2022 GA ANALYST INTERVIEW – CASE STUDY

You have 60 minutes to complete the assessment. All information necessary to complete the assessment is provided below – please feel free to make any simplifying assumptions as needed. Once time has expired, please send an email to Victor Taslim with your answers to the questions along with an Excel file containing your work (we will award partial credit based on the Excel file).

Investment Overview

GA is evaluating an investment in HealthCo, a leading provider of virtual healthcare services. Relevant transaction and financial assumptions are as follows:

- The transaction will close on December 31, 2021. Total enterprise value is 3x FY2022 Total Revenue, and the company will be purchased on a cash free, debt free basis (i.e. no rollover debt, no cash on the balance sheet at close). Assume no transaction or debt related fees, expenses or prepayment penalties.
- GA will invest $500 million of equity and borrow 6x FY2021 EBITDA in a new Term Loan (5% coupon on the debt, the coupon is applied to the average debt balance each year). Existing shareholders will rollover their equity to cover the remainder of the purchase price.
- HealthCo will record FY2021 EBITDA of $25 million, representing a 10% EBITDA margin. Each year, beginning in FY2022, HealthCo's Total Revenue will grow 20% and EBITDA margin will expand by 250 basis points.
- Assume that Depreciation & Amortization Expense = $5 million each year, CapEx = $5 million each year, and there is a +$5 million change in Net Working Capital (i.e. a NWC inflow) each year. Assume a 40% all-in Tax Rate and taxes are paid to the government (i.e. no tax distributions to the shareholders).
- Assume that the Term Loan is paid down each year with free cash flow. Any remaining cash will build and remain on the balance sheet until GA's exit (i.e. no interim dividends paid to equity holders).
- Assume that GA exits the investment completely in a sale to a strategic buyer on December 31, 2026 (a 5-year hold) at an enterprise value equal to 5x FY2027 Total Revenue.

Questions

- **Question 1**: What is GA's pro forma equity ownership of HealthCo?
- **Question 2**: What is the implied exit multiple of 2027E EBITDA under the assumptions above?
- **Question 3**: What are GA's expected MOIC, % IRR, and $ Net Gain on the investment?
- **Question 4**: What is the minimum annual Total Revenue growth rate that would be necessary, in a downside scenario, from FY2023 onward, to support at least a 2.0x GA MOIC? Assume no other changes to the model beyond this downside change to FY2023-FY2027 Total Revenue. Hint: make sure not to change FY2022 Revenue, as this would impact entry TEV.
- **Question 5**: Assuming no other changes to the model and the original 20% annual Total Revenue growth rate, what is the annual EBITDA margin expansion (assume the same expansion in terms of basis points each year) that would be necessary for GA's % IRR to exceed 40%? Assume that the margin expansion begins in FY2022 and is consistent each year in the forecast.
- **Question 6**: There is a tradeoff between growth and profitability – let's say that for every 400 bps reduction in the revenue growth rate CAGR, margins can expand faster by 100 bps/annually (e.g. if the business were to grow at 16% instead of 20% annually, it could expand margins 350bps/year vs. 250 bps at 20%). Assuming the exit multiple is 20x EBITDA under all scenarios, what growth rate CAGR between 0% and 20% would you recommend to the Company to maximize IRR (assume all else equal)?

For the questions below, please state whether each of the following boost / hurt / have no impact on IRR & MOIC and why.

- **Question 7**: At entry, you issue options to management with a strike price equal to your entry price
- **Question 8**: At year-end 2023, the company issues a one-time cash dividend to equity-holders pro rata
- **Question 9**: At year-end 2023, the company raises a round of equity funding at 2x your entry price. The cash sits on balance sheet to exit
- **Question 10**: At year-end 2023, the company raises a round of equity funding at 10x your entry price. The cash sits on balance sheet to exit
- **Question 11**: 1. At some point during your hold, use cash on hand to purchase EBITDA at a 10x multiple (0% growth, 0% free cash flow conversion)