



How to Turn Bad News into Good News

CASE STUDY – VBAB1

Service:

Technology due diligence on Development and IT

Client:

Growth Equity VC

Requirement:

Technology Diligence to provide expert opinion on the portfolio company's development capability and delivery scalability.

Situation:

Prior to fulfilling a large funding commitment, the Client wanted to conduct independent verification and validation on a target company to determine if the development team had the capability to triple current installations.

In addition, there was discomfort with a critical company service provider's capabilities to scale the service they provided the company. The service provider partner was two years late delivering the original contracted software. They also were unable to provide verifiable evidence that the 'solution' would scale. It had already been determined that a new service provider could not be engaged to replace the existing partner.

Scope:

Staffing: 2 person weeks

Deliverable: Real-time commentary on findings with an oral summary presentation upon conclusion.

Discovery:

Semaphore's Technology Diligence practice team completed a review of the usability, product state, architecture and product

technology, including the process used to develop the product, documentation, configuration management and development process. In addition, its market readiness needed to be assessed, including estimating the percentage completion and scalability necessary.

The good news was that the findings were positive in all categories.

The bad news was centered on the capacity and veracity of the independent service provider. The partner vendor was reluctant to cooperate. Each request for information and documentation was met with delays, misinformation and provision of superficial materials.

Discomfort increased when access to source code was denied and test results could not be found or independently verified. Enough information was accumulated to definitively state that the system would work at current levels and even a doubling of volume could be handled with the addition of hardware. Unfortunately the system would critically fail at volume above 100% of current capacity. This is a critical failure with very significant costs to remedy. Coupled with immediate revenue loss and longer term market consequences, it required an invest/not invest decision. Load testing to validate the simulation data was designed but ultimately postponed.



Outcome:

1. The decision was made to proceed with the investment.
2. The Client was able to negotiate a 7 figure alteration to the term sheet to mitigate risk and self-insure future costs of development.
3. Post investment, Semaphore conducted rigorous validation testing on the contingencies to cover vendor deficiencies. Unfortunately, the deficiencies were validated.
4. A mitigation plan was recommended and adopted.