



# The Growth Equity Case Study 3.0: What to Expect in Real Life

The Liquidation Preference, the Cohort  
Analysis, and the Student Torn Between VC  
and PE...

# This Lesson: Growth Equity Cases 101

For the files and resources, please go to:

<https://mergersandinquisitions.com/growth-equity-case-study/>

(Excerpt from our [VC & Growth Equity Course](#).)

# This Lesson: Growth Equity Cases 101

**Yes**, we've previously covered this topic (twice!) via case studies of Atlassian.

*However*, they were not great examples of **real-life case studies** (too much focus on minutiae, such as original issue discount and loan fee amortization).

# Growth Equity Case Studies: Lesson Overview

- **Part 1:** What to Expect in a Growth Equity Case Study **1:16**
- **Part 2:** Historical Trends and Revenue **3:51**
- **Part 3:** Financial Statement Projections **6:16**
- **Part 4:** Sources & Uses and Ownership **7:45**
- **Part 5:** Exit Calculations and IRR **10:06**
- **Part 6:** Investment Recommendation **13:41**

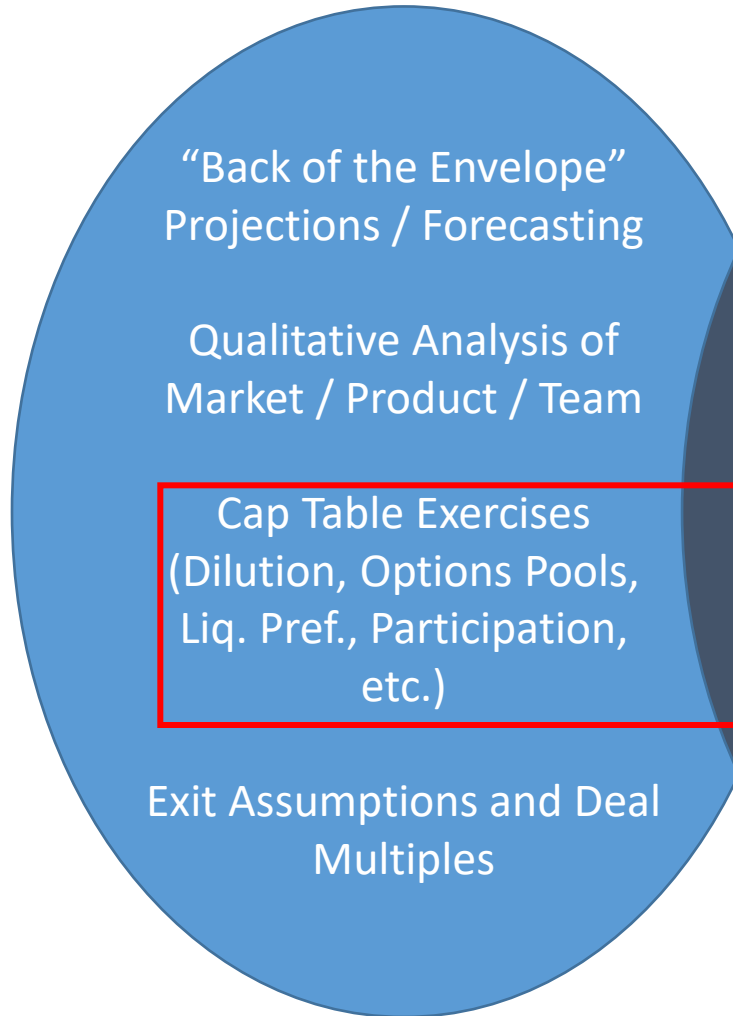
# Part 1: Growth Equity Case Studies

- **Growth Equity:** Mix of **private equity** (leveraged buyouts) and **venture capital** (investing in risky but high-growth startups)
- **Difference 1:** Only tend to invest minority stakes in companies
- **Difference 2:** Companies must have proven markets and business models, i.e., revenue, even if they're not profitable
- **Difference 3:** Companies use the investment for a *specific* growth purpose, such as market/geographic expansion, more sales reps, factories, acquisitions, etc.

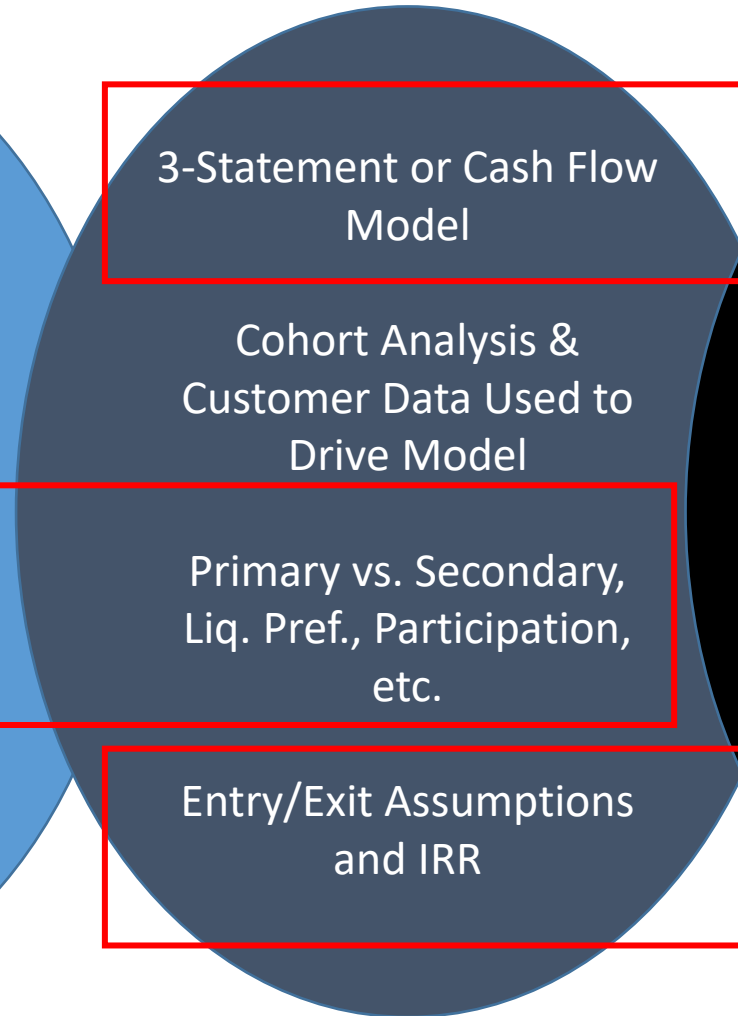


# Part 1: Growth Equity Case Studies

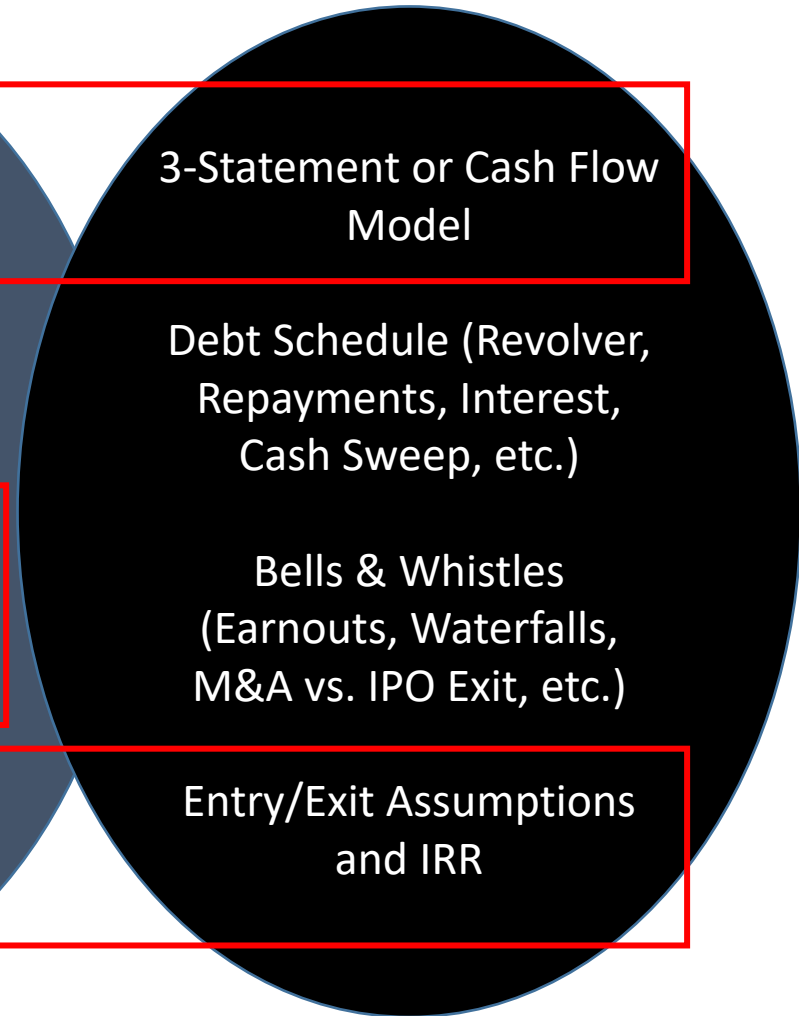
## Venture Capital Case Studies



## Growth Equity Case Studies



## Private Equity Case Studies (LBOs)



# Part 1: Growth Equity Case Studies

- **SCENARIO:** The company needs €60 million of funding to implement a plan that could 7x its revenue in 5 years
- **QUESTION 1:** Should we invest this €60 million at a very high valuation (12.5x revenue), even with a 2x liquidation preference, and €50 million at a lower valuation?
- **QUESTION 2:** What does the exit look like? Can we achieve the 3.0x multiple or ~30% IRR?
- **QUESTION 3:** What about the “Downside Case”?



# Part 2: Historical Trends and Revenue

- **Step 1:** Need to “extract” the historical data, such as the Churn Rate and Upsell figures in EUR, from the customer-level data



- **EXAMPLE:** To sum up the New Customer Revenue in one year:  
`=SUMIFS(Customers!F6:F177,Customers!F6:F177,">0",Customers!E6:E177,"")/Units`



- **Step 2:** Use these trends and the “New Customer” estimates to forecast the revenue over 5 years and calculate metrics such as the LTV and CAC



# Part 3: Financial Statement Projections

- **Income Statement:** Link in the Revenue and Sales & Marketing and make the rest simple percentages of Revenue
- **Balance Sheet and Cash Flow Statement:** Very similar; link most items to Revenue, COGS, or OpEx
- **TRUTH:** We mostly care about this company's *Cash position* and the amount of funding they need to operate – so these projections matter for determining this Cash number



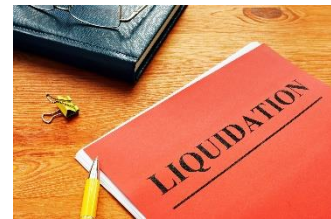
# Part 4: Sources & Uses and Ownership

- **KEY POINT:** Yes, we invest €110 million total, but the ownership is a bit more complex since it's at 2 different valuations!
- **Ownership 1:**  $60 / (60 + 1200) = 4.8\%$  – the standard Investment / Post-Money calculation
- **Ownership 2:**  $50 / 800 = 6.3\%$  since it's a **secondary purchase** that does not create new shares!
- **Question:** Doesn't the primary purchase dilute the secondary purchase ownership? Yes, maybe, but it's small and the timing is unclear.... so, move on



# Part 5: Exit Calculations and IRR

- **Revenue Multiple:** Should be lower, in-line with the SaaS public comps; perhaps more like 5 – 6x due to much lower growth
- **Investor Proceeds:** More difficult since we must factor in the 2x Liquidation Preference on the Primary Share Purchase...  
$$= \text{MIN}(K56, \text{MAX}(K58:K59)) + \text{IF}(K56 > K58, K56 * \$L\$9, 0)$$
- **First Part:**  $\text{MIN}(\text{Exit Equity Value}, \text{MAX}(\text{Liquidation Preference}, \text{Primary Ownership}))$
- **Second Part:**  $+ \text{IF}(\text{Exit Equity Value} > \text{Liquidation Preference}, \text{Secondary Ownership} * \text{Exit Equity Value}, 0)$



# Part 6: Investment Recommendation

- **Targets:** 30% IRR and 3.0x multiple; we're close here
- **Also:** The business metrics, such as the LTV / CAC, are reasonable, and while 7x growth in 5 years is high, it is possible for top software companies
- **Downside Case:** Even with half the new customer count and lower revenue multiples of 3 – 4x, we do achieve a 1.5x multiple with mid-teens IRRs, above the minimums



# Recap and Summary

- **Part 1:** What to Expect in a Growth Equity Case Study
- **Part 2:** Historical Trends and Revenue
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- **Part 6:** Investment Recommendation

