BOSTON - LONDON - ZURICH

Broken Deal

Deeper Diligence: Discovering the Real Story Prior to Investment

CASE STUDY – VBMC1

Service:
IT Independent Verification & Validation (IVV): proofing the deal

Client:
Initial VC investment in mature company

Requirement:
Provide diligence that would critically review the technology, products, development process and people.

Situation:
An 8-figure term sheet had been signed. The market analysis showed a potentially large growth opportunity for the company's product lines. The company had a track record of producing profits and increasing revenues. Customers seemed to be pleased with the products, implementation and customization process. The staff had skills in the existing product domain. Initial findings and discussions concluded that the products appeared sound with a reasonable road map moving forward. New executive management was sitting in the wings to take the reigns once the investment was made.

The VC had a concern regarding the company's 'professional services-like' approach to customer deployment. The VC had an investment goal of full productization and a streamlined sales strategy. In addition, the VC desired a deeper investigation into the technical and organizational impact of such a transition since it could not determine a result with internal personnel.

Scope:
Staffing: 2 people 15 person days

Deliverable: A verbal presentation with follow up written findings in document form.

Discovery:
Semaphore began the engagement by reviewing engineering, HR and marketing documentation. It became clear that deeper diligence was required since the printed materials did not match either the information received during initial interviews or the investor's diligence.

During the onsite visit, each of the product lines and all individual 'products' (approximately 10) were examined. Competitive products were reviewed and best practices were compared to current state. Each of the current 'product' offerings consisted of loosely coupled code segments combined as needed to satisfy client and sales requests. Resource effort necessary to productize artifacts were incorrectly estimated. Existing roadmaps to merge code bases to produce a smaller number of platforms/products was not possible without significant rewrites of existing artifacts. Development processes were well-defined, however compromised by customization efforts. In addition, due to the existing deployment approach, the engineering and support organizations were inappropriately large. It became increasingly clear that the investor goal of productization was out of the question.

Outcome:

1. The investment process was stopped.
2. The designated new management was informed of the findings and concluded that a migration of the existing company

was not appropriate and a restart with a new approach was necessary.

3. Future investment consideration would be given if segments of the business were to be made available.