



## What is Bankrupt IP Worth?

### CASE STUDY - PEAP2

#### Service:

Technology Advisory Service

#### Client:

Private Equity Group (PEG), Buyout

#### Requirement:

Technology diligence on bankrupt asset

#### Situation:

A large PE buy-out group required an independent, third party opinion as to the relative market value and utility of certain software and intellectual property owned and developed by an entity then in bankruptcy. The company in bankruptcy had developed the next version generation of CRM after \$45 million of VC investment. Following a fairness opinion determination we were to assess the re-start of the company and the use of \$20 million in new capitalization proceeds as the IP was a small cost but integral part of future equity value.

The client required visibility regarding the current status of the assets from the following perspectives: technology; process to develop, deploy and support the technology; market readiness of the next generation product; sales and marketing options; personnel capabilities and requirements. We were also engaged to determine the replacement cost of the IP with an alternative product, company acquisition, and/or bespoke development.

#### Scope:

Staffing: 1 person week

Deliverable: Written report to the client, and a subsequent presentation to the buy-out group's partners, banker's and the prospective CEO of the yet-to-be capitalized company.

#### Discovery:

Semaphore's expert Technology Advisory practice staff completed a documentary and on-site review of the technology, IP and personnel as requested. Semaphore independently tested usability, product state and architecture of the subject Assets, the process used in development, documentation, configuration management, market readiness and the replacement cost of the Assets.

It was Semaphore's opinion that the proposed cost of acquisition for the Assets was fair and reasonable. It also determined that the replacement cost was approximately 4 times greater than the total cost of purchase out of bankruptcy. Lastly, Semaphore estimated timeline, budget and resource requirements to complete the software and get it to market.

#### Outcome:

1. The decision was made to proceed with the acquisition of the Assets out of bankruptcy.
2. The PEG investment was completed.
3. Recommendations on how to exploit the technology Asset base were followed - affording greater market traction for the newly capitalized company.
4. The acquisition of the keystone IP allowed a 9:1 leverage of equity.
5. Semaphore provided ongoing project assurance and monitoring of product development and integration.
6. The company was sold in 14 months for a 2X return of the total purchase and investment, largely based on the utility of the technology and the subsequent exploitation of the IP.

