PROJECT ZENITH

Zendesk, Inc. | Take-private LBO | Hellman & Friedman and Permira | $77.50 per share 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	131.5m	Equity value	10,193
Less net cash	(373)	Enterprise value	9,820
LTM revenue	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	Unitranche term loan	4,100
Refinance existing debt	1,287	Cash from balance sheet	1,511
Fees and cash to balance sheet	350	Sponsor equity	6,220
Total	11,831	Total (equity 60% of capitalisation)	11,831

OPERATING CASE, the whole thesis is margin

	LTM Sep-22	2023E	2025E	2027E
Revenue	1,588	1,874	2,435	2,973
Sales & 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%
Adj. EBITDA / cash interest	n.m.	0.49x	1.04x	1.86x
Net debt / adjusted EBITDA	n.m.	22.8x	10.3x	5.4x

RETURNS AND VALUATION

Exit 2027 at 20x adjusted EBITDA	15,464	Method	EV range
Sponsor equity invested	6,220	52-week trading range	6,750 - 19,807
Sponsor exit proceeds	10,913	DCF, perpetuity growth	3,727 - 8,531
Multiple of money	1.75x	DCF, exit multiple	9,498 - 12,484
Gross IRR, five-year hold	11.9%	LBO affordability at 15-25% IRR	5,799 - 7,718
DCF value per share	$42.41	Offer, enterprise value	9,820

THE FINDING

On a defensible operating case this deal returns 1.8x and 11.9%, short of a 20% to 25% hurdle. Every valuation method except the exit-multiple DCF sits below the $9.8bn paid, and a sponsor demanding 15% to 25% could have afforded $5.8bn to $7.7bn.

The terminal value cross-checks are where the model argues with itself: 2.5% perpetual growth implies an 8.4x exit multiple, while the 20x used in the returns implies 6.9% growth forever. The buyers were paying for a margin transformation, not for the cash flows.

Financing note: the syndicated loan market was shut in mid-2022, so a Blackstone-led group provided about $5.0bn of private credit directly, the largest such deal on record at the time.

Built from SEC filings: FY2021 10-K, Q3 2022 and Q3 2021 10-Qs, FY2019 10-K. 11 tabs, 878 formulas, balance sheet ties in every column. Assumptions and market data are logged with sources on the Sources Log tab.