization opportunity.

We assumed SG&A declines by 3.0 pp over 2024-2026, then only improves marginally afterward, reaching ~28.8% of revenue in steady state. This reflects the view that SG&A savings are usually fast to execute through back-office efficiencies, procurement, overhead rationalization and operating leverage.

For COGS, we had 2 options. Either keep it at a constant level or gradually reduce it as a percentage of turnover. COGS have historically been stable at ~50% of revenue (2019–2023), which is actually encouraging. Indeed, this shows that, despite the increase in the number of hotels and inflationary pressures, hotels' direct operating costs have not exploded. We therefore opted for the second option. This decision is also supported by the completed refurbishments reducing emergency maintenance spend and better procurement leverage as the portfolio scales to 360 hotels as well as the leasehold model itself.

However, we have been more cautious regarding the additional potential upsides compared to SG&A. Firstly because COGS optimization in hotels is usually harder and slower to realise than SG&A because it relates more directly to service delivery, staffing, maintenance, utilities and guest experience. Secondly, because the COGS has remained stable in the past, which is evidence of effective cost management and therefore limits the scope for improvement in the future.

What would have helped us and led us to change our inputs would have been a detailed SG&A reduction plan such as specific headcount actions, procurement savings or systems efficiencies. Without that evidence, we kept the margin expansion meaningful but not overly aggressive. The assumptions file also frames cost optimization as the key value creation driver, with costs declining as a percentage of revenue over time.

One-time adjustments to EBITDA and Capex

The main one-time adjustment was the fire affecting one hotel before acquisition in 2023. To reflect this, we accounted in 2024 for 311 operating hotels, not 312 (as if the hotel was out of service for the full year). Therefore, this had an impact on the 2024 and 2025 revenues that we calculated as the average number of hotels at year end of the current and previous year * RevPAR * Room per hotel. We then made the same adjustments for EBITDA where the loss has been estimated as revenue loss × EBITDA margin. We also accounted for the non-recurring capex accordingly, set as double of usual setup costs.

For the valuation, we kept the non-recurring capex but we added back the losses as if the hotal was operating (adjusted revenues, adjusted EBITDA). The rationale was that if we acquire the business, this would be with full knowledge of the temporary impairment and we know the hotel is expected to reopen. Therefore, treating this as recurring would structurally understate the run-rate earnings power of the portfolio.

Leverage anchor, pricing, covenant, and collateral

We sized debt at 6x 2023 adjusted EBITDA of €112.5m, arriving at €675m. The 2023 EBITDA was depressed by the refurbishment, so anchoring it was conservative from a lender perspective. We also proposed a 3.75% interest premium. Star Hotel is an asset-light L&O operator with no owned real estate, which increases risk thus we chose to use unsecured collateral as there was nothing meaningful to secure against.

We ultimately chose Team 4's proposal over our own: €756.1m at 3.60%, senior secured, 6.3x covenant. They offered more debt at a lower rate, reducing our equity requirement from what our own terms would have implied.

IRR vs. Auction-winning trade-off

Our team submitted a final bid of €1.28 billion, securing the winning bid for Star Hotel with an EV/EBITDA multiple of 9.3x. Our DCF model produced an equity value of €559.8 million and an implied EV of €1,315.9 million. Our final bid of €1.28 billion sat €35.9 million below our own model valuation. We chose to finance the deal using Team 4's financing proposal: €756.1 million at 3.6%, senior secured at a 6.3x covenant with a 5-year maturity.

Our 15% IRR was treated as a floor rather than a target. If we were to bid exactly at our model value, we would only achieve 15% if every assumption played out perfectly. By bidding below our model, we built in a margin of safety so that even if some assumptions underperform, we retain a realistic chance of hitting our IRR floor. To remain competitive in the auction while maintaining that conservative bid price, we offset it by selecting a more aggressive debt package. The higher leverage increases equity IRR by reducing the equity we need to deploy. This resulted in our IRR coming in at approximately 15.55%, marginally above our 15% hurdle rate.

Comparable European budget hotels trade at 9x. Our 9.3x sits just above that, but we considered the premium justified. Star Hotel is Europe's leading budget hotel brand with over 70% brand awareness across the European population. Our team believed that paying a premium to acquire the leading budget hotel brand in Europe was acceptable and thus chose to pay a premium of 3.3% above the sector multiple.

Input to Evaluate

There were three areas we wish we had more time and information on. First, due to the drop in demand, the ODD recommended we drop our average daily rate to €65 to arrest occupancy decline, but we struggled to determine the rate of recovery over the years as we were provided little to no information regarding this. With no demand data, we had no real basis for how fast to bring it back up. Eventually, we chose to conservatively model ADR at €65 in 2024 before increasing the rate to €73.4 by 2028.

Furthermore, we were not given D&A at the start of the exercise and had to request it from the sell-side. We could not properly calculate EBT or check for consistency between depreciation and maintenance capex. Having this information earlier would have meaningfully improved the quality of our FCFE projections, particularly in the earlier rounds when assumptions were being set. Our team also didn’t have enough time to take the information we received for the fire on the flagship hotel and adjust our input for the bid; there wasn’t enough time to do so.

Single Fact from Sell-Side or Data Room

A detailed breakdown of the SG&A cost reduction plan would have changed our numbers the most. The assumptions document explicitly identifies cost optimization as the primary value creation driver, yet our model only applied a 3% total SG&A cut over three years, bringing it from 32.3% down to ~29.3% before flattening. We were unclear of what measures underpinned the reduction, whether they were procurement savings, back-office consolidation, or headcount restructuring.

MOBICO

Revenue trajectory forecast

The forecasted revenue was projected to reach €448 million by 2028 implying a 9% annual growth rate from the €291 million reported in 2023. This sits slightly below the sell-side projection of €468 million but above the historical 2019–2023 revenue CAGR of approximately 7%. This growth was supported by Mobico's recurring contract base, high switching costs, and a €70 million signed pipeline, all of which introduced credibility to a rate of expansion above historical norms. Our forecast reflected a moderate view stronger than historical performance, but deliberately not as aggressive as the sell-side case.

Cost lines to investigate

The operating cost efficiency was the main cost line requiring scrutiny, as the sell-side margin expansion story depended heavily on its execution. The sell side argued that the Quanto automation and operating leverage would reduce the IT cost drag and lift the EBITDA margins materially over the forecast period.

Our model incorporated a degree of margin improvements, which led to EBITDA rising from €21 million in 2023 to €61 million by 2028. However, our implied 2028 EBITDA margin remains approximately 3.3% below the sell-side figure, reflecting our view that the automation benefits were credible but not fully underwritable without clearer evidence of implementation progress.

One-time adjustments to EBITDA and Capex

The primary adjustment was treating the 2023 EBITDA as depressed by non-recurring items. The sell side disclosed that the reported EBITDA of €21 million in 2023 included €13 millions of Quanto license costs and €9 millions of HQ relocations costs, implying a normalized EBITDA of €34 million and a margin of 11.7% instead of the stated 7.2%. Although we retained the reported 2023 EBITDA figure, we accepted that these costs didn't represent Mobico's ongoing profitability. Therefore, we reflected the normalization through the projected cost structure. IT Services & Consulting fell from 60.1% of revenue in 2023 to 54% from 2024 inwards, while COGS, other operating costs and SG&A were projected as stable percentages of revenue. This produced a forward EBITDA margin of 13.7%, indicating that we did not fully adopt the aggressive margin expansion case proposed by the sell-side.

For capex, we treated 2023 as an abnormal investment year. Capex rose to €15 million compared to its historical run rate of about €5 million. The sell-side projected a return to €5 million per year from 2024 onwards. Our model took a more conservative view; we reduced capex to €6 million in 2024-2025, then increased it gradually to €7 million in 2026 and €8 million by 2028. While we agreed that the 2023 spike should not recur, the growing technology platform still requires continued investment and were not prepared to assume otherwise.

Leverage anchor, pricing, covenant, and collateral

We proposed a debt package of €195 million at a 3.75% interest margin, with a 6x leverage covenant, 6-year maturity, and senior secured status.

The leverage anchor wasn't based solely on the depressed 2023 EBITDA, but also on the 2019-2023 historical average as a more balanced reference point, alongside the expected EBITDA recovery from 2024 onwards.

The 3.75% interest premium reflects Mobico's attractive credit profile while pricing in the execution risk around margin recovery. The 6.0x covenant gives the borrower some flexibility if performance falls slightly below plan, while protecting lenders if EBITDA recovery fails more materially. The facility is structured as senior secured, supported by Mobico's collateral base of approximately €85 million, comprising €30 millions of PP&E, €30 millions of IP and €25 millions of contract value. The senior secured structure is important to strengthen lender protection in a transaction where the credit case depends on EBITDA recovery and cost normalization.

IRR vs. Auction-winning trade-off

We submitted a final EV of €600 million for Mobico, marginally below the €615 million winning bid. We were willing to bid aggressively because Mobico had recurring revenues, sticky enterprise customers, and strong sector positioning. However, we stopped short of the winning bid because the valuation already embedded significant EBITDA recovery and margin normalization. At €600 million, the implied multiple was 17.6x normalized 2023 EBITDA multiple meaning the asset was already priced as a premium platform. Increasing the bid further would have improved our chance of winning the auction, but it would also have compressed our IRR and eroded downside protection if revenue growth or cost savings underperformed. Our final bid therefore balanced auction competitiveness with return discipline.

Input to Evaluate

The input we would have liked to have more time to evaluate was the sustainability of Mobico's EBITDA recovery. Our model retained the 2023 reported EBITDA of €21 million and did not directly replace it with the normalized figure. However, our forecast assumed EBITDA recovering to around €43 million mainly through cost normalization. This judgement was critical as the €600 million bid already priced the firm as a premium platform. If the recovery materialises, the business can support stronger free cash flow and compelling exit multiple. If it does not, IRR would quickly compress. The most valuable input would be direct evidence showing whether the 2023 cost spike was truly one-off and whether the automation was already reducing the cost to serve customers.

Fact from sell-side changed the bidding process

What influenced our bidding process was the evidence from the €70 million signed pipeline and the cost saving from the automation. The pipeline supported the revenue growth case, but our valuation depended on whether it converted into EBITDA. Our model assumed the EBITDA recovery, but proof that the Quanto automation was already reducing IT services and consultancy costs would have increased our confidence in the margin recovery. Had the sell side shown that the pipeline conversion was high-margin and that automation savings were already visible, we would have been more willing to closer to the winning bid.