

Oil & Gas Modeling

– Certification Quiz Questions

Module 8 – Oil & Gas LBO Model

25. As discussed in this course, traditional leveraged buyouts are quite rare in most verticals within the oil & gas industry.

Many factors explain this, but what is the **MOST IMPORTANT** one?

- a. Companies' cash flows are too unstable due to commodity price fluctuations and their limited ability to lock in prices.
- b. Companies' CapEx requirements are very high, which limits their ability to service Debt following a leveraged buyout.
- c. Companies rarely have significant recurring revenue because there are no "subscriptions" in this industry.
- d. Valuation multiples tend to fluctuate significantly since they are closely linked to commodity prices.

26. You have built an LBO model for an oil tanker company (Frontline), with an assumed 12.5x Purchase EBITDA multiple and 5.0x Debt / EBITDA used to fund the deal.

As shown in the image below this question, the Equity IRR depends heavily on significant multiple expansion over the holding period.

If you are **RECOMMENDING** this transaction, what is the most credible argument that the multiple expansion shown below is possible (but not necessarily likely)?

	A	B	C	D	K	L	M	N	O	P	C
312											
313											
314											
315											
316											
317											
318											
319											
320											
321											
322											
323											
324											
325											
326											
327											
328											
329											
346											
347											
348											
349											
350											
351											
352											
353											
354											
355											

- The company's ROIC increases by ~25% over the holding period, so the EBITDA multiple could increase significantly.
- This type of multiple expansion is possible because your firm plans to acquire the company in the "low" period of a highly cyclical industry and sell it after a market rebound and valuation increase.
- The company has locked in plans to purchase new vessels to replace > 60% of its fleet, so any new acquirer will get a very young fleet with minimal CapEx needs for several years.
- You expect much higher spot rates for the company's vessels due to constrained supply in future years, driven by rising geopolitical tensions.