1. The decision page

Chapter 1. Write this page before the first formula. Alder Ridge figures are the book's; write yours beside them.

Case		**Prepared by**	
Valuation date		**Reviewed by**	

The decision in one sentence (yes or no)
Should the sponsor buy the company on 31 December 2026 for 10.0x its 2026 EBITDA, financed with 4.5x of new debt, and does the return on the sponsor's equity survive a downside case?

Noun in the sentence	Cell that holds it	Value
Entry multiple	LBO row 23	10.0x
Entry EBITDA	Operations B26	$22.46m
Leverage	LBO row 25	4.5x
Valuation date	DCF row 13 (period 0)	31 Dec 2026
Return on equity	LBO rows 19 and 20	MOIC, IRR
Downside case	Scenarios B4 = 2	

Purchase arithmetic	Calculation	Alder Ridge	Your case
Purchase enterprise value	EBITDA x multiple	224.6	
Transaction fees	EV x fee rate	4.5	
Minimum cash funded	Assumptions row 22	5.0	
Total uses	Sum	234.1	
New debt	EBITDA x leverage	101.1	
Sponsor equity	Uses less debt	133.0	

Failure condition, written before the answer	Alder Ridge	Your case
Return threshold (hurdle set first)	20% for five years = 2.49x; base earns 2.35x: fails	
Breakeven exit multiple (money back)	4.45x against 10.0x entry	
Exit multiple for 2.0x / for a 20% IRR	7.81x / 9.45x	
Liquidity floor	Lowest cash before sweep: $9.1m base, $1.2m downside	

Exclusions, written next to the question so a reviewer knows they were deliberate
No purchase-price allocation, no tax structure, no monthly liquidity forecast.

2. Integrated model checklist

Appendix B. Tick each line only with evidence: a cell, a check difference or a boundary test.

Model		**Version**	
Builder		**Reviewer**	

Item	Done	Evidence (cell, difference, test)
Scope and conventions		
The decision, valuation date, fiscal calendar, units and required outputs are stated.		
Historical and forecast periods are visually distinct.		
Every hardcoded input has a source or owner.		
Exclusions and simplifications are documented.		
Operating build		
Revenue is built from observable drivers at the required level of detail.		
Price and volume are separate where the distinction matters.		
Cost behavior and product mix remain visible.		
Capacity, headcount and capital expenditure support the operating plan.		
Working-capital balances use matching flows and a consistent day count.		
Integration		
Net income links to retained earnings and cash flow.		
Depreciation links to the income statement, fixed assets and cash flow.		
Working-capital changes use the correct signs.		
Ending cash comes from the cash-flow and financing sequence.		
Debt and interest link through a stated timing convention.		
The balance sheet check is zero within the stated tolerance.		
Valuation and returns		
Free cash flow is unlevered when enterprise value is calculated.		
Terminal assumptions describe a sustainable state.		
Enterprise value and equity value use balances from the same date.		
Sources and uses balance.		
Exit debt and cash link from the forecast.		
MOIC, IRR and the value-creation bridge reconcile to sponsor cash flows.		
Review		
Required inputs are populated and blanks cannot become plausible zeros.		
Boundary tests move results in the expected direction.		
Checks report numeric differences, not only PASS or FAIL.		
No output depends on a check result.		
The written conclusion names the result, the carrying assumption and the failure condition.		
The model status requires every check to read PASS; an error value counts as a failure.		
A stored scenario comparison flags any change to a stored result after an edit.		

3. The check register

Chapter 12. Difference first, status second; tolerance $1. Kind: tie, guard, reconciliation, decision condition, completeness or regression.

Model		**Scenario (1, 2, 3)**	
Date		**Checked by**	

Row	Check	Kind	Difference	Status	What a non-zero difference points to
5	Balance sheet	Independent tie			
6	Fixed assets	Edit guard			
7	Working capital	Edit guard			
8	Sources and uses	Edit guard			
9	DCF valuation	Edit guard			
10	Terminal growth below WACC	Decision condition			
11	Minimum cash	Decision condition			
12	Required inputs	Completeness			
13	Cash-flow statement ties to balance sheet	Independent tie			
14	LBO debt roll-forward and minimum cash	Reconciliation, decision			
15	LBO returns bridge	Reconciliation			
16	Historical opening balance sheet and links	Tie (links), guard			
17	DCF sensitivity grid ties to live value	Independent tie			
18	Scenario comparison matches live results	Regression			

Read the difference, not the word. Known signatures (Chapter 12):
Exactly $5.0m on minimum cash: the sweep ignores the floor (switch 4). Balance sheet only from 2029: typed cash (switch 3). Grid tie only: terminal value formula (switch 7). Nothing fails but REFRESH on exit equity, MOIC, IRR: exit net debt from the wrong schedule (switch 8). In the downside all fourteen pass while the revolver draws $3.8m: the checks say nothing about stress.

4. Review note and audit register

Chapter 18. Five passes, starting at the answer. Fill the impact column before the correction column.

Model reviewed		**Builder**	
Reviewer		**Date**	

Pass	What to do	Done / note
1. Outputs first	Write the conclusion in one sentence and list the three or four numbers it depends on.	
2. Critical path	Trace each of those numbers back to its inputs; review those few dozen cells closely.	
3. Definitions and dates	Valuation and exit dates, discounting convention, units, sign conventions, the schedule each balance comes from.	
4. Boundary tests	Push one input to an edge, predict the direction, then look.	
5. Findings with evidence	Cell, what is wrong, evidence, effect on the decision in dollars or MOIC.	

Conclusion as the model states it	Agree? Findings that would change it

#	Issue (cell)	Evidence	Impact on the decision	Correction	Retest

Keep errors (a formula that contradicts its label or the accounting) separate from judgments (the exit multiple, interest on opening balances, full interest deductibility). Rank by effect on the decision, not by the size of the check difference.

5. Enterprise value to equity value

Chapter 15. Every balance at the valuation date; each reclassification decided once (in the flows or in the bridge, never both).

Company		**Valuation date**	
Source balance sheet		**Prepared by**	

Bridge item	Alder Ridge at 31 Dec 2026, $m	Source	Your case
Enterprise value	230.6	DCF B20	
Term debt	(26.2)	Debt B15	
Revolver	0.0	Debt B16	
Cash	5.0	Debt B17	
Net debt	(21.2)	Debt B18, DCF B21	
Equity value	209.4	DCF B22	

Balance	Alder Ridge, $m	Model treatment	Equity effect per $1m reclassified	Your decision and reason
Term debt	26.2	Debt	Already deducted	
Cash	5.0	Deducted from debt	$1m lower if operating	
Other liabilities	11.0	Operating, held flat	$1m lower if debt-like	
Other assets	17.0	Operating, held flat	$1m higher if non-operating	
Payables	9.3	Operating, in NWC	Needs NWC restated too	

Considered and found absent (write one line each)	Absent?
Leases	
Minority interests	
Preferred stock	
Options and convertible instruments	
Transaction fees (belong to the buyer's uses, not the bridge)	

Two traps: the opening balance sheet (net debt $30.0m, equity $200.6m, short by the 2026 sweep of $8.78m) and a future balance (counts later cash flows twice).

6. Sources and uses, and the returns bridge

Chapters 16 and 17. Debt is sized on EBITDA, equity is the balance; the bridge must equal exit equity.

Deal		**Close date**	
Exit date		**Prepared by**	

Sources and uses at close	Formula	Alder Ridge, $m	Your case
Purchase enterprise value	EBITDA x entry multiple	224.6	
Transaction fees	EV x fee rate (2.0%)	4.5	
Minimum cash funded	Minimum cash input	5.0	
Total uses	Sum	234.1	
New acquisition debt	EBITDA x leverage (4.5x)	101.1	
Sponsor equity	Uses less debt	133.0	
Net leverage at close	(Debt less cash) / EBITDA	4.28x	
First-year interest cover	2027 EBITDA / interest	3.0x	

Returns bridge (state the order)	Formula logic	Alder Ridge, $m	Your case
Sponsor equity at entry	Sources and uses	133.0	
EBITDA growth	(Exit less entry EBITDA) x entry multiple	171.4	
Multiple change	(Exit less entry multiple) x exit EBITDA	(39.6)	
Net debt reduction	Net debt at close less at exit	52.9	
Less transaction fees	Minus fees	(4.5)	
Exit equity (bridge)	Sum; must equal exit equity	313.2	
MOIC / IRR	Exit equity / check; dated flows	2.35x / 18.7%	

Tests the page cannot guarantee on its own	Result
Opening acquisition debt on the debt schedule equals new debt; opening cash equals cash funded	
Sponsor equity above a stated minimum share of uses (threshold: _____)	
Leverage within the financing cap (cap: _____)	
Exit net debt read from the acquisition schedule, not the pre-deal one	
Any dividend, rollover or stub period? Then IRR on a dated row, not MOIC^(1/n)	

7. The ninety-minute test: budget and marker's trace

Chapter 19 and Appendix C. Tick each finish line; write the conclusion at minute 75, before the review.

Candidate		**Start time**	
Finish time		**Marker**	

Minutes	Task	Done when	Clock
0 to 10	Read, mark outputs, set up the time axis	Rules noted; 2026 column linked to Inputs	
10 to 35	Revenue, cost, EBITDA, working capital, capex	Build rows 5 to 17; 2031 revenue 168.5	
35 to 55	EBIT, tax, UFCF; cash and debt	Rows 18 to 25; 2031 cash reads a number	
55 to 70	DCF and equity bridge	Rows 26 to 35; equity value reads a number	
70 to 75	Write the conclusion	Three sentences beside the outputs	
75 to 90	Review formulas, checks, signs, dates	Rows 36 to 38 show zero, zero and PASS	

Marker's trace, from the answer backward	OK
Valuation date: discount period 1 in 2027	
Terminal year: 2031 UFCF	
Net debt date: end of 2026 ($26.22m less $5.0m), not the $35.0m of 2025	
Tax base: EBIT, not EBITDA or EBT	
Interest in the cash roll-forward, not in UFCF	
Boundary test: growth 4% lowers revenue, 2031 cash and equity; debt does not move	
Boundary test: DSO +5 days lowers UFCF, 2031 cash and equity	

Signature of a wrong answer	Cause
EV about $171.9m	2027 discounted as period zero
EV about $150.9m	Terminal value grown from 2030 UFCF
Equity about $126.3m	$35.0m of debt deducted instead of $26.22m

Recommendation in three sentences: result, what carries it, one risk