

PROJECT ZENITH

Zendesk, Inc. | Take-private LBO | Hellman & Friedman and Permira | \$77.50 per share in cash

Announced 24 June 2022, closed 22 November 2022. All figures \$m unless stated. Fadi El Kawkabani, emlyon business school.

ENTRY

Offer price per share	\$77.50	Premium to unaffected close of \$57.95	34%
Fully diluted shares (treasury stock method)	131.5m	Equity value	10,193
Less net cash	(373)	Enterprise value	9,820
LTM revenue (to Sep 2022), growth 27%	1,588	EV / LTM revenue	6.2x
LTM adjusted EBITDA	61	EV / LTM adjusted EBITDA	162x, n.m.

FUNDING AT CLOSE

Uses	\$m	Sources	\$m
Equity purchase price	10,193	Term loan, unitranche (SOFR + 6.25%)	3,750
Refinance convertible notes	1,287	Zendesk's own cash and securities	1,661
Fees and expenses	200	Sponsor equity	6,570
Cash left on the balance sheet	300	\$350m revolver, undrawn at close	-
Total	11,981	Total (equity 64% of debt plus equity)	11,981

OPERATING CASE the whole thesis is margin

	LTM Sep-22	2023E	2025E	2027E
Revenue	1,588	1,874	2,435	2,973
Sales and marketing, % of revenue	50.8%	46.4%	38.4%	30.4%
Adjusted EBITDA	61	188	438	773
Adjusted EBITDA margin	3.8%	10.0%	18.0%	26.0%
Free cash flow after interest	n.a.	(170)	53	396
Adjusted EBITDA / cash interest	n.m.	0.50x	1.13x	2.13x
Net debt / adjusted EBITDA	n.m.	19.3x	8.3x	3.9x

RETURNS AND VALUATION

Exit 2027 at 20x adjusted EBITDA (5.2x revenue)	15,464	Method	EV range
Sponsor equity invested	6,570	52-week trading range	6,750 to 19,807
Sponsor exit proceeds, after an 8% management pool	11,959	Trading comps, EV / LTM revenue	13,021 to 16,683
Multiple of money	1.82x	DCF, perpetuity growth	5,056 to 7,478
IRR, five-year hold	12.7%	DCF, exit multiple 18x to 22x	9,933 to 11,829
Most a sponsor could pay for a 20% IRR	\$63.64	LBO affordability at 25% to 15% IRR	7,097 to 9,170
DCF value per share (WACC 10.3%, growth 2.5%)	\$48.71	Offer, enterprise value	9,820

THREE OPERATING CASES one switch on the Assumptions tab

	Downside	Base	Upside
Revenue growth, 2023E to 2027E	15% fading to 7%	18% fading to 10%	20% fading to 12%
Sales and marketing cut, points of revenue a year	3	4	5
2027E adjusted EBITDA margin	21.0%	26.0%	31.0%
Peak revolver drawing, against a \$350m limit	\$402m, limit breached	\$165m	\$64m
Multiple of money and IRR	1.09x, 1.7%	1.82x, 12.7%	2.60x, 21.0%

THE FINDING

On my base case the deal returns 1.82x and 12.7%, short of a 20% to 25% hurdle. With the same \$3.75bn of debt, a sponsor targeting 20% could have paid about \$64 a share against the \$77.50 paid. Clearing 20% at that price needs a faster cost programme and stronger growth together: a 5-point annual cut in sales and marketing alone returns 18%, and with my upside growth it returns 21%.

The terminal value cross-checks are where the model argues with itself: 2.5% perpetual growth implies a 9.3x exit multiple, while the 20x used in the returns implies 6.5% growth forever. Trading comps point the other way, with faster-growing peers at about 10x revenue. The price sits between what public markets paid for growth and what the cash flow could carry.

Financing note: the syndicated loan market was shut in mid-2022, so a Blackstone-led group of private credit lenders provided the debt directly: a \$3.75bn term loan, a delayed-draw term loan and a \$350m revolver, about \$5bn in all, alongside up to \$500m of preferred equity (DEFM14A merger proxy).

Built from SEC filings (FY2019 and FY2021 10-Ks; Q3 2021, Q2 2022 and Q3 2022 10-Qs) and the August 2022 merger proxy. 8 tabs, 866 live formulas, zero errors; every input has its source or reasoning noted beside it. Returns are the output of my assumptions, not reported figures.