TPG Case Study – Project Iceberg
Memo Outline

NAME: Jonathan Gandelman

Investment Thesis:

- **Strong Operating Performance Relative to Peers** – The company has increased market share from 27% (2002) to 58% in 2008, and is well positioned for continued market expansion
- **Current Customer Base is Strong** – Iceberg products and services are strong in core data analytics, and the company has achieved 95% win rates. Switching costs are material in the industry, and may provide a strong catalyst for customer retention
- **Emerging Markets are Key** – Growth in emerging markets is crucial to strong operating performance, with America's (44% of current sales) expected to remain flat (-2% to 1%) and BRIC nations expected to achieve double digit CAGRs from 2008-2013
- **Poised well for industry growth** – While 2008-2009 market downturn resulted in decreased spend on services in the health care industry, Iceberg sales held relatively strong given the severity of the downturn (-6% YOY); macro factors will likely lead to significant growth from depressed values in 2010-2014

Investment Risks:

- **Inability to take advantage of emerging markets growth** – China, India, Russia, Brazil and Turkey are they largest growing markets for the projected 2008-2013 period. With growth in the mature markets expected to remain stable, strong operating performance will rely on Iceberg's ability to achieve similar market share and strength in the emerging markets
- **Margin expansion** – Management has projected roughly 3% gross margin expansion and 5% EBITDA margin expansion from 2009-2014. The ability to achieve such expansion must assume that its margins in its higher growing *Consulting & Services* division are higher than in its *Information & Analytics* division. This would be a key highlight in further diligence to determine the company's ability to achieve higher margins
- **Technological Advances** – One key risk the company faces is the entry of another electronic service provider with higher quality products. While customers have relatively high switching costs, they are likely to make a transition to a higher quality product at a lower price given the hitches in the data that some customers have experienced.

Assessment of Management Projections:

- EBITDA/EBIT growth seems relatively high on a projected basis vs. historical trends
- Margin expansion requires that the company can maintain fixed costs and grow its top line
- Management is projecting that working capital will continue to become more efficient; this would be another point of diligence

Thoughts on Purchase Price:

- The purchase price assumes a 33% premium to current share price. With a TEV/EBITDA of 8.5x (ex. Fees) relative to a current 6.7x TEV/EBITDA, shareholders would likely consider this premium significantly, even though it is at a multiple discount to historical levels.

Thoughts of Financing Package:

- With bank debt 70% paid down by 2014 and Interest coverage ratio increasing from 2.8x to 5.5x by 2014, the company should be able to handle this debt capacity, and will likely avoid any covenant issues

Thoughts on Exit Multiple:

- The exit multiple may expand to historical levels, which would provide significant additional value, and boost returns; current model is conservative and does not assume expansion

Primary Areas of Focus for Business Diligence:

- Margin Expansion
- EBITDA/EBIT Growth projections

	Fiscal Year Ended December 31,													CAGR	CAGR
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	'06A-'09A	'09A-'14E
Information and Analytics	$ 1,142	$ 1,261	$ 1,385	$ 1,478	$ 1,599	$ 1,700	$ 1,787	$ 1,707	$ 1,792	$ 1,882	$ 1,976	$ 2,075	$ 2,178	2.2%	5.0%
% Growth		*10.4%*	*9.8%*	*6.7%*	*8.2%*	*6.3%*	*5.1%*	*(4.5%)*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*		
Consulting and Services	77	121	184	277	360	492	543	483	519	558	600	645	693	10.3%	7.5%
% Growth		*56.4%*	*52.3%*	*50.4%*	*30.0%*	*36.9%*	*10.3%*	*(11.0%)*	*7.5%*	*7.5%*	*7.5%*	*7.5%*	*7.5%*		
Total Revenue	**$ 1,220**	**$ 1,382**	**$ 1,569**	**$ 1,755**	**$ 1,959**	**$ 2,193**	**$ 2,330**	**$ 2,190**	**$ 2,311**	**$ 2,440**	**$ 2,576**	**$ 2,720**	**$ 2,872**	3.8%	5.6%
% Growth		*13.3%*	*13.6%*	*11.8%*	*11.6%*	*11.9%*	*6.3%*	*(6.0%)*	*5.6%*	*5.6%*	*5.6%*	*5.6%*	*5.6%*		
COGS	$ 472	$ 579	$ 664	$ 776	$ 849	$ 957	$ 1,032	$ 966	$ 1,008	$ 1,052	$ 1,098	$ 1,146	$ 1,195		
Gross Profit	**$ 747**	**$ 803**	**$ 905**	**$ 979**	**$ 1,110**	**$ 1,235**	**$ 1,297**	**$ 1,224**	**$ 1,303**	**$ 1,388**	**$ 1,478**	**$ 1,574**	**$ 1,676**	3.3%	6.5%
Gross Margin	*61.3%*	*58.1%*	*57.7%*	*55.8%*	*56.7%*	*56.3%*	*55.7%*	*55.9%*	*56.4%*	*56.9%*	*57.4%*	*57.9%*	*58.4%*		
SG&A	284	313	385	431	500	591	650	629	652	676	701	727	753	8.0%	3.7%
% of Sales	*23.3%*	*22.6%*	*24.5%*	*24.5%*	*25.5%*	*27.0%*	*27.9%*	*28.7%*	*28.2%*	*27.7%*	*27.2%*	*26.7%*	*26.2%*		
EBITDA	**$ 463**	**$ 491**	**$ 520**	**$ 548**	**$ 610**	**$ 644**	**$ 648**	**$ 595**	**$ 651**	**$ 711**	**$ 777**	**$ 847**	**$ 923**	(0.9%)	9.2%
D&A Expense	54	75	94	105	117	126	139	136	143	151	160	169	178		
EBIT	**$ 409**	**$ 415**	**$ 427**	**$ 444**	**$ 493**	**$ 518**	**$ 508**	**$ 459**	**$ 507**	**$ 560**	**$ 617**	**$ 678**	**$ 745**	(2.4%)	10.2%
Capex & Cap Software	93	101	107	133	112	165	114	117	124	131	138	146	154		
% of Sales	*7.6%*	*7.3%*	*6.8%*	*7.6%*	*5.7%*	*7.5%*	*4.9%*	*5.4%*	*5.4%*	*5.4%*	*5.4%*	*5.4%*	*5.4%*		
Working Capital Build															
Accounts Receivable	$ 205	$ 254	$ 265	$ 297	$ 367	$ 416	$ 383	$ 323	$ 343	$ 357	$ 371	$ 387	$ 403		
Days Sales Outstanding	61.3	67.0	61.6	61.8	68.5	69.2	60.0	53.8	54.2	53.4	52.6	51.9	51.2		
Other Current Assets	$ 110	$ 123	$ 174	$ 161	$ 169	$ 206	$ 174	$ 190	$ 198	$ 206	$ 214	$ 223	$ 232		
% of Revenue	*9.0%*	*8.9%*	*11.1%*	*9.2%*	*8.6%*	*9.4%*	*7.5%*	*8.7%*	*8.6%*	*8.4%*	*8.3%*	*8.2%*	*8.1%*		
Accounts Payable	$ 32	$ 48	$ 70	$ 72	$ 82	$ 117	$ 120	$ 105	$ 109	$ 112	$ 118	$ 121	$ 125		
Days Payable	9.6	12.5	16.4	14.9	15.3	19.6	18.8	17.6	17.2	16.7	16.7	16.3	15.9		
Accrued Expenses	$ 59	$ 64	$ 112	$ 91	$ 101	$ 145	$ 95	$ 100	$ 103	$ 106	$ 109	$ 112	$ 115		
% of COGS	*12.5%*	*11.0%*	*16.8%*	*11.7%*	*11.9%*	*15.1%*	*9.2%*	*10.4%*	*10.2%*	*10.0%*	*9.9%*	*9.8%*	*9.6%*		
Workign Capital	$ 224	$ 266	$ 257	$ 296	$ 353	$ 360	$ 342	$ 308	$ 329	$ 345	$ 359	$ 377	$ 395		
Increase/(Decrease) in NWC		$ 42	$(8)	$ 39	$ 57	$ 7	$(17)	$(35)	$ 22	$ 16	$ 14	$ 17	$ 18		

~erg

LBO Model

TPG Internal Ref: B

~our Information

Name:	Jonathan Gandelman
Date:	May 03, 2010

Summary	
5-Year IRR	22.3%
5-Year MoM	2.7 x

Assumptions

PLEASE NOTE THAT PROJECTIONS ARE INCLUDED ON 2ND TAB

LTM = FY 2009A

Entry Multiples	
TEV (Including Fees) / LTM EBITDA	8.8 x
TEV (Excluding Fees) / LTM EBITDA	8.5
TEV (Current) / LTM EBITDA	5.7

Axxumptions			
Effective Tax Rate	35.0%	Current Cash	$ 300
Interest Income Rate	2.0%	Current Debt	$ 1,200
Basic Sharax	188.2	Exit Multiple	8.5 x
Options Out	11.6	LIBOR Swap	2.50%
Wtd. Avg. Strike Price	$ 20.83	Unaffected Share Price	$ 18.50
FD Shares	188.8	LTM Capex	$ 117

Options			
Out	WASP	Strike?	Dilution
11.6	3 20.83	11.564375	0.6

Sources and Uses

Uses of Fundx	
Purchase Price Per Share	$ 22.00
Premium to Current	33.3%
Total Equity Value	$ 4,154
+ Net Debt	900
Total Enterprise Value	$ 5,054
+ Total Fees	150
+ Operating Cash	125
Total Usex of Funds	$ 8,329

Sources of Fundx	Rate	Amount	% of Cap	e LTM EBITDA
Revolver	L + 350	$ 0	0.0%	0.0 x
TLB / 1st Lien	L + 350	2,000	37.5%	3.4
Senior Notes	12.5%	1,000	18.8%	1.7
Total Debt		$ 3,000	56.3%	5.0
Sponxor Equity		2,329	43.7%	
Total Sources of Funds		$ 8,329	100.0%	

Income Statement / Transaction

	2006A	2007A	2008A	2009A	2010E	2011E	2012E	2013E	2014E	CAGR '06A-'09A	CAGR '09A-'14E
	Fiscal Year Ended December 31,										
Income Statement											
Revenues	$ 1,959	$ 2,183	$ 2,330	$ 2,190	$ 2,311	$ 2,440	$ 2,576	$ 2,720	$ 2,872	3.8%	5.6%
% Growth		11.9%	6.3%	(6.0%)	5.8%	5.5%	5.6%	5.6%	5.6%		
Gross Margin	1,110	1,235	1,297	1,224	1,303	1,388	1,478	1,574	1,676	3.3%	6.5%
% Growth		11.3%	5.0%	(5.7%)	6.5%	6.5%	6.5%	6.5%	6.5%		
% Margin		56.3%	55.7%	55.9%	56.4%	56.9%	57.4%	57.9%	58.4%		
Total SG&A	500	591	650	629	652	676	701	727	753	8.0%	3.7%
% Growth		18.3%	9.9%	(3.2%)	3.7%	3.7%	3.7%	3.6%	3.6%		
% Margin											
EBITDA	$ 610	$ 644	$ 648	$ 695	$ 651	$ 711	$ 777	$ 847	$ 923	(0.9%)	9.2%
% Margin		29.4%	27.8%	27.2%	28.2%	29.2%	30.2%	31.2%	32.2%		
% Growth		5.5%	0.6%	(8.2%)	9.4%	9.3%	9.2%	9.1%	9.0%		
D&A	(117)	(126)	(139)	(136)	(143)	(151)	(160)	(169)	(178)		
EBIT	$ 493	$ 518	$ 508	$ 459	$ 507	$ 560	$ 617	$ 678	$ 745	(2.4%)	10.2%
% Margin		23.5%	21.8%	20.9%	21.9%	22.9%	23.9%	24.9%	25.9%		
% Growth		5.0%	(1.8%)	(9.7%)	10.6%	10.4%	10.2%	10.0%	9.8%		
Other Expensex					(100)	0	0	0	0		
Net Caxh Interest Expense					(236)	(223)	(208)	(190)	(169)		
Pretax Earnings					$ 171	$ 337	$ 409	$ 488	$ 576		
Taxes					(60)	(118)	(143)	(171)	(202)		
Net Income					$ 111	$ 219	$ 266	$ 317	$ 374		
Caxh Flow Statement											
EBITDA					$ 651	$ 711	$ 777	$ 847	$ 923		
Less: Interest					(236)	(223)	(208)	(190)	(169)		
Less: Taxex					(60)	(118)	(143)	(171)	(202)		
Less: Change in NWC					(22)	(16)	(14)	(17)	(18)		
Lexx: Capex					(124)	(131)	(138)	(146)	(154)		
Cash Available for Debt Repayment					$ 209	$ 224	$ 274	$ 323	$ 380		
Cumulative Cash Flow					$ 209	$ 432	$ 706	$ 1,029	$ 1,409		
Cash-on-Cash (Cumulative % of Investment)					9.0%	18.6%	30.3%	44.2%	60.5%		
Cash-on-Cash Returns (Annual Cash Yield on Initial Investment)					9.0%	9.6%	11.7%	13.9%	18.3%		
Debt Paydown Waterfall											
Caxh Flow Available for Debt Paydown					$ 209	$ 224	$ 274	$ 323	$ 380		
Revolver Beginning Balance					$ 0	$ 0	3 0	$ 0	$ 0		
Drawdown					0	0	0	0	0		
Optional repayment					0	0	0	0	0		
Ending Balance					$ 0	$ 0	$ 0	$ 0	$ 0		
Interext Expense	6.00%				$ 0	$ 0	$ 0	$ 0	$ 0		
TLB / 1xt Lien											
Beginning Balance					2,000	1,791	1,568	1,294	971		
Optional repayment					$(209)	$(224)	$(274)	$(323)	$(380)		
Ending Balance					$ 1,791	$ 1,568	$ 1,294	$ 971	$ 591		
Interest Expense	6.00%				$ 114	$ 101	$ 86	$ 68	$ 47		
Senior Notex											
Beginning Balance					1,000	1,000	1,000	1,000	1,000		
Optional repayment					$ 0	$ 0	$ 0	$ 0	$ 0		
Ending Balance					$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000		
Interest Expense	12.50%				$ 125	$ 125	$ 125	$ 125	$ 125		
Total Repayment					$(209)	$(224)	$(274)	$(323)	$(380)		
Balance Sheet Summary & Credit Stats											
Excess Cash					$ 0	$ 0	$ 0	$ 0	$ 0		
Operating / Minimum Cash					125	125	125	125	125		
Total Caxh	2.00%				$ 125	$ 125	$ 125	$ 125	$ 125		
Revolver	6.00%			$ 0	$ 0	$ 0	$ 0	$ 0	$ 0		
TLB / 1st Lien	8.00%			2,000	1,791	1,568	1,294	971	591		
Senior Notex	12.50%			1,000	1,000	1,000	1,000	1,000	1,000		
Total Debt				$ 3,000	$ 2,791	$ 2,568	$ 2,294	$ 1,971	$ 1,591		
% of Debt Repaid					7.0%	14.4%	23.5%	34.3%	47.0%		
% of Bank Repaid					10.4%	21.6%	35.3%	51.4%	70.4%		
Interest Expense											
Revolver					$ 0	$ 0	$ 0	$ 0	$ 0		
TLB / 1st Lien					114	101	86	68	47		
Senior Notes					125	125	125	125	125		
Total Interext Expense					$ 239	$ 226	$ 211	$ 193	$ 172		
Cash					(3)	(3)	(3)	(3)	(3)		
Net Interest Expense					$ 236	$ 223	$ 208	$ 190	$ 169		
Total Debt / EBITDA					4.3 x	3.6 x	3.0 x	2.3 x	1.7 x		
Total Debt / EBITDA - Capex					5.3 x	4.4 x	3.6 x	2.8 x	2.1 x		
Bank Debt/ EBITDA					2.8 x	2.2 x	1.7 x	1.1 x	0.6 x		
EBITDA / Interext Expense					2.8 x	3.2 x	3.7 x	4.4 x	5.5 x		
EBITDA - Capex / Interext Expense					2.2	2.6	3.1	3.7	4.5		

Average Interest	Yex

Returns Summary	2010E	2011E	2012E	2013E	2014E
EBITDA	$ 651	$ 711	$ 777	$ 847	$ 923
Multiple	8.5 x	8.5 x	8.5 x	8.5 x	8.5 x
TEV	$ 5,531	$ 6,046	$ 6,602	$ 7,201	$ 7,848
Less: Debt	$(2,791)	$(2,568)	$(2,294)	$(1,971)	$(1,591)
Plus: Cash	$ 125	$ 125	$ 125	$ 125	$ 125
Equity Vxlue	$ 2,865	$ 3,603	$ 4,433	$ 5,355	$ 6,382
Sponsor IRR (%)	23.0%	24.4%	23.9%	23.1%	22.3%
Sponsor MoM (x)	1.2 x	1.8 x	1.9 x	2.3 x	2.7 x

(RR Sensitivities

INCLUDE 2 SETS OF SENSITIVITIES THAT YOU THINK ARE MEANINGFUL

IRR

urchase Price	Exit: 22.3%	7	7.5	8	8.5	9
	20	20.8%	23.0%	25.0%	26.9%	28.7%
	21	18.9%	26.7%	22.7%	24.6%	26.3%
	22	16.5%	18.6%	20.5%	22.3%	24.1%

MOM

urchase Price	Exit: 2.7 x	7	7.5	8	8.5	9
	20	2.6 x	2.8 x	3.1 x	3.3 x	3.5 x
	21	2.3 x	2.6 x	2.8 x	3.0 x	3.2 x
	22	2.1 x	2.3 x	2.6 x	2.7 x	2.9 x

.erg **LBO Model**

TPG Internal Ref: B

. our Information

2	Name:	Jonathan Gandelman
3	Date:	May 03, 2010

Summary	
5-Year IRR	22.3%
5-Year MoM	2.7 x

148	23	14.6%	16.6%	18.6%	20.3%	22.0%		23	2.0 x	2.2 x	2.3 x	2.5 x	2.7 x
149	24	12.9%	14.9%	16.8%	18.5%	20.2%		24	1.8 x	2.0 x	2.2 x	2.3 x	2.6 x