



How to Cancel \$12 Million in Senior Debt on a \$51 Million Acquisition

CASE STUDY – VBEU1

Service:

IT Independent Verification & Validation (IVV)

Client:

Investment Bank on behalf of Global Financial Services firm

Requirement:

Technology Diligence on an acquisition.

Situation:

A New York investment bank represented a London based buyer on a \$51 million acquisition. The target company was an international electronic content aggregator and publisher providing proprietary research. The firm had locations in more than 40 cities on five continents.

The agreement was for a \$51 million purchase price in cash with a \$12 million Senior Debt requirement by the buyer. The proceeds were to be utilized principally for expanding technology deployment. Semaphore Technology Diligence (S4TD) was engaged to affirm the IP and technology of the software engine.

S4TD was engaged to analyze scalability, robustness of the distributed information systems, the security network and independently assess the localization requirements for future market expansion. The purchaser planned to quickly accelerate the demands on the system and, if found operationally deficient or incapable of handling the immediate increase in demand, the deal would be abrogated.

Scope:

Staffing: 34 person days

Deliverable: A written report of findings

Discovery:

Semaphore established a team of consultants on two continents in multiple remote locations. Semaphore, using its own secure VPN was able to communicate readily within its team and with both client and personnel at the target company.

The team commenced extensive review with internal personnel to: evaluate the proprietary nature of the IP; assess replicability by a competitor; determine scalability; and review the capacity of the senior technology personnel.

While reviewing the post transaction technology budget it was discovered that the purchaser had already signed off on an internal technology budget including a \$2 million software licensing purchase accompanied by approximately \$6 million of outside development services.

Outcome:

1. Semaphore recommended the software acquisition be stopped. Semaphore's real world practitioners were aware of soon to be announced off the shelf software that would replace the need for the already approved \$8+ million expenditure.



2. The client was able to suspend the need for \$12 million in Senior Debt and self fund the follow-on technology development.
3. Semaphore affirmed the IP and scalability of the software and capacity of the current staff.
4. Future difficulties such as localization issues were raised as a cost effective rollouts.