# PERMIRA & MIMECAST INVESTMENT MEMO

## First-lien lending assessment

### Recommendation at a glance

Conditional approval, subject to security, cash-flow sweep, interest-rate protection and maintenance covenants. If those terms cannot be agreed, reduce the initial loan to approximately $1.58bn.

George Williams

Case study | October 2026
Transaction completed 19 May 2022

## Recommendation Overview

I would approve the $2.0bn first-lien term loan only if Permira accepts a strong security package, a cash-flow sweep, rate protection and maintenance covenants that let lenders intervene before liquidity is exhausted. Mimecast sells an essential service through recurring subscriptions and has demonstrated cash generation. Yet 10.1× opening leverage against FY2023 projected adjusted EBITDA leaves little room for an early miss. If these protections cannot be agreed, I would reduce the initial loan to about $1.58bn, or 8.0× that EBITDA forecast. [1, 2, M]

The main issue is debt service, rather than the size of the sponsor cheque. In my Base case, FY2024 EBITDA covers cash interest only 1.29× and levered free cash flow is approximately $0.3m. The Bear case uses declining revenue, margin pressure and higher floating rates: it exhausts the $150m revolver, then records a further $382m cumulative liquidity shortfall. A large equity cushion can absorb a fall in enterprise value, but it cannot itself pay interest. [M]

## Transaction at a glance – hindsight

| Item | Transaction fact or underwriting measure |
|---|---|
| Purchase | All-cash take-private at $80 per share; approximately $5.8bn equity value |
| Sponsor | Permira funds and co-investors; $3.7099bn equity commitment in the proxy |
| Debt commitment | $2.0bn first-lien term loan plus $150m first-lien revolver |
| Borrower | Mimecast BorrowerCo, Inc.; Mimecast joined the guarantor group at closing |
| Opening leverage | $2.0bn / $198m FY2023 projected adjusted EBITDA = 10.1× |

Sources: Mimecast transaction announcement and SEC merger proxy [1, 2]. The revolver is a commitment, not funded debt at entry in the LBO [M].

## Business model and credit assessment

Mimecast sells email security and cyber resilience software through renewable subscriptions. Its services sit alongside a customer's primary email system: they inspect messages for threats and data loss, keep email available during an outage, and store records for compliance and investigation. These functions support daily operations, giving customers a reason to maintain protection when other software spending is under pressure. That makes subscription revenue a more dependable starting point for debt service, although it does not make revenue immune to a weaker economy. [3]

Mimecast's retention and expansion figures reflect the quality of that revenue. Net revenue retention rose from 104% in FY2021 to 108% in the quarter ending December 2021. This measure compares revenue from the same customer cohort over a trailing twelve-month period and includes additional seats and services, which is offset by downsell and churn. At 108%, revenue from existing customers grew 8% on a net basis. That gives lenders some support for future revenue even before Mimecast wins new accounts. [4, 5]

Mimecast was also selling more to each customer. Average services per customer increased from 3.5 to 3.9 between the December 2020 and December 2021 quarters. Average annual order value reached $15,200, up about 15% year on year in constant currency. More products and higher contract value can improve cash generation without the full cost of acquiring a new customer. They can also raise switching costs: a customer leaving Mimecast may need to change email routing, migrate archives, rebuild retention policies and test a replacement continuity service. These benefits depend on customers continuing to see value in the additional products. [3, 6]

Cash generation provides a separate check on the recurring-revenue thesis. Customers often pay before Mimecast recognises all the related revenue, supporting working capital. Free cash flow reached $88.4m in FY2021, while gross and adjusted EBITDA margins improved as revenue grew. Yet adjusted EBITDA should not be treated as cash available for interest: FY2021 adjusted EBITDA was $127.2m against GAAP net income of $29.7m, partly due to its reconciliation adding back $53.6m of share-based compensation. I would assess debt capacity using

cash conversion after the spending needed to maintain the product, particularly research and development rather than using their adjusted EBITDA. [4]

The principal commercial risk is Microsoft. Mimecast benefits from customers using Microsoft 365, but Microsoft can bundle more security into that platform and pressure specialist vendors' prices. Mimecast's independent security layer, archiving and continuity services give customers reasons to retain it, particularly if they want protection separate from their email provider (diversification in security). Maintaining that distinction requires continued product investment. A serious failure of Mimecast's own security could also damage trust and renewals. Either pressure would weaken the reliability of future cash flow. [3]

Customer count reached 40,200 in December 2021, up from 39,600 a year earlier. With customer growth modest relative to growth in order value, the lending case depends heavily on expansion within the installed base. I would monitor customer count, net revenue retention, services per customer and free cash flow together. If product adoption keeps rising but cash conversion weakens, the business may remain valuable to customers while becoming less reliable as a highly leveraged borrower. [5, 6]

## Historical performance and earnings quality

| USD m except margins | FY2019 | FY2020 | FY2021 | 9M FY2022 |
|---|---|---|---|---|
| Revenue | 340.4 | 427.0 | 501.4 | 441.4 |
| Revenue growth | 30.0% | 25.4% | 17.4% | 20.1% YoY |
| Gross margin | 73.3% | 74.4% | 75.7% | 77.0% |
| Adjusted EBITDA | 54.0 | 78.1 | 127.2 | 131.3 |
| Adjusted EBITDA margin | 15.9% | 18.3% | 25.4% | 29.7% |
| Free cash flow | 37.4 | 37.3 | 88.4 | 100.8 |

Sources: Mimecast FY2021 Form 10-K, FY2021 results and December 2021 Form 10-Q [4, 5]. Fiscal year ends 31 March. Growth and margins are calculated from reported figures.

Revenue growth moderated from FY2019 to FY2021, while gross and adjusted EBITDA margins improved. Free cash flow rose to $88.4m in FY2021. Advance customer billing supports working capital, and renewals give the business a starting revenue base each year. These are useful qualities for lenders, but adjusted EBITDA is a generous measure of debt capacity. FY2021 GAAP net income was $29.7m against $127.2m adjusted EBITDA. Share-based compensation added back in the reconciliation was $53.6m. I would therefore underwrite cash conversion and restrict EBITDA add-backs rather than treat every adjustment as cash available for interest. [4, 5.

## Forecast and capital structure

| USD m | FY2023E | FY2024E | FY2025E | FY2026E |
|---|---|---|---|---|
| Revenue | 691 | 815 | 975 | 1,168 |
| Adjusted EBITDA | 198 | 233 | 286 | 352 |
| EBITDA margin | 28.7% | 28.6% | 29.3% | 30.1% |
| Unlevered free cash flow | 98 | 122 | 161 | 209 |

Source: management projections published in the merger proxy [2]. These were prepared for the sale process and are not lender guidance.

Permira's thesis rests on growth in customers, seats and products sold per account, with EBITDA rising faster than revenue. If FY2026 EBITDA reaches $352m, the opening $2.0bn loan would equal 5.7× EBITDA even before principal repayment. That headline improvement depends on the operating plan. The acquisition debt sits at BorrowerCo and must ultimately be serviced by Mimecast's cash flow alone; the model assumes no later equity injection from Permira. [2, M]

The transaction documents disclose a $3.71bn sponsor and co-investor equity commitment and $2.15bn of debt commitments, including the revolver. I have created a simplified LBO that uses a $3.8bn balancing equity source against a $5.8bn shareholder purchase price, assumes zero transaction fees and no revolver draw at entry, I have assumed this out so I can focus on the actual profitability and debt capacity of the company over 3 scenarios. Please note that there are two presentations that answer different questions and should not be combined into a single sources-and-uses table. [2, M]

## LBO and downside analysis

| Credit metric | Bull | Base | Bear |
|---|---|---|---|
| FY2028 EBITDA, $m | 660.6 | 533.9 | 147.6 |
| FY2028 funded debt, $m | 1,431.6 | 1,614.9 | 2,150.0 |
| FY2028 net leverage | 1.95× | 2.84× | 14.56× |
| Minimum EBITDA / cash interest | 1.40× | 1.29× | 0.59× |
| Peak revolver draw, $m | 0 | 0 | 150.0 |
| Cumulative liquidity shortfall, $m | 0 | 0 | 382.1 |
| Term-loan principal repaid by FY2028 | 28% | 19% | 0% |

Source: author's revised Mimecast LBO workbook [M]. FY2028 is the five-year exit year. Numbers are illustrative scenario outputs, not reported company results.

It is important to note that the model uses the adjusted EBITDA, which is overly generous due to large share-based compensation offered by Mimecast. This was used as it gave us a definitive starting point and was directly transferable into a model, as it allows me to size and stress the loan. The base case follows published management projections through FY2026. For FY2027–FY2028, my model extrapolates stronger revenue and margin trends than the proxy's management-extended projections. It uses an 80% sweep of positive levered free cash flow, which pays down only about $385m of term debt by FY2028. The decline in net leverage is therefore driven mainly by EBITDA growth. This makes the result sensitive to growth assumptions and leaves a substantial refinancing need near the May 2029 term-loan maturity. [2, M]

The Bear case is deliberately a credit stress, not my central forecast. Revenue growth slows to 5%, then 0%, contracts 5%, and recovers modestly; EBITDA margin bottoms at 18%. Higher benchmark rates compound the operating miss. EBITDA is below cash interest throughout the forecast, the revolver reaches its limit, and the model leaves the $382m residual deficit unfunded. That is a warning of restructuring or new-capital need, not a feasible steady-state outcome. [M]

My rate path applies a 5.75% spread to illustrative floating benchmarks. It is an underwriting assumption rather than a reconstructed May 2022 forward curve. The model also simplifies tax, working capital and transaction fees; interest is calculated on beginning debt. A slower growth path, lower permitted EBITDA add-backs, or higher cash taxes could make coverage weaker. [M]

### Model assumptions

**Operating cases.** The Base case uses Mimecast's published management revenue and adjusted EBITDA projections through FY2026. I extrapolate growth and margins for FY2027–FY2028; these are my assumptions and are more optimistic than the management extended projections in the merger proxy. The Bull case increases Base revenue growth by 20% and EBITDA margins by 5%. The Bear case tests weaker sales and margin compression rather than a small miss against the Base case. [2, M]

**Interest rates.** The model applies an illustrative 5.75% spread to floating benchmark rates. In the Base and Bull cases, the benchmark rises from 2.50% at entry to 3.25% in FY2024, then declines to 2.50% by FY2027. In the Bear case, it reaches 4.50% in FY2024–FY2025. The resulting FY2024 all-in rates are 9.00% in Base and Bull and 10.25% in Bear. These paths are underwriting assumptions, not reconstructed market forecasts. Interest is calculated on beginning debt. [M]

**Cash flow and repayment.** I assume capital expenditure equal to 7.0% of revenue, depreciation and amortisation of 7.7%, negative working capital equal to 3.5% of revenue, and a 25% cash tax rate. The model uses 80% of positive levered free cash flow to repay debt and retains the other 20% as cash. It assumes no further sponsor equity injection. [M]

**Earnings measure.** The model starts from adjusted EBITDA but does not separately deduct share-based compensation as an economic cost. Its debt-service results should therefore be read alongside an SBC-adjusted sensitivity. This matters most in the early years, when the Base case has little cash headroom even before that adjustment. [M]

## Recommended lending terms

First-lien security and guarantees. The loan should have first-ranking security over material assets and guarantees from material operating subsidiaries. Sponsor equity must fund before or alongside the debt in full. This keeps operating cash flow and collateral inside the lender perimeter and ensures the agreed equity cushion exists at closing.

Cash sweep and leakage control. I would sweep 100% of excess cash flow while net leverage is above 6.0× or interest coverage is below 1.5×, then step down to 80%, 50% and 25% as both measures improve. The model's flat 80% sweep is less protective than these proposed documents. Dividends, monitoring fees, share repurchases and acquisitions should be blocked while leverage is high or a default exists. Asset-sale proceeds should repay debt principal unless promptly reinvested in the business.

Rates and maintenance tests. A cap should cover the full term loan for the first two years and at least 75% in year three, with extension while leverage remains above 6.0× or coverage below 2.0×. I would start negotiations around a 3.0% benchmark strike, subject to premium and market availability. Minimum liquidity and EBITDA-to-cash-interest tests should operate alongside a maximum net-leverage covenant. The proposed leverage ceiling steps down from 11.0× in FY2024 to 9.0×, 7.0×, 5.5× and 4.5× through FY2028. Definitions must count revolver draws and tightly limit cash netting and EBITDA add-backs. [M]

Information rights. I would require regular reporting on annual recurring revenue, retention, churn, services per customer, cash conversion, liquidity and security incidents. These measures can reveal weakened demand or product quality before the full effect appears in EBITDA.

## Decision

Mimecast is a credible borrower, but $2.0bn is an aggressive loan size for the cash interest burden at closing. I would lend only with the protections above. If Permira requires covenant flexibility that removes early intervention rights, I would offer approximately $1.58bn instead. This gives Permira a softer interest burden at inception, which is where the largest risk lies. This is shown by the model in their tight interest coverage over FY2024, coverage would rise from 1.29x to 1.63x, which improves the bear case in the model. Lastly, the investment case is strongest when recurring revenue and an independent security layer translate into reliable cash; the key test is whether that cash can cover interest and reduce principal before maturity. [M]

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# APPENDIX

## Source and model notes

[1] Mimecast acquisition announcement and completion notice

[2] Mimecast definitive merger proxy, including financing and management projections

[3] Mimecast FY2021 Form 10-K, business, risk factors and financial statements

[4] Mimecast FY2021 results and adjusted EBITDA reconciliation

[5] Mimecast Form 10-Q for nine months ended 31 December 2021

[6] Mimecast's third-quarter FY2022 results

[M] LBO Model