



of Briargate

CASE STUDY

Primrose School of Briargate - Early education and care franchise

Creating asymmetric risk \$0 cash down to \$458k gained



52%

Premium to enterprise
value



3.0x

Equity return



\$458k

Return on \$0 invested

KEY ACHIEVEMENTS

- Invested with an **asymmetric risk profile** based on purchase price below the real estate and business value
- Realized **\$458k in return for a \$0 investment in 10 months**
- **Sold Katalyst's equity for 3x the initial value**
- **Negotiated a 52% premium** to initial enterprise value

INVESTMENT PHILOSOPHY

- Identify opportunities of **asymmetric risk** to maximize returns and mitigate risks
- Pursue opportunities with **clear pathways to growth** aligned with Katalyst's direct operating expertise, and
- Deploy into each Company to **drive value and execute** on Katalyst's value creation plan.

SITUATION

Primrose School was undervalued

Leveraging its operating experience and industry knowledge of the franchise system, Katalyst pursued investment opportunities of undervalued and/or underperforming single or multi units of strong franchise systems.

Katalyst's established relationships with business brokers yielded the opportunity to acquire up to 2 Primrose Schools, a 350+ unit franchise with a strong business model focused on early childhood education. The opportunity included the underlying real estate as well as the businesses from a seller whose previous deal fell through. Katalyst acquired 1 school and its underlying real estate.

Katalyst's analysis revealed the asking price was below the combined value of the business and real estate. By pursuing an SBA loan combining business and real estate and finding the right lender, Katalyst minimized the equity injection to 10%. Katalyst identified a partner to both operate the business and finance the equity, pay Katalyst a fee, and enable Katalyst to roll a portion of the fee into 19% equity of the business. The 19% threshold allowed Katalyst to avoid a personal guarantee for the SBA loan. Additionally, the deal was structured in a tax efficient manner so no phantom income was realized by Katalyst.

OUTCOME

Negotiated a 52% premium at exit

- Seven months into the deal, the operating partner desired to acquire Katalyst's stake in the business.
- Katalyst negotiated a 52% premium to the enterprise value of the school from acquisition which translated into 3.0x the equity value at closing.
- Through the investment, Katalyst realized \$458k with \$158k in a cash fee and \$300,000 from the sale of equity as an exit while Katalyst's partner continues to thrive in operating the business with 100% control.