Leveraged Buy-Outs (LBOs) occur when the management of a company purchase it from existing shareholders and effectively become the owners. The target is typically a public company or a subsidiary of one which is taken private, with a significant portion of the cash purchase price being financed by debt. This debt is secured not by the credit status of the purchaser but by the assets of the target company. The debt used has usually been high-yield securities of substandard investment grade quality. An important criterion for an LBO is a gap between the existing market value of the firm and the value determined by a reappraisal of the assets or by the capitalization of expected cash flows. Moreover, after an LBO the incoming management are often able to achieve dramatic savings in the business's operating costs.

Keywords
Leverage buyout, shareholding, mergers and acquisitions.

Reference this article

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