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The Toys "R" Us LBO



Introduction

Toys "R" Us LBO is a highly informative case that captures essential issues with high profile acquisitions and leveraged buyouts. The buyout deal completed in 2005 when KKR, along with two other companies, Bain Capital and Vornado Realty Trust, purchased Home Depot at \$6.6 billion proves to be a good example of some problems and prospects of investments in the private equity.



Strategic Logic

They were noticing a gradual slip in Toys "R" Us' market shares because they were losing out to cut-price general merchandisers such as Walmart and online shopping monsters like Amazon. This LBO was based on the idea that privatization machined the operation enable the company the restructuring focus on long term growth and revive its competitive advantage of not having to worry about the quarterly profits.



Lessons Learned

The Toys “R” Us LBO scenario shows that the sources of funds could be correct but the focus on aggressive and complicated financial restructurings distract from operational optimization. Industry factors play an important role, as well as the debtor’s capacity to generate enough cash flow to be able to support both growth plans and interest payments.



Conclusion

This paper presents LBO as an example with prospects and pitfalls meaning that students as well as professionals in finance and strategic management departments can derive important points from this case.



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