B O S T O N - L O N D O N - Z U R I C H

How Post Investment Diligence Creates Higher Valuations

CASE STUDY - PEDE1

Service:
Post investment guidance and support.

Client:
Mid-market Private Equity firm and Portfolio Company

Requirement:
Technology and Market Diligence

Situation:
A mid-market PE firm sought a third party review of one of their portfolio company's product technology and the development team's capacity to build the product. The firm had revenues but significantly missed its annual sales forecast. The sales group blamed product development. The PE firm 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.

The company had previously been funded through two rounds by a financial investor and had spurned strategic funding.

Scope:
Staffing: 10 person days
Deliverable: A streaming commentary during the discovery phase and a PowerPoint report of findings.

Discovery:
Semaphore provided a real-world practitioner software technologist, a process development guru and a marketing/sales expert to collaborate in the engagement. It was discovered that future product plans were entirely appropriate for the software market targeted.

While the current development team was judged adequate, the process of defining the client's requirements and translating them into deliverable products lacked documentation and management.

The sales and marketing teams, on the other hand, were inadequate to meet corporate forecast, and worse, could not even articulate the company's value proposition. While the company resided in a "hot" market, its capacity to target, approach and sell needed significant overhaul.

Further, management was found to be distant from the financial realities of the investors' needs and market opportunities. 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 with collaboration with sales

and marketing to ensure customer input.
2. Development team replacements were recommended.
3. Semaphore determined that the sales/marketing effort required a complete revamping from personnel through message definition, and we proposed a specific remedy.
4. Semaphore affirmed the market and recommended securing significant new strategic funds - replacing the need for further financing from the PE firm.
5. That financing was completed by a strategic investor at a significant increase in valuation.
6. New strategic alliances were secured that increased sales by 100% within the year.
7. Company profits and market share have dramatically increased