

Corporate Finance 15.402
Case 12: The Southland Corporation
(optional)

As representatives of Southland's shareholders (not the Thomsons), your mission, if you accept it, is to analyze the proposed LBO plan, and to give recommendation in favor or against it.

- 1) What are the possible motives for a LBO of Southland?
- 2) Estimate the value of Southland's shares under the proposed LBO plan, using the Adjusted Present Value approach and taking the 1988-1997 projections in Exhibit 4 as given. (You will have to work out a post-1997 "terminal value" yourself.) Use the following additional assumptions:
 - A tax rate of 36%
 - A pre-transaction equity beta for Southland of 1.0 (this is the 1986 value from Exhibit 1)
- 3) Do you think the projections are plausible? If not, what do you think is a more reasonable estimate of Southland's value?
- 4) **It's decision time again!** What is your recommendation to Southland's shareholders? Why?