Due Diligence Of A Healthcare & Community Software Provider

For Private Equity Firm

Performed due diligence on the target firm to analyze growth sustainability, historic sales, and customer metrics

Due Diligence For Private Equity Firm

Situation

- The target firm is a Healthcare & Community software provider with specialized SaaS products for Disability care with over 500 customers that has been growing tremendously post COVID-19 period
- Partnered with the client to perform due diligence of the target firm by performing customer analytics to assess the health of the business and clientele, and cash reconciliation of the financial records to assess the soundness of the investment

Accordion Value Add

- Segmented the sales by subscription plans, billing cycle and payment methods to derive insights by leveraging the subscription data extracted from the CRM tool used by the target firm
- Analyzed the revenue trends to understand the contribution of marketing activities and identified the engines of revenue growth
- Performed customer analytics by deep diving into acquisition and churn trends to provide visibility into customer lifecycle across time
- Analyzed behavior of top customers, highlighting their impact on revenues through upgradations, down gradations and churn
- Mapped P&L statement and balance sheet items with bank transaction accounts and reconciled the cash summary across accounts and P&L statements with Customer monthly revenue data

Impact

- Consolidated data from different modules and customer records in the CRM tool which helped derive actionable insights with enhanced visibility into sales trends and customer behavior
- Highlighted the trends in the underperforming aspects of the business that can be leveraged to arrest customer churn, revenue loss and thus enhancing profitability

Cash Reconciliation

Line items in P&L and balance sheet were mapped to **bank transaction accounts** captured in the accounting software used by the target firm

P&L line items were **compared with the yearly cash summary** of bank transaction accounts at a yearly and overall level and mismatch %,if any, was calculated

Sales, COGS, and other expenses in P&L were compared by aggregating the corresponding transaction accounts in bank statement at a yearly and overall level

Sales in P&L account was reconciled with the **customer monthly payments data** sourced from the CRM, where the mismatch was adjusted by adding one-time payments and subtracting the amount lost in refunds and failed transactions

Balance sheet items covered in assets and liabilities were cross verified with the **closing balance of transaction statements** of each line item

Equity line items were cross verified with **retained earnings** of P&L and closing **cash balance** of the cash flow statement

Sales Analytics

Revenue Waterfall by Customer Activity

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12
MRR	$92,766	$101,140	$107,960	$114,469	$121,061	$132,262	$134,835	$149,841	$156,400	$173,542	$182,386	$198,314
Previous Year MRR	$55,809	$60,639	$62,855	$65,947	$70,398	$71,493	$77,190	$80,210	$77,670	$85,710	$83,118	$92,828
Current MRR of base customers	$47,917	$57,094	$64,336	$61,890	$71,824	$75,208	$78,947	$82,325	$90,980	$96,806	$106,422	$117,687
Net Revenue Retention	86%	94%	102%	94%	102%	105%	102%	103%	117%	113%	128%	127%

Revenue Waterfall by Customer Activity
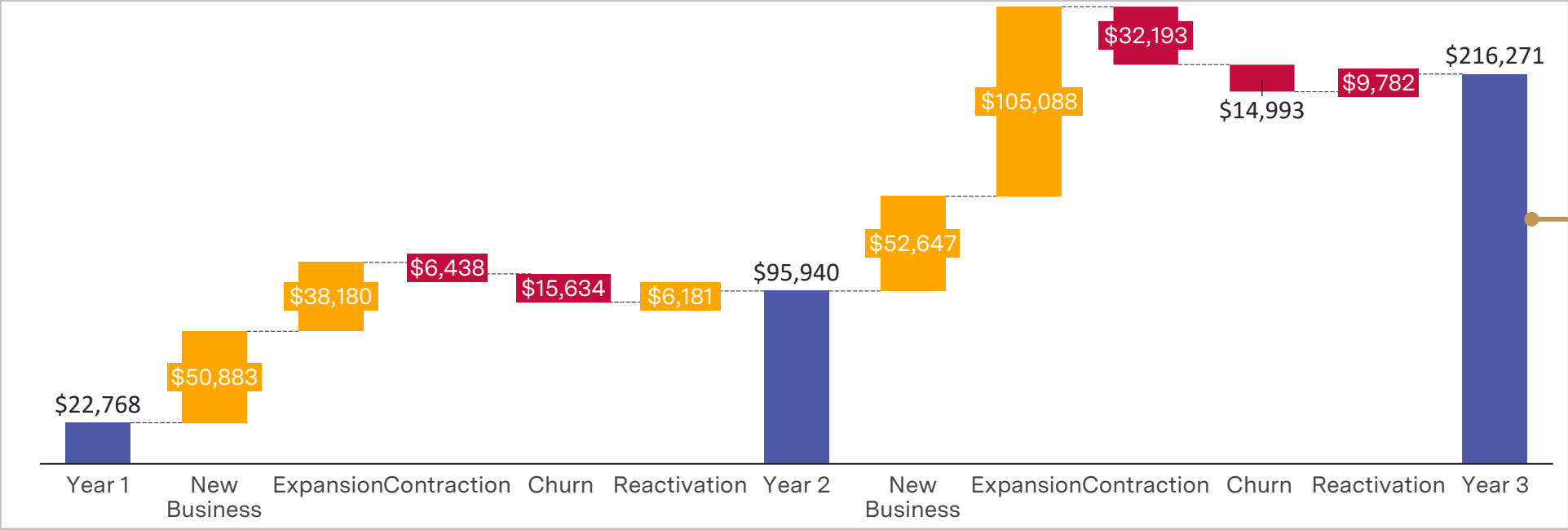
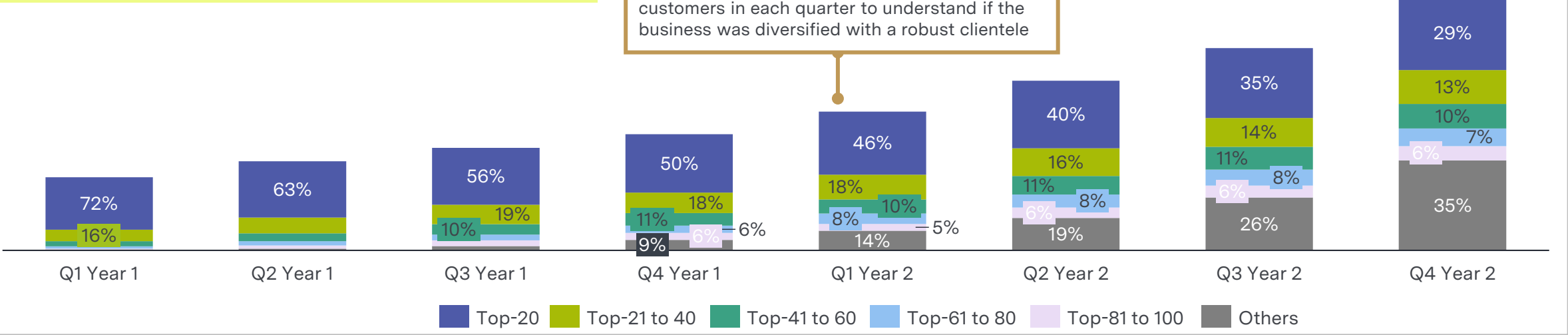Investigate the sources of revenue growth and revenue loss by building a waterfall chart of the MRR movement

Notes:
1. Net Revenue Retention (NRR) for any month is calculated by taking the customers in the same month last year as the base
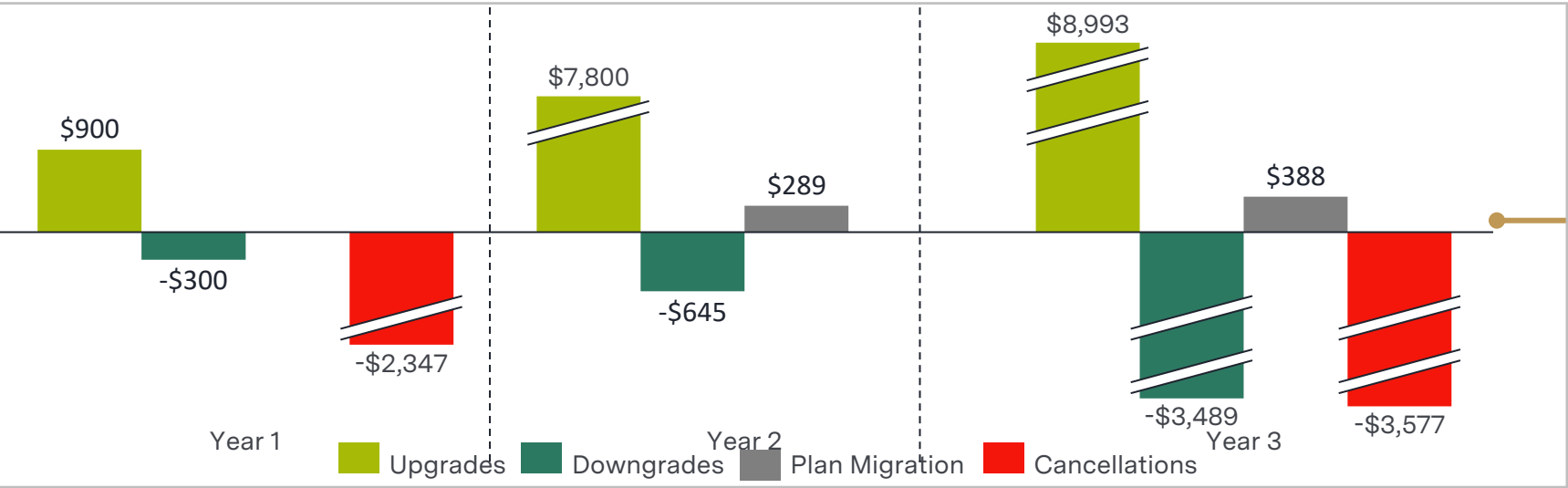
Customer Analytics – Top Customers

Revenue Share of Top Customers from Year 1 to Year 2

Study the revenue contribution by top customers in each quarter to understand if the business was diversified with a robust clientele

	Q1 Year 1	Q2 Year 1	Q3 Year 1	Q4 Year 1	Q1 Year 2	Q2 Year 2	Q3 Year 2	Q4 Year 2
Top-20	72%	63%	56%	50%	46%	40%	35%	29%
Top-21 to 40	16%		19%	18%	18%	16%	14%	13%
Top-41 to 60			10%	11%	10%	11%	11%	10%
Top-61 to 80				6%	8%	8%	6%	7%
Top-81 to 100				9%	6%	6%		6%
Others				6%	5%	19%	26%	35%

Legend: Top-20 · Top-21 to 40 · Top-41 to 60 · Top-61 to 80 · Top-81 to 100 · Others

Q1 Year 2 detail: 46%, 18%, 8%, 10%, 14% — 5%

Activities of Top-10 Customers

Year 1: $900, -$300, -$2,347
Year 2: $7,800, -$645, $289
Year 3: $8,993, -$3,489, $388, -$3,577

Analyze current Top-10 customers by looking into the revenue gain and loss due to the modifications made to the subscription plan over the years

Legend: Upgrades · Downgrades · Plan Migration · Cancellations

Customer Analytics – Cohort & Churn

Average MRR of Customers

Study the revenue contribution by top customers in each quarter to understand if the business was diversified with a robust clientele

Cohort	#Customers Acquired	#Customers Churned	1st month	2nd month	3rd month	4th month	5th month	6th month	7th month	8th month	9th month	10th month	11th month	12th month
Month 1	36	6	$116	$129	$155	$156	$176	$191	$204	$206	$209	$236	$257	$282
Month 2	43	8	$123	$145	$163	$189	$225	$239	$263	$268	$245	$274	$334	
Month 3	39	13	$107	$178	$213	$243	$274	$308	$337	$368	$388	$406		
Month 4	46	10	$152	$170	$205	$227	$226	$231	$240	$248	$256			
Month 5	35	4	$156	$158	$184	$197	$199	$212	$221	$235				
Month 6	29	11	$146	$162	$174	$196	$210	$240	$227					
Month 7	52	15	$156	$190	$197	$186	$198	$205						
Month 8	51	11	$125	$147	$182	$218	$251							
Month 9	75	12	$155	$203	$190	$191								
Month 10	66	8	$151	$174	$194									
Month 11	74	10	$138	$168										
Month 12	78	1	$97											
	Average Monthly Recurring Revenue		**$135**	**$166**	**$186**	**$200**	**$220**	**$232**	**$249**	**$265**	**$274**	**$305**	**$295**	**$282**

Tenure of Churned Customers
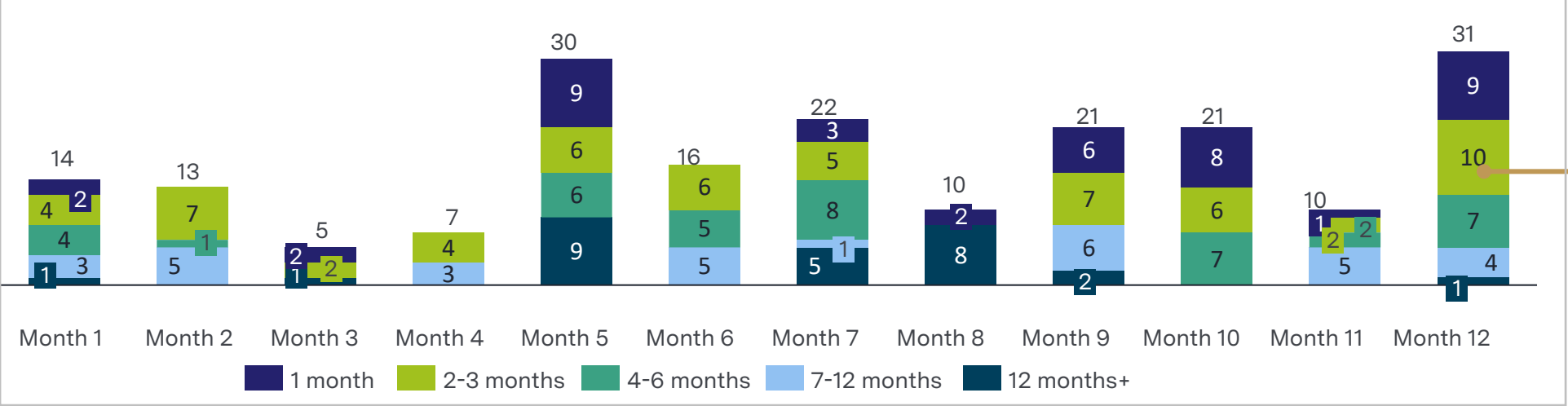
Segment churned customers of a month **based on their tenure** to understand the role of tenure in the churn of a customer

Legend: ■ 1 month ■ 2-3 months ■ 4-6 months ■ 7-12 months ■ 12 months+

Customer Analytics - Churn

Cumulative Churn with Respect to Starting Month

Track the **cumulative churn %** of customers acquired in each month to provide visibility into churn trends by acquisition month and by tenure

Cohort	# Customers Acquired	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Month 1	27	0%	0%	4%	7%	7%	11%	15%	15%	19%	19%	19%	19%	19%	22%	22%
Month 2	23	0%	4%	13%	17%	17%	22%	22%	22%	22%	22%	22%	22%	22%	22%	22%
Month 3	21	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	5%	5%	5%	5%
Month 4	21	0%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	10%	10%
Month 5	27	0%	11%	11%	11%	11%	11%	15%	19%	19%	22%	22%	22%	22%	22%	
Month 6	32	0%	13%	19%	19%	22%	22%	22%	22%	22%	22%	22%	22%	22%		
Month 7	21	0%	0%	14%	19%	19%	24%	24%	24%	24%	24%	24%	24%			
Month 8	40	0%	3%	3%	5%	8%	8%	8%	8%	10%	13%	13%				
Month 9	34	0%	9%	18%	24%	24%	24%	24%	24%	26%	26%					
Month 10	30	0%	10%	10%	10%	10%	10%	10%	10%	10%						
Month 11	23	0%	4%	4%	4%	9%	9%	9%	9%							
Month 12	26	0%	0%	0%	4%	4%	8%	8%								
Month 13	35	0%	6%	11%	14%	20%	20%									
Month 14	47	0%	2%	4%	4%	4%										
Month 15	63	0%	2%	10%	10%											
Month 16	54	0%	4%	4%												
Month 17	69	0%	0%													
Month 18	71	0%														

Churn Rate by MRR

MRR	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12
<$100	4%	3%	0%	4%	4%	3%	1%	8%	2%	0%	4%	4%
$100 - $200	3%	1%	3%	0%	0%	0%	3%	3%	1%	4%	4%	0%
$200 - $400	0%	1%	2%	0%	1%	0%	2%	2%	1%	3%	2%	2%
$400 - $600	4%	3%	0%	3%	4%	2%	0%	0%	1%	1%	1%	3%

Calculate the **churn %** of customers in tiers of MRR at a monthly level to investigate the relation between MRR and churn