Private Equity Case Study Example â€“ Smart Gaming

Private Equity › Interview Preparation

Operating assumptions

Revenues:

Smart Gaming Ltd develops games for smartphone users. The main product is sold for £19.90 per download (this is a one-off cost). The company sold 1.5 million copies in 2011 (the first year it started trading) and 2.5 million copies in 2012. The number of downloads is expected to grow by 30%, 20%, 15% and 10% going forward over the next four years. Every game sold generates an extra £5 revenue per year (i.e. in-game products and advertising) which is recurring and increases by 20% every year. However, only 30% of the users keep the app on their smartphone every year (that is, only 30% of the previous year user base keeps using the product).

Cost / cash flow items:

- Royalties to patent owners = £4.00 one-off per download
- Customer acquisition cost = £2.00 one-off per download
- Fees paid to smartphone companies = 15% of sale price one-off
- Rent = £150,000 annually, growing 5% every year
- License fee to telecom Internet providers = $1.5 million annually, growing 3% every year
- Salaries and benefits = £1.75 million annually, growing 30% every year
- Other administrative costs = £450,000 annually, growing 25% every year
- Fixed assets depreciation: 5 years straight-line from 2012
- No change in working capital
- Intangible / other assets: no change
- Capital expenditure: £300,000 per year
- Tax: 25%

Candidate Instruction

- Build an LBO model based on the information below, including the following:
- Flexibility for base, upside, and conservative cases on sales growth
- Exit Returns schedule (including both cash-on-cash and IRR) showing the returns to the financial sponsor equity
- Time allocated: 3 hours

Good Luck!

For a worked out answer, please check here

For higher level practice, we also have more case studies here