BIZCAP®

BUSINESS CAPITAL SINCE 2002

PROJECT RECOVERY

$25-30MM Asset-Based Credit Facility

BUSINESS DESCRIPTION

Our Client (the "Company") provides technology-enabled audit, recovery, and analytics services in the U.S. with a focus on the healthcare industry. The Company works with government and commercial healthcare payers to identify incorrect insurance claims, and improper or incorrect payments made to healthcare providers. Its proprietary, scalable technology and IP analyze submitted payer claims data to determine and quantify recoverable dollars, primarily in the form of overpayments.

Historically, the Company operated in both healthcare and other highly regulated recovery markets. Based on the ongoing impact of COVID-19, our Client accelerated its planned strategy to divest its non-healthcare assets to focus exclusively on providing services to the $4 trillion healthcare market through the sale of non-healthcare recovery contracts.

Our Client earns success-based fees based on a percentage of the dollar amount of improper claims recovered by its customers as a result of its auditing and related services. The Company has saved over $3 billion in overpayments for these customers, which provides a stable and predictable level of cash flow. Substantially all revenue is under long-term engagements. Healthcare revenues have been increasing based on (i) volume and growth in existing engagements, (ii) increased horizontal and vertical flow of new opportunities, and (iii) expansion of new client logos through sales and marketing.

The lengthy process associated with analyzing and evaluating claims data, coupled with the time required by the Company's client's counterparties to validate and recoup submitted findings, delays full recognition of revenue and the collection of success fees.

TRANSACTION SUMMARY

Our Client is seeking to secure a $25-30MM asset-based credit facility to refinance $12MM of term debt outstanding with their incumbent, as well as fund ongoing working capital needs to support future revenue growth. The Company is seeking this facility to provide (i) allowance for flexibility in growth spend, such as upfront healthcare contract ramp-up costs, (ii) FCCR calculations to only factor in maintenance capex and not growth capex, (iii) 80%+ advance rate on Contract Assets, and (iv) 90%+ advance rates for A/R.

PROJECT TIMELINE

- Term Sheet Deadline: **June 7, 2023**
- Target Close Date: **August 2, 2023**
- BizCap has prepared a CIM including management projections, as well as a VDR with backup documentation, that will be shared upon execution of an NDA.

FINANCIAL HIGHLIGHTS

$ in Thousands	2020A	2021A	2022A
Healthcare	$68,548	$77,454	$94,666
Recovery	73,396	33,405	241
Other	13,993	13,534	14,277
Total Revenue	**155,937**	**124,393**	**109,184**
Total YoY Growth %		***(20%)***	***(12%)***
Healthcare YoY Growth %		***13%***	***22%***
Healthcare % of Total	***44%***	***62%***	***87%***
Adjusted EBITDA	**$21,034**	**$11,982**	**$1,841**
Adjusted EBITDA Margin %	***13%***	***10%***	***2%***

From FYE 2020 through FYE 2022, the Company's revenue declined from $156MM to $109MM as the Company divested its non-healthcare recovery business and focused on the healthcare market. Despite the robust growth in the healthcare side of the business, adjusted EBITDA margins compressed from ~13% in 2020 to 2% in 2022. This decrease was primarily attributable to ramp-up costs for new contracts not yet generating corresponding revenue, as well as the cessation of recovery market activities. ***For 2023, the Company is anticipating ~$105-110MM in healthcare revenue and total adjusted EBITDA of $2-5MM***, primarily driven by improved operating leverage arising from enhanced labor efficiencies. The pipeline is significant and includes existing and new prospective clients. As of March 2023, net worth stood at $82MM and balance sheet leverage was low at 0.28x.

COLLATERAL HIGHLIGHTS

Collateral Type	Value ($000's)
Cash	$11,957
A/R	12,778
Contract Assets	9,697
Total	**$33,925**

Contract Assets are conceptually unbilled amounts for services rendered; these assets demonstrate predictable invoicing and cash flow trends when mapped out over time. To be conservative and ensure no material impact is experienced from an unexpected revenue reversal, the Company applies a constraint percentage (or discount) to each gross claims' dollar amount delivered to each of their clients before booking the *net* amount as a Contract Asset on the balance sheet. This has resulted in a history of the Company generally over-monetizing it's Contract Assets balance.

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