



How to Invest \$20,000 – Increase Surety and Save - \$3 Million

CASE STUDY - VBAL1

Service:

IT Independent Verification & Validation (IVV)

Client:

Venture Capital firm

Requirement:

Technology Diligence prior to Series A investment on retail technology

Situation:

A national law firm was advising a well-regarded VC firm, drafting contracts and performing due diligence on the transaction. The VC was leading a \$10,000,000 investment in an emerging technology company.

The legal, financial and commercial due diligence had been completed. However, several critical questions remained: Is the technology really there? In what condition is it? Does it work?

Scope:

Staffing: two person weeks.
Deliverable: a short 10-page report.

Discovery:

Semaphore Technology Diligence (S4TD) practice found the processes and technology to be appropriate. While the initial requests of the VC were met, it was evident to the S4TD real world practitioner assigned to the engagement that a true review was not possible if all the right questions were not asked. S4TD asked questions more pertinent to the discovery of answers of real value to

the client. The practitioner questioned the qualifications and applicable expertise of the people responsible for spending the VC's investment in new technology.

Unfortunately, the entrepreneurs and staff did not have the skill-set to define, architect, build or manage the expanded technology development activities. In short, they could not bring the product to the commercial grade required for deployment.

S4TD advised the client that the investment was at significant risk without a change in personnel, a common understanding of what was to be built, how it was to be completed and by whom. The subject of the S4TD admitted to the capability shortfall and related that it did not specifically reveal this deficiency during commercial and IP diligence review.

Outcome:

1. The decision was made to proceed with the investment with provisions.
2. On the basis of the S4TD report the VC received a 30% valuation benefit from the previously agreed term sheet.
3. The investment was made contingent on the hiring of a new Chief Technology Officer and augmentation of more appropriately skilled technology management and development staff.
4. The VC implemented a periodic IVV review by S4TD to ensure proper use of proceeds and assure that



appropriate value is received from
the funds advanced.