

Cipher: *commercial DD* on a \$400M-ARR vertical SaaS target.

A NA mid-market PE acquirer has signed an LOI on a \$400M-ARR vertical SaaS target serving construction trades; IC vote in 28 days. TAM, NRR, and moat narrative each have a soft edge. Cipher is a four-week sprint: three-method TAM triangulation, ~40 ACV-weighted reference calls, win-loss on top-4 competitors, cohort-level pricing-power test, delivered as a bear/base/bull memo the IC can vote on.

Author S. Ize-Iyamu **Audience** Commercial-DD partners **Length** 3 pages **Status** Engagement plan
Targets Bain DD · OC&C · L.E.K. · EY-Parthenon

The Problem

The CIM has three soft spots; the IC will price to whichever the buyer pressure-tests hardest. TAM inflation: seller claims ~\$4B headline by aggregating ServiceTitan-, Procore-, Buildertrend-, Jobber-, and FieldEdge-adjacent categories; defensible wedge is ~\$1.2–1.4B (a 65–70% haircut). **Cohort-level NRR degradation:** aggregate 122% sits in top-quartile, but bottom-quartile cohorts (sub-\$15K ACV, late-2023 vintages) trend below 100%: a pricing-power signal the aggregate hides. **Mis-identified moat:** seller cites "feature breadth," but practitioner calls suggest the durable moat is *integration-density with a fragmented field-service tooling ecosystem*: a different bet with different defensibility tests.

FIGURE 1 · DILIGENCE FRAME · BEAR / BASE / BULL

DILIGENCE FRAME · 3 SOFT SPOTS × 3 SCENARIOS → DEAL ACTION

	BEAR	BASE	BULL	DEAL ACTION
TAM claimed ~\$4B	\$0.8B defensible walk	\$1.2–1.4B defensible price chip	\$2.0B defensible proceed	Bottom-up cap
NRR aggregate 122%	SMB cohort <95% walk / restructure	SMB cohort 100–105 earn-out	SMB cohort 110%+ proceed at ask	Cohort decomp
Moat "feature breadth"	substitutable feat. walk	integration-density re-thesis · invest	network-effect proceed · expand	40 ref calls

Three soft spots × three scenarios = a nine-cell decision frame. The IC needs each row resolved to a single colored cell with deal action attached. Base case (price chip + earn-out + re-thesis on integration-density) is the most likely outcome on the published prior.

Sizing the deal

Headline check: \$400M ARR at **8–13× ARR (2025–26 top-quartile band per Bessemer Cloud Index / SaaS Capital)** implies a ~\$3.2–5.2B EV ask. The base-case finding chips this two ways. Defensible TAM of ~\$1.2–1.4B (vs. seller's ~\$4B headline) caps the long-run share-of-spend ceiling and re-rates the growth curve from "category-creating" to "category-leading-in-a-finite-pond." SMB-cohort NRR drift toward ~100% pulls the comp set off the >120%-NRR premium band, worth 1.5–3× of revenue multiple at the deal margin. Net: a base-case **0.7–0.9× price chip** plus structure (earn-out tied to SMB-cohort NRR recovery; integration-density investment in the 100-day plan).

DEFENSIBLE TAM (BASE)
~\$1.2–1.4B
 vs. seller's ~\$4B headline

IMPLIED EV ASK
\$3.2–5.2B
 \$400M ARR × 8–13×

SPRINT FIXED FEE
\$400–700K
 4 wks · partner-led

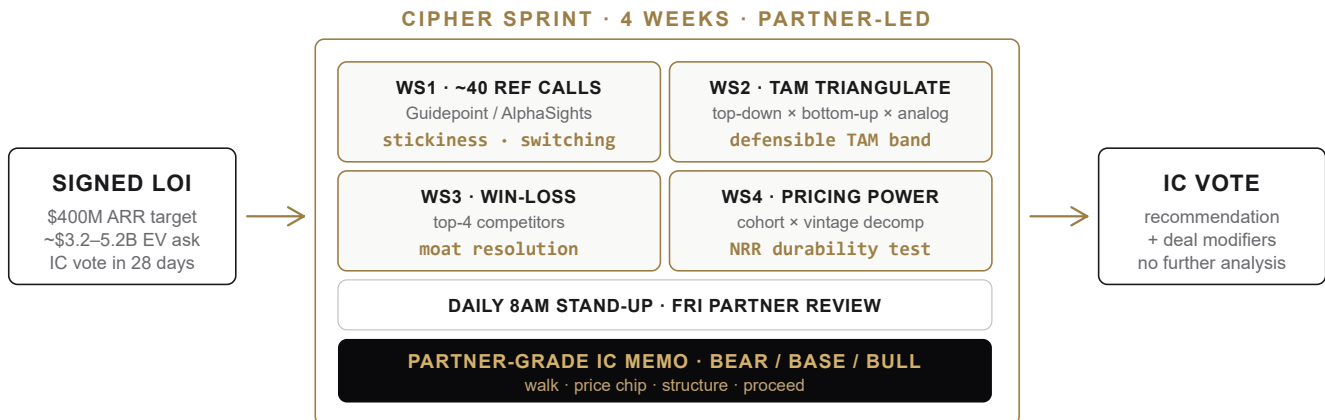
Multiples per Bessemer Cloud Index / SaaS Capital 2025–26. Engagement-plan ballpark; final number lives in the IC memo.

THE UNLOCK

Run **four workstreams in parallel against a single IC date**, with a daily 8:00am stand-up and a Friday partner review, on one fixed-fee contract. WS1 (~40 ACV-weighted reference calls via *Guidepoint / AlphaSights / Third Bridge*) tests stickiness and switching cost; WS2 (three-method TAM triangulation: top-down × bottom-up × analog-share) collapses the headline into a defensible band; WS3 (win-loss against the four most-cited competitors) measures the actual moat; WS4 (pricing-power test on the seller's discount-and-uplift data, cut by cohort and vintage) forecasts NRR durability. Each workstream feeds a single bear/base/bull memo with explicit deal-modifier flags.

Engagement architecture

FIGURE 2 · FOUR-WORKSTREAM SPRINT FEEDING ONE IC MEMO



Four workstreams run in parallel from day 2; daily stand-up + Friday partner review govern; a single IC memo with explicit deal-modifier flags is the output. The deliverable is a vote-ready recommendation, not a 200-page market report.

WORKED EXAMPLE · SIMULATED FINDING · BASE CASE

WS2 reconciles three TAM methods: top-down ~\$3.8B; bottom-up ~\$1.2B; analog-share ~\$1.4B. Triangulated defensible TAM: ~\$1.2-1.4B vs. the seller's ~\$4B headline. WS4 cuts NRR by ACV band: top-quartile cohorts hold at 132%; bottom-quartile (sub-\$15K ACV) is 96% and trending. WS1 corroborates: SMB customers cite "feature parity with Jobber-tier alternatives" as switching threshold. Base-case recommendation: *proceed at ~0.8× price chip with earn-out tied to SMB-cohort NRR recovery and a 100-day plan committing \$X to integration-density investment.*

Sequenced delivery (4-week sprint)

WEEK	WORKSTREAM CADENCE	FORCING-FUNCTION DELIVERABLE	DECISION-GRADE PROOF POINT
W1 Setup · hypotheses	Hypothesis tree · ref-call screener to expert networks · TAM source map · data-room read	Diligence plan signed by partner; 40-call recruitment in motion	Bear/base/bull cells named on each row
W2 Reference + TAM	WS1: 18-22 calls (top-quartile ACV first) · WS2: top-down + bottom-up draft · WS4: cohort decomp scaffolded	Mid-point read-out · TAM band first cut · NRR cohort first cut	TAM ±25%; ACV-weighted call coverage > 50%
W3 Win-loss + pricing	WS1: remaining ~18 calls (SMB + lost deals) · WS3: win-loss on top-4 competitors · WS4: pricing-power test resolved · WS2: analog-share	Per-workstream draft sections; contradictions logged and resolved	Each soft spot has a defensible row
W4 Synthesis · IC	Bear/base/bull synthesis · deal-modifier flags · partner red-team · IC walkthrough	Partner-grade IC memo · supporting appendix · 100-day plan inputs	IC votes on a recommendation, not findings

Metrics that matter

LAYER	METRIC	W4 TARGET	WHY IT MATTERS
North-star	Time-to-decision-grade deliverable	≤ 28 days · IC-ready	Below this, the seller's process timing wins
Coverage	Reference-call coverage (ACV-weighted)	≥ 38 of 40 · > 70% of ARR	Below 30 ACV-weighted calls, the moat read is contestable
Defensibility	TAM confidence interval (3-method)	±15% across methods	Wider than this, the IC discounts the band
Statistical	Win-loss N (per competitor, per ACV band)	≥ 8 wins + ≥ 8 losses on top-4	Methodological floor for partner sign-off
Resolution	Pricing-power test resolution	SMB cohort NRR > 80% explained by named drivers	An unexplained NRR slope is the IC's biggest red flag

Risks & mitigations

- HIGH** **Reference-source thinness: vertical SaaS for construction trades has a finite practitioner pool, and the seller may have called the obvious names.**
Mitigation: dual-source recruiting (Guidepoint *and* AlphaSights, with Third Bridge backstop) on day 1; ACV-weighted screener prioritizing lost-deal contacts and bottom-cohort customers; 4–6 ex-employee calls to pressure-test the moat narrative independently.
- HIGH** **Seller pushback on data-room access (cohort-level NRR, full discount-and-uplift cube): the very data needed to test the soft spots.**
Mitigation: Day-2 data-room ask framed as standard for >120%-NRR comp validation; if refused, the absence becomes a flagged risk in the IC memo with deal-modifier weight; clean-room arrangement for sensitive cuts as fallback.
- MED** **IC timing slips: partner travel, sponsor questions, or a competing bid compress the W4 synthesis window.**
Mitigation: partner red-team scheduled end of W3, not W4; written-not-presented memo as canonical artifact; two pre-committed partner slots for IC follow-up Q&A in week 5.

30 / 60 / 90: post-engagement

<p>30 DAYS</p> <p>IC follow-up</p> <ul style="list-style-type: none"> › Two partner-led IC Q&A slots reserved › Memo addenda on deal-team-raised points › Final-bid pricing support if deal advances 	<p>60 DAYS</p> <p>100-day plan input</p> <ul style="list-style-type: none"> › Integration-density investment thesis sized › SMB-cohort NRR-recovery KPIs scoped › Win-loss feed into commercial workstream 	<p>90 DAYS</p> <p>Portfolio-team handoff</p> <ul style="list-style-type: none"> › Evidence-log walkthrough with operating partner › Reference-network warm-handoff (top 8 calls) › Quarterly value-creation read-in scheduled
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DECISION ASKED

Authorize a **4-week, fixed-fee commercial DD sprint at \$400–700K**, staffed with one partner, two senior associates, and one analyst, plus expert-network costs passed through at cost. **Deliverable:** partner-grade IC memo with explicit bear/base/bull cells and named deal-modifier flags (walk, price chip, structure, proceed). **Success:** the IC votes on a recommendation, not raw findings; each of the three soft spots resolves to a defensible row.