

Private Equity Fund of Funds & Secondaries *– Certification Quiz Questions*

Module SEC-01 – LP-Led Secondary Deal Analysis (3-Hour Case Study)

12. You are completing an analysis of the individual portfolio companies held by a PE fund as part of an LP-led secondary deal (your firm is the prospective buyer of another LP's stake).

You are reviewing the historical financial information and valuation marks for ShineMaster Car Wash [SMCW], a premium car wash chain that this PE fund acquired at the end of FY 20. The GP has also provided a set of comparable public companies for SMCW, as shown in the image below this question. The closest pure-play comparable cited by the GP was Mister Car Wash.

In FY 24, SMCW completed an add-on acquisition of another car wash chain at a 9.5x EBITDA multiple, which nearly doubled its size. Excluding the acquisition, it recorded 15% organic revenue growth in the most recent LTM period. The GP expects that SMCW will now focus on organic growth going forward.

Based on this information and the data below, which of the following assumptions is **LEAST REASONABLE** for the company's cash flow and valuation forecast?

	A	B	C	D	E	F	G	H	I	J
29										
30						Historical - Full Financial Years:				LTM
31						FY 21	FY 22	FY 23	FY 24	2025-06-30
32										
33										
34										
35										
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	A	B	E	F	G	H	I	P	Q	R	S	T	U	V	W
19															
20															
21															
22															
23															
24															
25															
26															
27															
28															
29															
30															

- Assume continued EBITDA multiple expansion, driven by strong LTM revenue growth of 90%+ vs. much lower numbers for the public comps.
- Assume a moderate drop in the revenue growth rates in the projected years, in line with the historical organic growth rate.
- Assume the FCF conversion improves significantly and becomes less negative over time, returning to the FY 21 levels eventually.
- Assume that SMCW's EBITDA margin increases modestly over time, as it is already far outperforming most of the public comps.

13. In this same LP-led secondary deal, you are working on a schedule of the fund-level cash flows in between the deal close date (June 30th, 2025) and the end of the fund’s life in 2031.

You have forecast each remaining portfolio company’s exit date and exit equity proceeds as multiples of their NAVs at the time this initial secondary deal closed.

To calculate the Carried Interest, you check to see if the exit date falls within the current period, and if it does, you take the exit proceeds, subtract the initial invested capital, and multiply by 20%. If the investment profits are negative, there is no Carry.

An example formula in this schedule is shown in the image below this question. Which of the following is the **BIGGEST FLAW OR OVERSIGHT** in this schedule?

	A	B	C	D	E	F	G	H	I	J	K	L
25												
26												
27			Unrealized Investments:	Ticker	Industry	Investment Date	Exit Date	Invested Capital	Realized	Unrealized Value	Total Value	
28			HomeStyle Furnishings	HSF	Consumer	2024-12-31	N/A	92.9	-	92.9	92.9	
29			ShineMaster Car Wash	SMCW	Consumer	2020-12-31	N/A	60.0	-	120.0	120.0	
30			PetPal World	PPW	Consumer	2023-12-31	N/A	80.0	-	100.0	100.0	
31			ClimateMasters	CM	Industrial	2023-12-31	N/A	80.0	-	140.0	140.0	
32			AllSeasonJumpers	ASJ	Consumer	2021-12-31	N/A	65.0	-	156.0	156.0	
33			Total:					377.9	-	608.9	608.9	
34												
35			Realized Investments:									
36			FitGear	FG	Consumer	2021-12-31	2024-12-31	40.0	100.0	-	100.0	
37			AutoHub	AH	Industrial	2020-12-31	2023-12-31	70.0	150.0	-	150.0	
38			Explore360	E360	Consumer	2020-12-31	2024-12-31	80.0	133.3	-	133.3	
39			Total:					190.0	383.3	-	383.3	
40												
41			Total Fund - Gross Performance:					567.9	383.3	608.9	992.2	
42												
43			Fund-Level Cash Flows:	Units:	2025-06-30	2025-12-31	2026-12-31	2027-12-31	2028-12-31	2029-12-31		
44												
45			Distributions:	Exit Date:	Exit / NAV:							
46			HomeStyle Furnishings	2029-12-31	2.0 x	\$ M		\$ -	\$ -	\$ -	\$ -	\$ 190.3
47			ShineMaster Car Wash	2028-12-31	1.6 x	\$ M		-	-	-	190.7	-
48			PetPal World	2028-12-31	1.4 x	\$ M		-	-	-	139.0	-
49			ClimateMasters	2028-12-31	2.1 x	\$ M		-	-	-	300.1	-
50			AllSeasonJumpers	2027-12-31	1.4 x	\$ M		-	-	215.5	-	-
51			Unfunded:	2030-12-31	1.8 x	\$ M		-	-	-	-	-
52			Total:			\$ M		-	-	215.5	629.7	190.3
53												
54			Carried Interest:									
55			HomeStyle Furnishings					=MAX(0,IF(AND(\$D46<=K\$43,\$D46>J\$43),SUM(\$H46:K46)-\$I28,0)*GP_Carried_Interest)				19.5
56			ShineMaster Car Wash			\$ M		-	-	-	26.1	-

- The Carried Interest formulas do not support additional investments that might be made in each portfolio company after this secondary deal closes.
- The Carried Interest calculations are inconsistent because they compare the Distributions to the Invested Capital, not to the NAVs (Unrealized Values) in the secondary deal – even though the exit proceeds are based on NAV multiples.

- c. There is no Hurdle Rate check, so Carry might be incorrectly distributed in “borderline cases” here (e.g., lower Exit / NAV multiples on later exit dates).
- d. These Carried Interest formulas do not account for the Carry already distributed on the 3 realized portfolio companies.

14. In this same LP-led secondary deal, you have calculated the TVPI and Net IRR from the perspective of your firm, the new secondary investor in this deal.

Another team member reviews your analysis and asks you to add the Gross MOIC on a *primary basis*, i.e., from the perspective of the original LPs who committed to the initial fund and retained their stakes through to the final exits. You can see the calculations for this in the image below this question.

As a secondary investor in this deal, why would you care about the Primary Gross MOIC?

	A	B	C	D	E	F	G	H	I	J	K	L	M	N
62														
63			Returns Analysis:			Units:		2025-12-31	2026-12-31	2027-12-31	2028-12-31	2029-12-31	2030-12-31	2031-12-31
64														
65			Contribution:			\$ M		\$ (41.4)	\$ (4.6)	\$ -	\$ -	\$ -	\$ -	\$ -
66														
67			Distribution:			\$ M		-	-	17.2	50.4	15.2	8.0	-
68			(-) Carried Interest:			\$ M		-	-	(2.4)	(6.6)	(1.6)	(0.7)	-
69			Net Distribution:			\$ M		-	-	14.8	43.8	13.7	7.3	-
70														
71			Net Cash Flow:			\$ M		\$ (41.4)	\$ (4.6)	\$ 14.8	\$ 43.8	\$ 13.7	\$ 7.3	\$ -
72														
73			TVPI:			x		1.7 x						
74			Net IRR:			%		20.0%						
75														
76			Company:				Cost	Exit Proceeds						
77			FitGear			\$ M	\$ 40.0	\$ 100.0						
78			AutoHub			\$ M	70.0	150.0						
79			Explore360			\$ M	80.0	133.3						
80			HomeStyle Furnishings			\$ M	92.9	190.3						
81			ShineMaster Car Wash			\$ M	60.0	190.7						
82			PetPal World			\$ M	80.0	139.0						
83			ClimateMasters			\$ M	80.0	300.1						
84			AllSeasonJumpers			\$ M	65.0	215.5						
85			Unfunded:			\$ M	57.1	99.9						
86			Total:			\$ M	625.0	1,518.7						
87														
88			Gross MOIC (Primary):			x		2.4 x						
89														

- a. The Primary Gross MOIC helps establish whether the LPs that sell in the secondary deal earn a return that meets their targets.

- b. The Primary Gross MOIC vs. the Secondary TVPI tells you how much the returns are reduced due to the Management Fees and Carry over the fund's entire lifecycle.
- c. The Primary Gross MOIC vs. the TVPI helps you assess the value created between the fund inception date and the secondary date vs. the value created between the secondary date and the fund wind-down.
- d. The Primary Gross MOIC helps compare the fund's overall returns to previous funds and ensures the portfolio company exit assumptions are grounded.