



**Financial Services Case Studies:
Research and Due Diligence**

Building Financial Statement/DataBuilds



Line Items	FS Captions	Sub Caption1	Dec-16	Dec-17	Dec-18
Patient Gross Charges	Revenue	Patient Income	(29,405,764)	(31,353,453)	(29,686,221)
Adjustments	Revenue	Patient Income	15,925,902	16,810,206	15,823,324
Humana	Revenue	Patient Income	(6,440)	(18,706)	(12,985)
PMPM-Cigna	Revenue	Patient Income	-	-	-
PMPM - Anthem	Revenue	Patient Income	-	-	-
Shared Savings	Revenue	Patient Income	-	-	(212,527)
MSSP	Revenue	Patient Income	(84,528)	-	(745,071)
Meaningful Use	Revenue	Patient Income	(71,709)	-	-
IPA Income	Revenue	Patient Income	(54,956)	-	-
PQRI-PCIP Income	Revenue	Patient Income	(6,274)	-	-
Weight Loss - Products and Service	Revenue	Other Income	-	(179,168)	(495,670)
Pharmacy	Revenue	Other Income	(450,830)	(482,625)	(539,268)
Stipend / Director Income	Revenue	Other Income	(2,293,710)	(2,635,686)	(2,254,108)
Sublease Income	Revenue	Other Income	(71,545)	(144,901)	(116,375)
Other Income	Revenue	Other Income	(4,743)	(3,653)	(7,171)
Laser Services - Vienna	Revenue	Other Income	-	-	-
Patient Gross Charges - PT	Revenue	Patient Income	-	-	(2,741,075)
Adjustments - PT	Revenue	Patient Income	-	-	1,472,784
Anthem	Revenue	Patient Income	-	-	(240,530)
United Pool Allocation	Revenue	Patient Income	-	-	(118,625)
Optima	Revenue	Patient Income	-	-	(5,661)

Request and Guidelines Provided

- Restructure unorganized financial data into organized Trial Balances
- Caption and Sub-Caption each line item of the Trial Balance and create financial statements in specific formats

Income Statement - Consolidated						
US\$ in 000s	Dec-16	Dec-17	Dec-18	Dec-16	Dec-17	Dec-18
Revenue						
Patient Gross Charges	133,579,944	141,292,905	131,928,878	192.5%	191.0%	160.8%
Patient Gross Charges - PT	-	-	15,571,111	0.0%	0.0%	19.0%
Adjustments - PT	-	-	(8,322,071)	0.0%	0.0%	-10.1%
Anthem	-	-	1,062,378	0.0%	0.0%	1.3%
Adjustments	(70,186,387)	(73,761,924)	(70,091,770)	-101.1%	-100.2%	-85.4%
Patient Charges + PT + Anthem	63,393,557	67,530,981	70,148,526	91.3%	91.7%	85.5%
United Pool Allocation	-	-	566,202	0.0%	0.0%	0.7%
Optima	-	-	7,170	0.0%	0.0%	0.0%
Humana	43,180	82,417	80,295	0.1%	0.1%	0.1%
Payer Income	43,180	82,417	80,295	0.1%	0.1%	0.1%
PMPM-Cigna	359,161	529,865	665,547	0.5%	0.7%	0.8%
PMPM - Anthem	671,221	637,296	547,175	1.0%	0.9%	0.7%
Shared Savings	503,662	(235)	1,258,970	0.7%	0.0%	1.5%
MSSP	363,094	-	3,656,272	0.5%	0.0%	4.5%
Meaningful Use	282,160	-	-	0.4%	0.0%	0.0%
IPA Income	225,472	-	-	0.3%	0.0%	0.0%
PQRI-PCIP Income	20,142	62	-	0.0%	0.0%	0.0%
Population Health	2,424,912	1,166,988	6,127,964	3.5%	1.6%	7.5%
Patient Income	65,861,649	68,780,386	76,930,157	94.9%	93.4%	93.8%
Weight Loss - Products and Service	531,909	1,326,794	1,980,325	0.8%	1.9%	2.4%
Pharmacy	450,830	482,625	539,268	0.6%	0.7%	0.7%
Stipend / Director Income	2,295,085	2,653,186	2,268,640	3.3%	3.6%	2.8%
Sublease Income	210,035	299,551	280,836	0.3%	0.4%	0.3%
Other Income	52,091	29,883	25,692	0.1%	0.0%	0.0%
Laser Services - Vienna	-	41,673	22,541	0.0%	0.1%	0.0%
Other Income	3,539,950	4,833,682	5,097,302	5.1%	6.6%	6.2%
Other Income	3,539,950	4,833,682	5,097,302	5.1%	6.6%	6.2%
Revenue	69,401,599	73,614,068	82,027,459	100.0%	100.0%	100.0%

Methodology and Final Deliverable

- Devised macros to compile and consolidate financial data for multiple entities/months into one consolidated tab
 - Achieved increased efficiency and brought down the execution time drastically
- Captioned and Sub-Captioned each unique line item into specific accounts such as Revenue, Operating Expenses, Liabilities, etc. to populate Income and Balance Sheet statements
- Reversed the signs for Revenues, Liabilities and Equity to Tie-Out the entire data

Developed and deployed macros in order to deliver the assignment in considerably lesser time while maintaining top quality

Tie-Out of QofE Report and Databook

Adjusted EBITDA

Due diligence adjusted EBITDA increased from FY17 to LTM19 from \$10,978 to \$12,180. The increase in EBITDA from FY17 to LTM19 was primarily a result of adjusted revenue and gross profit increasing by \$26,278 and \$6,950, respectively. Metis' adjusted revenue increased \$33,081 from FY17 to LTM19 which was partially offset by Pluribus' adjusted revenue decreasing by \$6,803 over the same period.

The most significant revenue increases from FY17 to LTM19 related to the following contracts held by Metis: (i) Counter Threat Finance ("CTF") Global (\$11.17G increase), (ii) JSOU PTE (\$9,733 increase), (iii) MRR PTP (\$5,458 increase).

DHG proposed EBITDA adjustments of \$1,933, \$2,351 and \$1,383 in FY17, FY18 and LTM19, respectively. Significant proposed adjustments that impacted LTM19 reported EBITDA included: (i) \$822 to exclude nonrecurring and/or nonoperating expenses primarily related to the acquisition of Pluribus in YTD19, (ii) \$755 to normalize payroll to exclude duplicate positions, (iii) \$382 to exclude one-time achievement bonuses in YTD19, (iv) \$(767) to exclude out of period transactions.

Due diligence adjusted EBITDA margin totaled 23%, 23% and 19% in FY17, FY18 and LTM19, respectively.

Adjusted Income Statements						FY17-FY18 Change		FY18-LTM19 Change		FY17-LTM19 Change	
US\$ in 000s	FY17	FY18	LTM19	YTD18	YTD19	\$	%	\$	%	\$	%
Contract revenue	88,826	26,106	83,703	93,219	78,719	76,244	86.2	6,304	8.1	26,278	31.2
Gross profit	13,339	22,792	22,264	20,395	22,899	4,456	33.4	2,604	12.0	6,950	31.2
Due diligence adjusted EBITDA	2,712	6,249	7,694	4,949	6,942	2,437	89.8	2,387	49.8	4,822	148.2
As a % of contract revenue											
Gross profit	15.1	85.4	90.6	21.9	29.0						
Due diligence adjusted EBITDA	3.1	24.0	9.2	5.3	8.8						

Source: Trial balances and due diligence procedures

Adjusted Working Capital

Working capital is generally defined as current assets less current liabilities. Adjusted working capital averaged \$OPEN during LTM20 and approximated \$OPEN at Month XX, 2020. Based on our reading of the LOI and our understanding of the terms of the contemplated transaction, the Company is expected to be delivered on a cash-free, debt-free basis and with a sufficient amount of target working capital. As such, DHG proposed certain working capital adjustments to exclude cash and cash equivalents, debt and debt-like items. DHG also proposed certain adjustments to working capital based on our due diligence procedures. These proposed working capital adjustments are intended to align with the analyses performed within the Quality of Earnings section with the exception of certain adjustments only presented within the Working Capital Analysis section.

DHG noted the trailing three-month, six-month and LTM20 due diligence adjusted working capital averaged \$OPEN, \$OPEN and \$OPEN, respectively. Fluctuations in monthly working capital are primarily driven by \$OPEN. During LTM20, the Company's adjusted working capital was highest in \$OPEN primarily due to \$OPEN. DHG also noted the Company's reported days sales outstanding ("DSO") averaged \$OPEN (actual) days, days inventory outstanding ("DIO") averaged \$OPEN (actual) days and days payable outstanding ("DPO") averaged \$OPEN (actual) days during LTM20.

Adjusted Income Statements

US\$ in 000s	FY18	FY19	LTM20	YTD Oct18	YTD Oct19
Net sales	76,682	83,333	83,579	33,894	34,139
Cost of sales	49,911	53,282	52,812	21,791	21,321
Gross profit	26,771	30,052	30,767	12,104	12,819
Selling, general and administrative expenses	15,899	18,213	18,679	7,407	7,873
Depreciation and amortization	4,122	3,213	2,894	1,543	1,224
Operating income	6,749	8,626	9,195	3,154	3,723
Other income	(106)	(100)	(91)	(44)	(35)
Interest expense, net	167	149	99	64	14
Income before taxes	6,688	8,577	9,188	3,133	3,744
Provision for income taxes	1,441	1,514	1,512	742	740
Net income	5,247	7,063	7,677	2,391	3,005
Depreciation and amortization	4,122	3,213	2,894	1,543	1,224
Interest expense, net	167	149	99	64	14
Provision for income taxes	1,441	1,514	1,512	742	740
EBITDA	10,978	11,939	12,180	4,741	4,981

Request and Guidelines Provided

- Perform quality review/tie-out on the due diligence report and the databook

Methodology and Final Deliverable

- Cross verified numbers and schedules in the report ranging between 80-120 pages from the databook
 - Emphasized on the growth trends and reviewed financial and operational results of target company
- Performed data validation and quality checks across an extensive databook with over 100 tabs
- Proof-read the entire report to identify and highlight any formatting, spelling and grammatical inconsistencies

Performed data validation on the databook apart from executing the tie-out exercise to ensure the assignment is of the highest quality standards

Proof of Revenue and Proof of Expense



Proof of Revenue			
US\$ in 000s	Jan-19	Feb-19	Mar-19
Reported revenue			
Reported revenue	2,218	1,918	2,020
Plus: beginning gross accounts receivable	4,577	4,841	4,829
Less: ending gross accounts receivable	(4,841)	(4,829)	(4,783)
Change in accounts receivable	(264)	12	46
Less/Plus: Patient refunds			
Estimated cash receipts	1,954	1,930	2,066
Cash collections per bank statements			
Reported deposits			
Flushing	1,635	1,702	1,800
Management savings	0	0	0
Management	6,134	823	413
Modern bank	457	202	200
New jersey	340	279	291
RVC	1	-	-
Woodside	1	33	0
Reported deposits	8,569	3,039	2,704
Less: Transfers			
Flushing	-	60	-
Management savings	0	0	0
Management	1,047	806	400
Modern bank	400	-	-
New jersey	-	-	-
RVC	-	-	-
Woodside	-	0	-
Total transfers	1,447	866	400
Adjusted deposits	7,121	2,172	2,304
Variance	5,168	242	238
% Difference	264.5%	12.5%	11.5%

Request and Guidelines Provided

- Perform Proof of Revenue (POR)/Proof of Expense (POE) on bank statements

Methodology and Final Deliverable

- Identified non-operational items such as
 - Deposits/Credits for POR: Loan, interest, interbank transfers, refunds and reversals
 - Withdrawals/Debits for POE: Expenses such as intra-company transfer and shareholder distributions
- Advanced data analytics tools were deployed to filter key items from monthly bank statements running up to 30 pages
- Ran analysis for arriving at actual revenue and expenses
- Provided additional insights on the data by conducting variance analysis between reported revenue/expenses and the calculated revenue/expenses

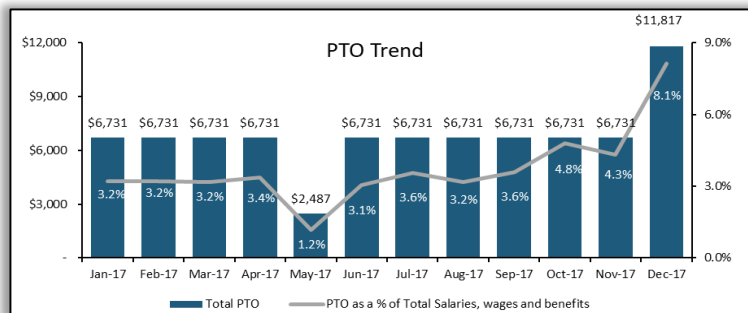
Leveraged data analytics tools to efficiently perform the exercise and provided insights on the variances found

Trend analysis

Payroll Sub-Caption	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17
Bonuses														
Bonuses	7,187	6,208	8,949	6,287	8,198	5,513	8,023	5,629	6,473	7,998	3,964	6,922	4,855	4,408
Bonuses	15,443	15,092	11,998	12,383	18,516	13,231	15,323	15,631	12,868	13,594	9,162	13,133	10,071	9,186
Bonuses														
Bonuses												691		
PTO	5,514	5,514	5,514	5,514	2,057	6,221	5,656	5,656	5,656	5,656	5,656	10,006	6,914	5,542
PTO	575	575	575	575	231	575	575	575	575	575	575	817	(1,098)	274
PTO	141	141	141	141		(565)								
PTO														
PTO	500	500	500	500	199	500	500	500	500	500	500	994	636	636
Employee benefits	81	42	20	61	14	22	28	105	52	55	81	(1,030)	113	85
Employee benefits	1,875	1,639	1,574	1,399	1,878	1,201	1,117	1,082	1,044	1,494	1,012	(15,759)	1,824	1,541
Employee benefits	824	688	627	546	562	839	770	810	906	680	712	(10,400)	1,159	893
Employee benefits	38	35	33	(3)		(104)								
Employee benefits														
Employee benefits	1,004	296	288	246	279	243	255	301	176	211	51	(831)	106	108
Payroll taxes	1,008	383	325	1,649	330	569	676	2,760	1,322	1,379	2,078	4,480	1,595	968
Payroll taxes	151	147	193	193	189	217	176	175	173	175	176	176	192	188
Payroll taxes	6,531	7,007	8,457	7,424	9,456	6,803	6,274	6,115	5,988	8,268	9,527	5,903	7,968	7,110
Payroll taxes	3,867	4,027	3,847	3,801	4,090	4,532	3,987	4,164	4,670	3,579	3,716	3,569	4,858	3,832
Payroll taxes	267	292	(310)	83		(332)								
Payroll taxes														
Payroll taxes	2,458	851	1,963	1,573	1,861	1,674	1,680	2,038	630	1,637	710	755	702	785

Comments

Discuss the Commission and Incentive policy?
 What and whom is the salary related to? why has it ceased?
 Why is the expense credited?
 Discuss what position the salaries are related to?
 Discuss why they have stopped paying the salaries?
 Discuss the credits in the expense account?
 Why has the company not paid the payroll taxes from Jun-2018.



Request and Guidelines Provided

- Identify major trends and non-recurring outliers in the financial statements

Methodology and Final Deliverable

- Analyzed each line item across all financial statements and schedules to identify fluctuations and discrepancies on a monthly, quarterly and annual basis
- Identified non-recurring items by studying frequency of said items across multiple periods
- Prepared DDQs for the management to respond to the identified discrepancies
- Investigated general growth trends for major line items
- Graphically represented the findings to portray trends and to pin-point fluctuations in the data set

Conducted an extensive study to highlight key trends and frame DDQs for the management