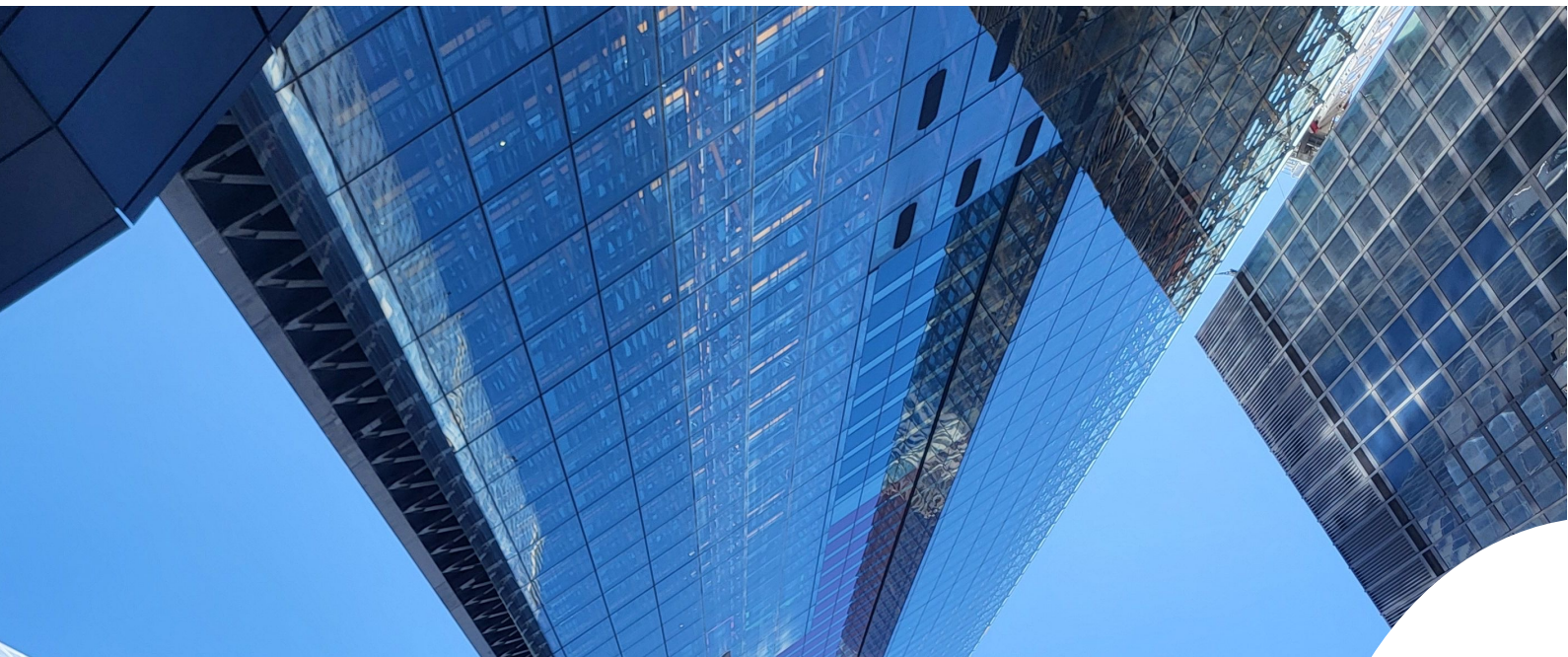




The LBO Secret Revealed

It's much simpler than you think...



LBO Isn't Scary, It's Fascinating

Many business owners hear the phrase 'leveraged buyout' and assume it is a complex, high-risk piece of financial engineering. It isn't. At its heart the idea is simple, and once you see how it works it becomes genuinely interesting rather than intimidating.

A leveraged buyout acquires a company using borrowed money (usually 50%), then repays that debt over several years out of the business's own operating cash flow. As the debt is retired, the owners' equity stake grows in value, so a steady, well-run company can produce outsized returns on a relatively small amount of equity invested.

Who Uses LBOs



Private Equity

The classic sponsors of leveraged buyouts



Management

The team already running the company, buying it themselves



Family Offices & Sponsors

Independent sponsors, family capital pursuing control deals

Discover What Your Business Is Worth

At Meliora Advisory, we build the same LBO models that private equity firms use to evaluate acquisitions. Because we understand the assumptions behind their investment decisions, we know how to position your business within the valuation range they're willing to pay, giving you a credible, data-driven valuation that speaks the language of sophisticated buyers. To help business owners estimate their company's value, we've also developed an online Business Valuation Calculator based on the same institutional LBO methodology.

[Use Meliora's Valuation Calculator](#)

LBO Mechanics

The Simple Idea

It is like buying a rental property with a mortgage. You put down a deposit (your equity) and borrow the rest (the loan). The tenant's rent, here the company's cash flow, pays off the loan over the years. Once it's repaid, you can sell the property, and the money you receive from the sale is all yours, typically far exceeding your original deposit. An LBO does exactly this, but with a whole company.

Follow the Money: A Simplified \$100M Example

1 What is the company's value?

Take the company's annual cash flow, approximated by Adjusted EBITDA, and multiply it by a 'multiple', the number of years of profit a buyer is willing to pay.

$$\text{Price} = \text{Adj. EBITDA} \times \text{Multiple}$$

$$\$10\text{M} \times 10 = \$100\text{M}$$

2 Where does the money come from?

Usually half of the price is covered by a loan (the debt) and the buyer invests the rest from their own capital (the equity).

$$\text{Price} = \text{Debt} + \text{Equity}$$

$$\$50\text{M loan} + \$50\text{M equity}$$

3 How does the loan get repaid?

Every year the company's spare cash (its free cash flow) goes to pay down the loan, so the debt shrinks toward zero.

$$\text{Debt goes down by Cash Flow}$$

$$\$50\text{M paid off over } \sim 5 \text{ years}$$

4 So what's in it for buyers?

Even assuming the company is sold for roughly the same price, repaying the debt significantly increases the equity value above the initial investment.

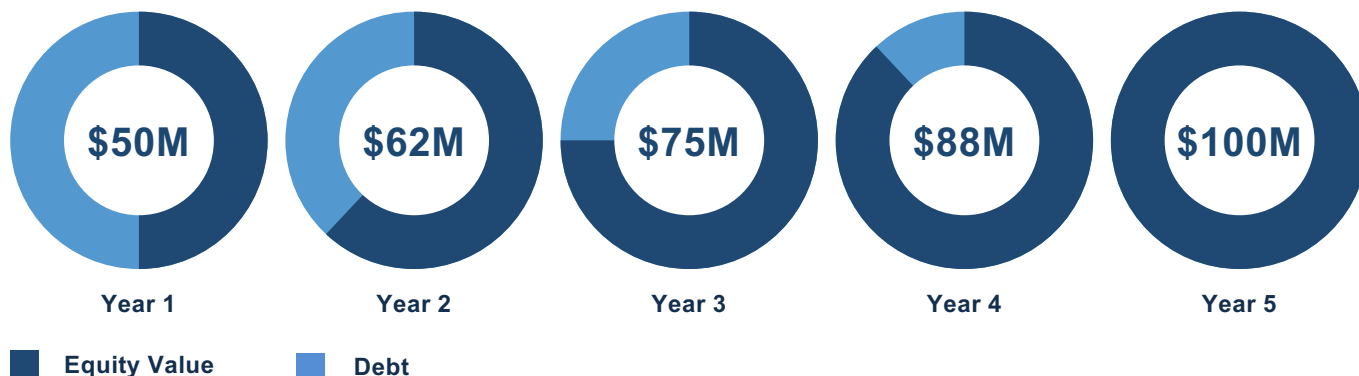
$$\text{Equity} = \text{Sale Price} - \text{Net Debt}$$

$$\$100\text{M} - \$0 = \$100\text{M} (\sim 2\times)$$



Where Leverage Creates Returns

Imagine buying a company for \$100M using a classic leveraged buyout (LBO) structure: 50% equity and 50% debt. As the company uses its cash flow to repay the debt over the next five years, the debt balance shrinks while your equity value grows from \$50M to \$100M.



Turning Cash Flow Into Equity Value

When you complete an LBO, you own 100% of the company from day one. The difference is that only part of the purchase price comes from your own capital, while the rest is financed with debt. Over the next several years, the business uses its own cash flow to repay the debt, steadily increasing the equity value without requiring additional investment from you. When the company is sold, the remaining debt is repaid at closing, and everything that's left from the sale proceeds belongs to the equity owner. If you acquired a \$100M business with \$50M of equity and \$50M of debt, every dollar of debt repaid by the business increases the value of your investment.

If the company's enterprise value stays the same, your equity value grows simply because the loan balance gets smaller. Instead of committing the full purchase price upfront, you use leverage to acquire a larger business with less of your own capital. Any EBITDA growth, margin expansion, or higher exit multiple becomes additional upside on top of the value created through debt repayment.

- You invest a small amount of equity, and the loan covers the rest.
- The company's own cash flow, not you, pays the loan down each year.
- When the loan is gone, your equity is worth much more than you put in.

Conclusion

A leveraged buyout is one of the most effective ways to acquire and grow a business. By combining equity with acquisition financing, buyers amplify returns as the company's cash flow repays debt and increases equity value over time. **Curious what your business could be worth to a private equity buyer?** Use our online Business Valuation Calculator and get an estimate based on the institutional LBO framework we use at Meliora Advisory.

[Use Meliora's Valuation Calculator](#)

THANK YOU

WANT TO KNOW WHERE YOU STAND?

Schedule a free 30-min Exit Readiness Call
with Meliora Group.

*You have built your business.
We can build your exit.*

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How Much Is Your Business Worth?

Find out what your business is worth in 60 seconds with our data-driven Valuation Calculator, powered by the same LBO framework used in real deals.



Explore Meliora's Valuation Calculator 

