Venture Capital Case Study – 90-Minute Series D Exercise (Procyon SA – Software as a Service)

Procyon SA is a Software as a Service (SaaS) company based in Belgium that provides software for enterprise resource management (ERP), customer relationship management (CRM), and business intelligence (BI) in a combined, comprehensive package.

The company primarily serves **large enterprises** (the global Fortune 500 and beyond), with an average Annual Contract Value (ACV) above 600K EUR. In its most recent fiscal year, Procyon earned €95 million in revenue, with an operating margin of (35%).

Procyon has grown rapidly over the past 4 years, going from €15 million in revenue in FY 18 to €95 million in FY 22 (58% CAGR).

The company's primary expense is **sales & marketing**, as it is expensive to win annual contracts with large companies (average Customer Acquisition Costs exceed €500K).

Over the past 4 years, the company has raised a total of €95 million in equity capital from venture capitalists, and it is now seeking an additional €60 million in a Series D round.

With this capital, management believes they can grow revenue 7x over the next 5 years by ramping up their sales & marketing efforts; they also expect to turn profitable by the end of the period.

Your growth equity firm, Rivermoon Capital, is considering a €110 million investment split into a €60 million primary purchase and €50 million secondary purchase with the following terms:

- **€60 Million Primary Purchase**
    - **Pre-Money Valuation:** €1.2 billion
    - **Liquidation Preference:** 2.0x (senior to all existing liquidation preferences)
    - **Deal Fees:** €3.0 million total

- **€50 Million Secondary Purchase**
    - **Pre-Money Valuation:** €800 million
    - **Liquidation Preference:** None (as this is a purchase of existing shares)
    - **Sellers:** Co-founders and early employees

Your job in this case study is to build a 3-statement model for the company, analyse the possible exit values and returns, and make an investment recommendation.

You have **90 minutes** to complete your work and write a short recommendation.

We recommend the following steps to complete this case study:

1) **Revenue and Sales & Marketing** – Complete the "Revenue and Sales/Marketing Drivers" schedule in the provided Excel file and link your assumptions to the historical trends in revenue by customer. Make sure you estimate key metrics like the LTV / CAC, Logo Retention, and Gross Retention. The company has provided the following estimates for the **new customers** it believes it can win each year:

- **Year 1:** 110; **Year 2:** 135; **Year 3:** 160; **Year 4:** 185; **Year 5:** 210.

2) **Financial Statements** – Make simple assumptions for the expenses, cash flow line items, and Working Capital items to project the statements. You will also have to complete the "blank" parts of the historical statements.

3) **Ownership, Sources & Uses, and Exit Calculations** – Calculate your firm's ownership based on the primary and secondary purchases, set up a simple Sources & Uses schedule, and estimate the Exit Enterprise Value and Equity Value based on the data in the "Comps" tab. Remember to factor in the liquidation preference!

4) **Investment Recommendation** – If your firm is targeting a 3.0x multiple and 30% IRR, with a minimum 1.5x multiple in the "downside case," would you recommend this deal? If not, how would you change the structure to make it more feasible (e.g., the pre-money valuation, primary/secondary split, or liquidation preference)?

5) **BONUS**: If you have extra time (unlikely), please complete a simple **cohort analysis** of the company's customers based on their average Annual Contract Value (ACV) and the Year they initially signed up. You can analyse trends such as the cancellation rate and EUR retention rate in this analysis. Use this data to think of additional questions you might ask in the due diligence process if your firm decides to invest in Procyon.