Deals and Investment Cases

Interview preparation summary · PE track

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INT.DC.1.a · Memos and Theses

Structure an investment memo and an IC recommendation so the decision, the price and the risks are clear on the first page.

An investment memo is a decision document, not a research report. It opens with the recommendation: what the committee is asked to approve, the amount, the price and structure, the headline returns and the key risks. The body then sets out the business, the thesis, the market, the financial case, valuation, diligence findings, risks with mitigants and the value creation plan, with detail in appendices. Show returns across downside, base and upside cases and state what you need to believe for the base case to hold. A recommendation can be to approve, decline or approve with conditions, and the conditions should name an owner and what happens if they are not met. Keep claims tied to evidence. Interview point: if asked how you would structure a memo, lead with the decision and the price, and say you would show a downside case before the committee asks for it.

WORKED EXAMPLE: OPENING THE MEMO FOR A DENTAL LAB DEAL

An interviewer asks: how would you open the investment memo for Harlow Dental Labs? The fund would invest 45m of equity at an enterprise value of 100m, which is 8.0x EBITDA of 12.5m. The base case returns 2.4x over a five-year hold and the downside case 1.5x. Give me your first page. Convention: single exit cash flow at year five, ignore fees and tax.

Answer: Open with the decision: approve 45m at 100m enterprise value (8.0x EBITDA), base case 2.4x and about 19% IRR, downside 1.5x and about 8%, with named conditions and the key risks.

> **Interview tip:** Say the recommendation, the price and the headline return in your first sentence, then the downside in your second. The interviewer listens for whether you lead with the decision rather than the company history.

INT.DC.1.b · Memos and Theses

Form an investment thesis, break its return into drivers and design diligence that could prove it wrong.

A thesis is a short, testable explanation of why this company will earn the fund its target return at the price being paid. It should name the value drivers, such as market growth, share gain, pricing power, margin improvement or deleveraging, and say what evidence would show it is wrong. Break the expected return into entry and exit multiple, EBITDA growth and debt paydown so you can see how much rests on each; a thesis that depends mostly on multiple expansion is weak. Testing means seeking disconfirming evidence: write kill criteria early, ask customers about alternatives, check history for the behaviour the thesis assumes, and give a sceptic a voice. Interview point: state the thesis in two sentences, say which assumption matters most, and say what you would do to test it.

WORKED EXAMPLE: SPLITTING A RETURN INTO ITS DRIVERS

You are asked to test the thesis on Marlow Pumps. Entry: EBITDA 12.5m, enterprise value 100m (8x), debt 50m, so equity 50m. After five years the plan has EBITDA at 17.5m and debt paid down to 30m, with the exit at the entry multiple. Which assumption matters most, and how would you test it? Convention: ignore fees, tax and interim distributions.

Answer: The deal returns 2.2x, with 40m of the 60m gain from EBITDA growth, 20m from debt paydown and none from multiple expansion, so EBITDA growth is the assumption to test.

> **Interview tip:** State the thesis in two sentences, then give the split of the gain and name the one driver that carries it. The interviewer listens for a candidate who also says what evidence would prove the thesis wrong.

INT.DC.2.a · Due Diligence and Risk

Test a market, a competitive position and customer unit economics in commercial due diligence.

Commercial due diligence tests whether the market, the competitive position and the customer relationships support the thesis. Market work should be bottom-up where possible: how many customers, at what price, with what adoption, tested against actual wins. Competition work looks at share, the basis of competition and who is gaining. Customer work uses independent calls, including churned customers, and looks at why customers buy, what alternatives exist and how likely they are to leave. Unit economics turn this into numbers: customer acquisition cost, gross margin, payback, lifetime value and retention. Check gross retention separately from net retention, because upsell can mask churn, and use marginal rather than blended acquisition cost when a plan scales paid spend. Interview point: say which unit economics you would ask for and what you would do with a weak ratio.

WORKED EXAMPLE: CUSTOMER UNIT ECONOMICS FOR A SOFTWARE BUSINESS

A software company spent 2.4m on sales and marketing last year and won 400 new customers. Each customer pays 4,800 a year at a 75% gross margin, and 20% of customers leave each year. The plan doubles paid spend, which management expects to cost 9,000 per extra customer. Are the economics good? Convention: no discounting, churn is customers lost, ignore upsell.

Answer: Blended economics are acceptable at a 20-month payback and 3.0x lifetime value to cost, but at the 9,000 marginal cost the payback is 30 months and the ratio 2.0x.

> **Interview tip:** Give the numbers in order: acquisition cost, payback, lifetime value to cost, then say you would re-run them at the marginal cost of the planned spend. The interviewer listens for the word marginal and for a view on what to do with a weak ratio.

INT.DC.2.b · Due Diligence and Risk

Walk through a quality of earnings review, set a working capital peg and bridge enterprise value to the equity price.

Financial due diligence tests the numbers behind the price. A quality of earnings review starts from reported EBITDA and adjusts for one-off items, owner or related-party costs at non-market levels, accounting policy choices such as early revenue recognition, missing accruals and the run-rate effect of recent changes. Adjustments cut both ways and flow into price at the deal multiple, so one unit of EBITDA is worth the multiple. Working capital is analysed over a full year to set a peg, usually the average, so seasonality does not distort the price; delivering less than the peg lowers the price. Net debt and debt-like items, such as unpaid tax, deferred consideration, pension deficits and past bonuses, bridge enterprise value to equity price. Practice on definitions varies by deal and is negotiated. Interview point: show that you adjust both ways and link each adjustment to price.

WORKED EXAMPLE: FROM REPORTED EBITDA TO THE PRICE PAID FOR EQUITY

Reported EBITDA is 10.0m and the deal multiple is 9x. Diligence finds a one-off legal cost of 0.8m, an owner paid 0.4m above market, revenue of 0.5m recognised too early, and a missing bonus accrual of 0.3m. Net debt is 20m, with unpaid tax of 1.5m and deferred consideration of 2.0m. Twelve monthly working capital balances average 4.5m and completion is 4.1m. What is the equity price? Convention: ignore tax effects.

Answer: Adjusted EBITDA is 10.4m, enterprise value 93.6m, equity price 70.1m before the working capital adjustment and 69.7m after the 0.4m shortfall against the peg.

> **Interview tip:** Say that you adjust in both directions and multiply each adjustment by the deal multiple to show its effect on price. The interviewer listens for the peg being an average over a full year and for debt-like items being deducted.

INT.DC.2.c · Due Diligence and Risk

Identify, rank and mitigate the key risks of a deal, separating those that can be priced from those that cannot.

Every deal has risks; the task is to identify them, rank them and show what you will do about each. Rank by likelihood and by impact on returns, and note whether a mitigant exists. Expected loss, probability multiplied by impact, helps compare risks but should not hide severe low-probability events, particularly those that threaten the capital structure, such as a covenant breach. Mitigants include price, structure such as earn-outs or escrow, contractual protection, conditions precedent, management alignment, operational plans and insurance. Some risks can be priced and others cannot: a question over ownership of a core asset has to be resolved or the deal declined. Group risks into commercial, financial, operational, legal and structural categories and give each an owner. Interview point: when asked about risks, name the top three, say how you ranked them and give a specific mitigant for each.

WORKED EXAMPLE: RANKING AND MITIGATING FOUR DEAL RISKS

You are asked for the key risks on a software deal and what you would do about each. Customer A is 25% of revenue: you put a 30% chance of loss, costing 12m of equity value. A supplier price rise has a 50% chance and costs 4m. A covenant breach in a downside has a 5% chance and costs 40m. Finally, the seller cannot show that the company owns its core software code. Rank them. Convention: impact is loss of equity value in millions.

Answer: Rank customer loss first at 3.6m expected loss, then the 40m covenant tail risk and supplier prices at 2.0m each, and treat code ownership as unpriceable: resolve it before signing or decline.

Interview tip: Name your top three, say how you ranked them and give one specific mitigant for each. The interviewer listens for the distinction between a risk you can price and one you must resolve or walk away from.

INT.DC.3.a · Value Creation and Structures

Describe a value creation plan and show how add-on acquisitions create value through multiple arbitrage.

A value creation plan sets out how the investment will grow equity value over the hold. The levers are revenue growth through volume, price and new products; margin improvement through procurement, operations and mix; working capital and capital expenditure discipline; deleveraging; and, with caution, multiple expansion. Plans include a first 100 days of quick wins, reporting and management changes. In a buy-and-build, a platform acquires add-ons that are typically smaller and cheaper, so the group is worth more than the sum of its cost: this is multiple arbitrage, which depends on scale lowering risk in the eyes of the next buyer, plus synergies. Costs of integration, price discipline and the supply of real targets limit the gain. Interview point: show the arbitrage on a simple example, then say what could erode it: exit multiple, integration cost, overpaying.

WORKED EXAMPLE: MULTIPLE ARBITRAGE IN A BUY-AND-BUILD

A platform has EBITDA of 10m and would be sold at 10x. It plans to buy 3 add-ons, each with EBITDA of 2.0m, at 6x. Integration costs 3m in total and synergies add 1m of EBITDA. How much value does the strategy create, and what could erode it? Convention: the combined group exits at 10x, all costs are paid in cash, ignore financing and time value.

Answer: The strategy creates about 31m of value (24m arbitrage plus 10m synergies less 3m integration), and it falls to 19m if add-ons cost 8x.

Interview tip: Show the arbitrage as turns of multiple times acquired EBITDA, then add synergies and subtract integration cost. The interviewer listens for what you say could erode it: exit multiple, integration cost or overpaying.

INT.DC.3.b · Value Creation and Structures

Outline how a growth equity investment is assessed and structured, including the effect of preferred equity terms.

Growth equity is a minority investment in an established, growing company, usually with primary capital to fund expansion and little or no acquisition debt. Returns come from growth in revenue and value rather than leverage or cost cutting, so analysis focuses on unit economics, retention, market size, runway and the balance between growth and profitability; the rule of 40 is a rough screen. Investors often use preferred equity. A liquidation preference returns the investment first; non-participating holders take the higher of the preference and their converted share, while participating holders take the preference and then share in the remainder. Other terms, such as ratchets, board rights and vetoes, protect minority holders. Practice varies and the details are heavily negotiated. Interview point: distinguish primary from secondary money, know pre-money from post-money and compare structures by payoffs.

WORKED EXAMPLE: COMPARING TWO PREFERRED EQUITY STRUCTURES

A growth fund invests 20m of new money, all primary, in a company valued at 80m before the investment. It will hold preferred shares with a 1x liquidation preference. Compare what the fund receives under a non-participating and a participating structure if the company is later sold for equity value of 60m or 200m. Convention: no other investors, no fees, no dividends.

Answer: The fund owns 20% and gets 20m and 40m under non-participating terms but 28m and 56m if participating, at exits of 60m and 200m.

Interview tip: Work from post-money to the percentage stake, then compare the payoffs at a low and a high exit. The interviewer listens for the point at which a non-participating holder converts and for who bears the cost of participation.

INT.DC.4.a · Discussing Deals

Present a deal you worked on or would do in a structured way, with figures, risks and a decision rule.

Interviewers often ask you to walk through a deal you worked on or one you would do. Use a simple structure: the business and why it is interesting, the thesis and the value drivers, price and expected return, the main risks and how you would mitigate them, and what would make you walk away. Keep it to a few minutes and prepare the figures: entry multiple, leverage, exit assumptions and the resulting money multiple and IRR. For a deal you worked on, be exact about your own contribution, credit others, and use public or anonymised information because confidentiality obligations to a former employer and its clients still apply. For a deal you would do, choose something you can explain in depth and defend under questioning. Avoid vagueness, overclaiming and long lists. Interview point: end with what would prove you wrong and the price at which you would pass.

WORKED EXAMPLE: PITCHING A LAUNDRY BUSINESS AS A DEAL

An interviewer says: pitch me a deal you would do. You choose Clearwater Linen, a regional commercial laundry with EBITDA of 8m. You would pay 7x with 3x debt, aim to lift EBITDA to 12m in five years, repay debt to 12m and sell at 7x. The fund hurdle is 15% IRR. Build the answer in stages, then add the returns. Convention: ignore fees and tax, single exit at year five.

Answer: I would buy Clearwater at 7x for a return of about 2.25x and 18% IRR, provided the top customers renew, and I would pass above about 7.5x, where the IRR falls to 14.9%.

> **Interview tip:** Go through the business, thesis, price and return, risks and the walk-away price in that order, with the figures ready. The interviewer listens for the price at which you would pass and for what would prove you wrong.

Summary of the Charta interview-preparation topic. Companies and figures in the examples are invented. Draft content, not yet expert reviewed.