



How to Gain an Up Round in a Down Market

CASE STUDY – VMDE1

Service:

Independent Verification & Validation (IVV) of a later stage portfolio firm

Client:

VC and Portfolio Company

Requirement:

Technology and Market Diligence

Situation:

The VC sought a third party review of one of their portfolio company's product technology, its capacity to market and sell such technology and its personnel. The firm had revenues but significantly missed its annual sales forecast. The VC and Board of Directors required visibility into the current state of the company and the options available to alter its performance. The diligence was to be a collaborative exercise between Semaphore and the company to validate current best practices, identify potential opportunities and initiate corrective action.

Scope:

Staffing: 8 person days

Deliverable: A streaming commentary during the discovery phase and a written report of findings.

Discovery:

Semaphore provided expert software technology, marketing/sales and business counsel to the engagement. It was discovered that future product plans were entirely appropriate for the software market targeted.

The development, while done well, suffered from a significant lack of documentation.

The sales and marketing teams were inadequate to meet corporate forecast and could not articulate the company's value proposition. While the company resided in

a "hot" market, its capacity to target, approach and sell needed significant overhaul. The firm had been funded through two rounds by a financial, rather than a strategic, investor.

Management was distant from the financial realities of the investors' needs and the financial market opportunities possible. Semaphore discovered that competitors with much less technology capacity and fewer sales enjoyed higher valuations. As a result, competitors had access to funds and executive capacity to attack the targeted firm's existing market and customers.

Outcome:

1. Semaphore recommended the acceleration of new product release schedules.
2. Semaphore determined that the sales/marketing effort required a complete revamping from personnel through message definition and proposed a specific remedy.
3. Semaphore affirmed the marketplace and recommended securing significant new strategic funds replacing the current VC's \$ 20 million obligation.



4. A third round was funded equal to the sum of all prior commitments at a significant increase in valuation.