

Date: November 21st, 2024

From: Sharvil Jadon, Yonggy (Brian) Park, Ariel Qi, Branden Soo and Travis Zeng

To: Scott Abrams

Re: Buffalo Wild Wings Buyout

What makes BWW an attractive investment for Roark? What makes it a potentially risky acquisition?

Buffalo Wild Wings is an attractive investment opportunity for Roark due to its steady EBITDA growth, increasing from \$276.8M in 2018 to \$339.2M in 2022. This growth showcases Buffalo Wild Wings's operational scalability and profitability. Additionally, equity value grows significantly, from \$389M in 2018 to \$559.59M by 2022, signaling great value creation over time. The firm's consistent firm value, reaching \$2.7B by 2022, combined with Roark's ability to leverage senior secured loans and unsecured notes, aligns well with a typical LBO strategy. However, the acquisition also carries notable risks. The high reliance on debt increases financial risk, especially if revenue underperforms. The competitive restaurant industry and shifting consumer preferences add market uncertainty, while macroeconomic factors could impact the consistency of cash flows. Moreover, the initial equity investment of \$389M requires operational and growth execution to justify its scale. These factors make Buffalo Wild Wings both a compelling opportunity and a potentially risky acquisition for Roark.

What levers can Roark pull to make this an attractive investment? What could thwart its success? In thinking about this issue, please assess the relative benefits and risks of Marcato's proposal to franchise 90% of BWW.

Roark Capital can enhance its investment in Buffalo Wild Wings by leveraging EBITDA growth (from \$276.8M in 2018 to \$339.2M in 2022) and pursuing Marcato's proposal to franchise 90% of locations. Franchising could generate immediate capital, reduce operational costs, and shift to an asset-light model, but risks include challenges in maintaining quality and franchisee relationships. The significant reliance on debt, with \$1.575B in secured loans and \$485M in unsecured notes, adds financial risk, especially in a competitive, economically sensitive market. Success hinges on balancing franchising benefits with operational consistency and debt management.

What is the proposed structure (capitalization) and sources and uses for the transaction?

Roark proposed to purchase Buffalo Wild Wings using three different types of debts to finance the \$2.5B acquisition. Utilizing a variety of bank debt and high-yield debt to finance the transaction would allow them to maximize the usage of senior debt. Roark can provide equity

capital via a \$150M Senior Secured Revolver, a \$1.575B Senior Secured Term Loan B (TLB), \$485M from high-yield notes. Any of the remaining funds that Roark would need would come from its latest buyout fund. Additionally, Roark would need to pay Buffalo Wild Wings existing net debt and transactions fees costing up to \$110M to complete the acquisition of BWW.

Using the assumptions given in Exhibit 10, please project BWW's free cash flows (FCFs) and cash available to pay down debt for the five years 2018-2022, considering the expected synergies and refranchising program.

See *Exhibit 3* for BWW'S Free cash flows

What internal rate of return (IRR) and cash-on-cash return/multiple of invested capital (MOIC) can Roark expect from this investment (assuming a \$157 purchase price and that Roark finances the investment using the debt outlines in case Exhibit 12)? Please justify your chosen exit multiple for your exit analysis.

Roark Capital can expect strong returns from its acquisition of Buffalo Wild Wings. With an estimated unlevered IRR rate of 13.7%, we can expect an EV of \$388.61M and a DV of \$2.16B; summing up to be approximately \$2.5B at year 5 exit. With an initial equity investment of \$389M and our predicted Exit Equity Value of \$738.43M, Roark can expect a MOIC of 1.9x. This means that Roark can expect to earn almost double their original equity investment from 2017 to 2022.

What is the value of synergies and cost reductions (as a % of margin impact) that BWW will realize if Roark is able to implement its proposed changes? Do you think these are reasonable?

The value of synergies (as a % of revenue) grows from 0.9% (2018P) to 6.8% (2022P), delivering ~\$345M in additional EBITDA over five years. By 2022P, synergies are expected to improve EBITDA margins by 6.8% or ~\$119.6M. These projections are reasonable given Roark's track record and the operational opportunities at BWW.

Do you believe Roark should offer \$157 per share? Why or why not? Build a sensitivity table of a range of valuations that Roark could offer (hint: vary the IRR to come up with the range of values similar to the in-class example on PMG).

Yes, Roark should offer \$157 per share. The profitable range for IRR is between 11.7% and 15% for a \$157 purchase price, and a levered IRR of 13.7% insures profitability for Roark.

Appendix

Exhibit 1. BWW LBO Analysis

Buffalo Wild Wings LBO Analysis

| | 2017A | 2018E | 2019E | 2020E | 2021E | 2022E |
|---|-----------------|----------|----------|----------|----------|---------------|
| Pro Forma Income Statements | | | | | | |
| EBITDA | 276.80 | 294.10 | 305.70 | 324.70 | 339.20 | 352.80 |
| Less: Depreciation | | (149.60) | (140.90) | (131.30) | (121.70) | (114.50) |
| EBIT | | 144.50 | 164.80 | 193.40 | 217.50 | 238.30 |
| Less: Interest from revolver | | (5.30) | (5.30) | (4.52) | (2.57) | - |
| Less: Interest from Term Loan B | | (83.48) | (83.48) | (83.48) | (83.48) | (83.06) |
| Less: Interest from unsecured notes | | (35.41) | (35.41) | (35.41) | (35.41) | (35.41) |
| Earnings before taxes | | 20.32 | 40.62 | 70.00 | 96.05 | 119.83 |
| Less: Taxes @ 25% | | (5.08) | (10.16) | (17.50) | (24.01) | (29.96) |
| Net income | | 15.24 | 30.47 | 52.50 | 72.04 | 89.87 |
| Calculation of EFCF / Levered FCF: | | | | | | |
| Net income | | 15.24 | 30.47 | 52.50 | 72.04 | 89.87 |
| Depreciation | | 149.60 | 140.90 | 131.30 | 121.70 | 114.50 |
| Less: Capex | | (149.60) | (140.90) | (131.30) | (121.70) | (114.50) |
| Working capital investment | | - | - | - | - | - |
| Subtotal - cash available to pay debt | | 15.24 | 30.47 | 52.50 | 72.04 | 89.87 |
| Less: Amortization of 1% to secured TLB | | (15.24) | (15.75) | (15.75) | (15.75) | (15.75) |
| Less: principal payments to revolver | | - | (14.72) | (36.75) | (48.54) | - |
| Less: principal payments to secured TLB | | - | - | - | (7.75) | (74.12) |
| Less: principal payments to unsecured notes | | - | - | - | - | - |
| Free cash flow to equity | | - | - | - | - | - |
| Equity investment cash flows | (389.00) | - | - | - | - | 738.43 |

*sale of the company

Exhibit 2. Debt Structure

Debt Structure

| | 2017A | 2018E | 2019E | 2020E | 2021E | 2022E |
|------------------------|----------|----------|----------|----------|----------|----------|
| Revolver | 100.00 | 100.00 | 85.29 | 48.54 | - | - |
| Senior secured TLB | 1,575.00 | 1,575.00 | 1,575.00 | 1,575.00 | 1,567.25 | 1,493.13 |
| Senior unsecured notes | 485.00 | 485.00 | 485.00 | 485.00 | 485.00 | 485.00 |
| Equity | 389.00 | 104.57 | 208.61 | 391.65 | 559.59 | 738.43 |
| Firm Value | 2,549.00 | 2,264.57 | 2,353.89 | 2,500.19 | 2,611.84 | 2,716.56 |

Exhibit 3. Equity FCF w/ no debt calculation

| | | | | | | |
|------------------------------|-------------------|---------------|---------------|---------------|---------------|-----------------|
| Levered cash flow | | 15.24 | 30.47 | 52.50 | 72.04 | 89.87 |
| Interest * (1-t) | | 93.14 | 93.14 | 92.55 | 91.09 | 88.85 |
| Unlevered cash flow | | 108.38 | 123.60 | 145.05 | 163.13 | 178.73 |
| Equity FCF w/ no debt | (2,549.00) | 108.38 | 123.60 | 145.05 | 163.13 | 2,895.29 |

Exhibit 4. Example of Sources/ Uses Schedule

Example of Sources/Uses Schedule

| Sources of Funds | | Uses of Funds | |
|-------------------------|---------------------|-------------------------|---------------------|
| Revolver | 100 | Equity Value of Company | 2,438.5 |
| Senior Secured TLB | 1,575 | Transaction Fees | 110 |
| Unsecured Notes | 485 | | |
| Investor Equity | 389 | | |
| Total | <u>2,549</u> | Total | <u>2,549</u> |

Exhibit 5. Levered and Unlevered IRR

IRR

| | |
|------------------------------|-------|
| Equity (with debt - levered) | 13.7% |
| Equity (no debt - unlevered) | 6.7% |

Exhibit 6. Sensitivity Analysis

| Sensitivity Analysis | | | | |
|-----------------------------|---------------------|-------------------|--------------|---|
| IRR | Equity Value | Debt Value | Value | Price Per Share to purchase the entire company |
| 13.70% | \$388.61 | \$2,160.00 | \$2,548.61 | \$164.09 |
| 11.70% | \$424.66 | \$2,160.00 | \$2,584.66 | \$166.41 |
| 9.70% | \$464.81 | \$2,160.00 | \$2,624.81 | \$168.99 |
| 7.70% | \$509.60 | \$2,160.00 | \$2,669.60 | \$171.88 |
| 5.70% | \$559.68 | \$2,160.00 | \$2,719.68 | \$175.10 |