

## Proactive Investment Strategy For Global PE Firm: Systematically Sifting Through Currently PE-Held U.S. Companies For Potential Targets

**The Challenge:** Our client, a global PE firm, wanted to identify potential investments for one of its newest funds, having hypothesized that the economic downturn had created an attractive investment opportunity as a large inventory of quality companies in PE portfolios were ready for exit but hadn't been able to achieve the desired valuation. Gotham, with its proprietary database of ~8,500 PE-owned companies, was brought in to efficiently sift through the universe of portfolio companies to find investment opportunities matching our client's investment thesis.

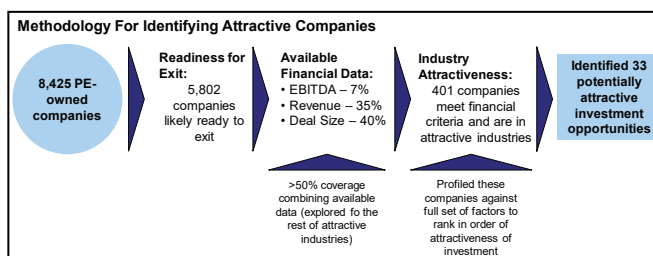
**Conversion Of PE Fund Investment Thesis Into Comprehensive Scoring Method:** Gotham developed a rigorous, data-driven approach to quantify the attractiveness of each potential target. Collaborating closely with our client, Gotham first identified the key factors for this fund's ideal investment: (a) Readiness For Exit; (b) Financial Profile; (c) Cyclicity & Growth Profile; (d) Risk Exposure Profile; and (e) Geographic Presence & Opportunities.

For each factor, we then identified the performance indicators most valued by the PE firm and created a scoring system and relative weight for each. For example, for Readiness For Exit, we considered the acquisition date and the current investor's financial well-being, likelihood to raise a new fund, and portfolio strategy. The weighting of each performance indicator enabled us to rank the overall attractiveness of each potential target.

### 3-Stages Of Iterative Filtering Quickly Confirmed ~400 Ostensible Investment Opportunities

We then proceeded to span the universe of companies, utilizing a 3-step, iterative process, in which later steps often better informed and amended work done in an earlier step, initially identifying ~400 prospects from the ~5,800 companies likely ready for exit:

- Industry Profiling:** We began by scoring the represented industries against the key success factors. For example, the commodities sector tends to be highly subject to economic cycles and to have significant downside risks due to regulation and customer concentration; hence, commodities-based businesses such as mining were given a corresponding low score. This process reduced the pool of investments to consider by ~20%.
- Quick Filtering:** We then looked at companies that had available information on easily captured indicators, such as current EBITDA information, date of most recent acquisition, and revenue response to economic downturns. Companies with a characteristic which would make them unacceptable were flagged and, provided the information was found to be sound, were subsequently removed from consideration (e.g., 30+% drop in revenue during downturns purely due to high exposure to economic cycles was unacceptable).
- More Tailored Filtering:** Following that, we rated companies based on indicators that required more rigorous analysis. For example, in cases where current EBITDA was not readily available, we extrapolated using acquisition history, revenue information, deal information, industry margins, peer multiples, projected growth, and other comparables. We also looked at the set of private equity funds that owned the investments and scored them based on a set of indicators to help gauge readiness for exit (e.g., a firm which had just closed funding a few months ago was given the lowest rating as they had little incentive to show immediate returns or raise new funding).



### In-Depth Analysis Honed The List To 33 Attractive Targets Ready For Exit By Current Investors

After completing as much up-front, quick analysis as possible, we focused our efforts on carefully determining the fit of the remaining pool of potential investments, which stood at ~400. We combed public sources, such as news and company websites as well as proprietary sources, and leveraged in-house industry expertise in order to score each company against the full set of indicators. This produced a shortlist of the 33 top candidates.

**The Outcome:** We provided our client detailed profiles of the 33 highest-potential targets, plus profiles of an additional 23 companies with moderately high potential. The PE fund confirmed a significant number as potential investments that internal processes had independently identified for further review and directed resources to review others that Gotham had found.