



Will 1 +1 = Success or Disaster

CASE STUDY –

Service:

Technology Diligence Advisory

Client:

Mid Market Private Equity firm

Requirement:

Provide independent technology and market diligence on two acquisition candidates.

Situation:

The PE firm desired to acquire a targeted Company (A), and also acquire a division of a second Company (B). The firm's intent was to combine the two organizations into a new entity (NewCo). Company A was small and profitable with a single product offering but having difficulties expanding its market presence. Company B was larger, selling multiple products, with a greater market presence but was struggling financially.

Semaphore's Technology and Market Advisory Practice was requested to perform diligence on the two organizations' people, processes, technology and market. Then we were to determine the viability of acquiring both and combining their product lines and personnel. Finally we were to determine the potential market and competition for NewCo's products. This presumably would leverage the perceived strengths of the respective organizations and markets for overall benefit to NewCo.

Scope:

Staffing: 25 person days

Deliverable: A verbal presentation with follow up PowerPoint outlining findings.

Discovery:

Semaphore began the engagement by reviewing Company A. Semaphore discovered a solid product developed with appropriate technologies and processes. A capable internal management team was in place with the capacity to continue to drive the company forward at a modest pace. Overall, Semaphore found a well-positioned boutique company with limited market penetration.

Semaphore then reviewed Company B. One of its products was complimentary to Company A from a feature/function perspective, but developed with a different and less appropriate architecture, technology and development processes. Semaphore discovered that Company B possessed several areas of redundant effort in deploying and supporting their multiple products. Semaphore believed that senior management was weak and the organization bloated.

Market research was conducted with several objectives. The first was to validate existing customer's wants and requirements. The second was to discover channel alternatives for the NewCo's product and determine the impact on the existing channels. Finally the research probed new market potential.

Semaphore investigated and proposed a 'going forward' plan for NewCo. It found that over time, with some short-term sacrifice in profits, the technologies of the two organizations could be merged allowing for a larger market presence and growth direction. The remainder of Company B's products would be maintained status quo. However, Semaphore recommended that the transaction to create NewCo not be closed as the ROI would not justify price.

Outcome:

1. Term sheets were initially amended to reflect the deficit of skill and product discovered.
2. The acquisitions and business combination were ultimately not completed and the more than \$100 Million earmarked is now available for other investment opportunities.
3. Company A was purchased as a standalone investment. A separate plan for more rapid growth and investment return has been developed and is being currently executed.
4. The market research exposed one valuable new channel and an entirely new market segment.
5. Company B is no longer of interest to the PE firm.
6. Within two Qs of the completed diligence, Company B lost 70% of top line.