

PROJECT ZENITH

Zendesk, Inc. Take-private leveraged buyout by Hellman & Friedman and Permira

Retrospective investment analysis | Fadi El Kawkabani, emlyon business school

Summary

Hellman & Friedman and Permira acquired Zendesk for \$77.50 a share in cash, announced 24 June 2022 and closed 22 November 2022. That was a 34% premium to the unaffected close of \$57.95 and valued the fully diluted equity at \$10.2bn. Net of \$373m of net cash, enterprise value was \$9.8bn, or 6.2x LTM revenue.

This model rebuilds the deal from the filings and asks a single question: could a sponsor have underwritten this and cleared its hurdle? On my base case the answer is no. The deal returns 1.82x and 12.7% over five years, short of the 20% to 25% a fund of this size would target.

The conclusion is not that the buyers were wrong. It is that the price needed a faster margin transformation than my base case. With the same debt, my case supports about \$64 a share at a 20% hurdle; only my upside case, a 5-point annual cut in sales and marketing with stronger growth, clears 20% at \$77.50.

The company at entry

Zendesk sells customer service software. Revenue of \$1,588m in the twelve months to September 2022, growing 27%, at an 80% gross margin. It had never reported a profit.

Two things were consuming the gross margin. Sales and marketing at 50.8% of revenue, a deliberate choice to buy growth in a market that rewarded it. And stock-based compensation of \$279m, 17.6% of revenue, which is an accounting charge rather than a cash cost.

	FY2020	FY2021	LTM Sep-22
Revenue (\$m)	1,029.6	1,338.6	1,587.8
Gross margin	75.6%	79.5%	80.2%
Sales & marketing, % of revenue	49.8%	50.8%	50.8%
Stock compensation, % of revenue	17.7%	17.2%	17.6%
Adjusted EBITDA (\$m)	68.6	101.1	60.6
Adjusted EBITDA margin	6.7%	7.6%	3.8%

Add stock compensation back and the business earned \$61m of adjusted EBITDA. Against a \$9.8bn enterprise value that is 162x, which is why this deal cannot be discussed in EBITDA multiples at all. The meaningful entry metric is 6.2x revenue.

How the deal was funded

By mid-2022 the syndicated loan market had closed. Banks were carrying losses on paper they could not sell and would not underwrite an unprofitable software credit. The sponsors went to private credit instead: a group led by Blackstone provided about \$5.0bn of facilities directly, the largest private credit deal on record at the time.

The merger proxy discloses the package: a \$3.75bn senior secured term loan, a delayed-draw term loan and a \$350m revolver, plus up to \$500m of preferred equity and about \$6.32bn of equity from the sponsors and co-investors. The model funds the deal with the \$3.75bn term loan and one equity cheque, and leaves \$300m of cash in the business, because the plan burns cash before the cost programme takes hold.

Uses	\$m	Sources	\$m
Equity purchase price	10,193	Term loan (unitranche)	3,750
Refinance convertible notes	1,287	Zendesk cash and securities	1,661
Transaction fees	200	Sponsor equity	6,570
Cash left on balance sheet	300		
Total	11,981	Total	11,981

Two things stand out. The target funded \$1.7bn of its own purchase out of its cash pile. And the sponsors still wrote a \$6.6bn cheque, 64% of the capital structure, against an average of about 41% for leveraged buyouts in the ten years to 2021 (PitchBook LCD). That is not a financing choice, it is what the business could support.

The thesis, and what it requires

The only way this deal works is margin. The model fades revenue growth from the actual 27% to 10% by 2027, which is conservative and consistent with the sector-wide deceleration that followed, and takes sales and marketing down 4 points of revenue a year.

That lands sales and marketing at 30.4% of revenue in 2027, from 50.8%. Adobe spent about 28% of revenue on sales and marketing in fiscal 2022, and Salesforce cut from 43% in fiscal 2023 to 35% by fiscal 2025. So the endpoint is within what mature software companies spend, but it asks Zendesk to become leaner than Salesforce within five years.

	2023E	2025E	2027E
Revenue (\$m)	1,874	2,435	2,973
Adjusted EBITDA (\$m)	188	438	773
Adjusted EBITDA margin	10.0%	18.0%	26.0%
Adjusted EBITDA / cash interest	0.50x	1.13x	2.13x
Net debt / adjusted EBITDA	19.3x	8.3x	3.9x

The business does not cover its own interest until 2025 and burns cash in 2023 and 2024. Once the \$150m cash buffer is used, revolver drawings peak at \$165m against a \$350m facility. Nothing breaks in the base case, but in my downside case the revolver limit is breached in 2025 and 2026, with drawings peaking at \$402m.

Returns

Exiting in 2027 at 20x adjusted EBITDA gives an enterprise value of \$15.5bn, which is 5.2x revenue against the 6.2x paid. There is no multiple expansion in this answer; the exit multiple is a contraction on a revenue basis.

Sponsor equity invested	\$6,570m
Sponsor exit proceeds	\$11,959m
Multiple of money	1.82x
Gross IRR, five-year hold	12.7%

The value creation splits almost entirely to operations: \$8,566m from revenue growth, offset by \$2,922m of multiple contraction, with debt paydown contributing only \$413m because interest absorbs most of the cash flow. That is an unusual profile for a buyout, and it tells you the leverage was not doing the work.

Cross-checks

A discounted cash flow on the same operating plan, at a 10.3% WACC built from a 3.09% risk-free rate and a 5.94% equity risk premium, gives an enterprise value of \$6.0bn and \$48.71 a share. That is below the unaffected market price, let alone the offer.

The terminal value cross-checks disagree sharply and that disagreement is the finding. A 2.5% perpetual growth rate implies a 9.3x exit multiple. The 20x exit multiple used in the returns implies 6.5% growth forever. Both cannot be true, and the 20x assumption is the weaker of the two.

Method	EV low	EV high	vs offer
52-week trading range	6,750	19,807	+35%
Trading comps, EV / LTM revenue	13,021	16,683	+51%
DCF, perpetuity growth	5,056	7,478	-36%
DCF, exit multiple	9,933	11,829	+11%
LBO affordability at 15-25% IRR	7,097	9,170	-17%
Offer, enterprise value	9,820		

The perpetuity DCF and the LBO analysis sit below the price paid: a sponsor demanding 15% to 25% could have afforded \$7.1bn to \$9.2bn of enterprise value, or \$57 to \$73 a share. The exit-multiple DCF and trading comps sit above it, and comps reflect faster-growing peers trading at about 10x revenue.

What would have to be true

- Sales and marketing falls to about 30% of revenue while growth holds in double digits. Those two usually trade against each other.
- The exit multiple holds at 20x adjusted EBITDA in 2027, against a perpetuity view that supports about 9x.
- The cash buffer and the \$350m revolver carry the business through 2023 and 2024. Peak drawing is \$165m in the base case, but SOFR above 5%, as in 2023, takes it to about \$339m.
- Stock compensation genuinely disappears rather than converting into cash pay. The management incentive pool at exit is the price of that assumption and costs \$469m. If a quarter of it became cash pay instead, the IRR would fall to about 6.5% and the plan would need more than the \$350m revolver.

Limitations

Trading comps use four peers, with closing prices at 23 June 2022 from StatMuse; Qualtrics is excluded as SAP-controlled. EV / EBITDA comps are not used: with \$61m of LTM adjusted EBITDA, any EBITDA multiple applied to Zendesk means little.

The unitranche spread, fees, the cash left at close, the exit multiple and the operating case are my assumptions, labelled on the Assumptions tab. Historical figures come from SEC filings and market data from named sources, each cited beside the input. The delayed-draw loan and the preferred equity are not modelled separately, SOFR is held flat at its closing level, and there is no balance sheet: the model tracks cash, debt and working capital.

Model: 8 tabs, 866 live formulas, zero errors; key outputs recomputed independently. Revised October 2026 for academic and recruiting purposes.