



How to turn a Troubled VC Fund into a Silk Purse?

CASE STUDY VBCW1

Service:

Private Equity Advisory and Diligence Services

Client:

First Tier Limited Partners (LPs)

Requirement:

Take-over and work-out of a failing fund

Situation:

A group of America's most respected commercial banks and public pension funds are principal Limited Partners in a Venture Fund focused on Series A and B technology investments. Performance of the Fund was considerably below expectation with a majority of the 2 dozen portfolio companies having been closed in less than 2 years from inception. Governance of the fund was suspect and there was a breakdown of relationship between the Limited Partners and General Partners, particularly after determination of violations of the shareholder agreement.

The capital commitment had been all but expended and the remaining invested assets had little expectation of life or return. It was expected that the Fund would be shut down and the remaining portfolio entities liquidated.

Scope:

Staffing: 6 calendar months with multiple resources at a fixed fee

Deliverable: Interim management of the Fund, analysis of the situation and recommendation of options

Discovery:

Utilizing the tested Semaphore Solution, we provided the Limited Partners independent assessment of the Fund and portfolio through a coordinated entry plan, a defined due diligence process, tailored performance based operational metrics, coupled with active participation in the implementation process to achieve proper Fund administration and improved investment results. A real-world assessment of the current situation and a revised operating plan was developed for the Fund.

Triage, investment and liquidation assessments were also applied to each portfolio company. Concurrently we researched and analyzed markets, and conducted financial and commercial analysis of the portfolio companies as the Semaphore team defined, developed and deployed performance based operational strategies within the portfolio companies.

Outcome:

1. Semaphore stabilized both the operating Fund and the portfolio companies.
2. The determination was made NOT to:
 - pre-maturely close the Fund
 - sell the Fund or
 - liquidate LP positions in the secondary market.
3. Multi-million dollar strategic investments from world-class VC's were secured for two portfolio firms.



4. The portfolio companies were provided specific channel sale or other operational assistance that turned losses into cash flow positive situations.

5. Fund valuation has been increased, on a fair market value basis, 2X since takeover and forecasts suggest a 5X return upon Fund liquidation.