BOSTON - LONDON - ZURICH

There is no 'I' in 'People'

Semaphore Opinion & Organizational Issues Halt $40 Million Deal

CASE STUDY – VMED1

Service:
Technology Diligence Advisory

Client:
Venture Capital firm

Requirement:
Provide independent technology diligence on two acquisition candidates and the integration of the organizations into a new entity.

Situation:
The VC client desired to acquire a targeted company (A), and also acquire a division of a second company (B) that was offered for sale. The VC's intent was to combine the two organizations into a new entity (NewCo). Company A was a small, profitable, with a single product offering and having difficulties expanding its market presence. Company B was larger selling multiple products, with a greater market presence but was struggling financially.

Semaphore's Technology Advisory Practice was requested to perform technology diligence on the two organizations' people, processes and technology. Then it was to determine the viability of acquiring both and combining their product lines and personnel, leveraging the perceived strengths of the respective organizations for overall benefit to NewCo.

Scope:
Staffing: 14 person days
Deliverable: A verbal presentation with follow up written findings in document form.

Discovery:
Semaphore began the engagement by reviewing Company A. Semaphore discovered a solid product developed with appropriate technologies and processes. A capable internal management team was in place with the capacity to continue to drive the company forward at a modest pace. Overall, Semaphore found a well-positioned small company.

Semaphore then reviewed Company B. One of Company B's products was complimentary to Company A's offering from a feature/function perspective, but developed with a different and less appropriate architecture, technology and development processes. Semaphore discovered that Company B possessed several areas of redundant effort in deploying and supporting their multiple products. Semaphore believed that senior management was weak and the organization bloated.

Semaphore proposed a 'going forward' plan for NewCo. Over time, with some short-term sacrifice in profits, the technologies of the two organizations could be merged allowing for a larger market presence and growth direction. The remainder of Company B's product would be maintained status quo.

Semaphore's major concern was over the merger of personnel and the necessary insertion of new senior leadership to design and execute NewCo's business plan. Semaphore believed the only successful approach to the merger would require the installation of a single new Chief Executive, design and execution of a focused plan operating in a controlled structure, and implementation of performance-based incentives. Management of Company A and Company B each believed that they should lead the new entity and were less than accepting of the prospect of new management and the effort necessary to effectively merge.

Outcome:
1. Term sheets were initially amended to reflect the deficit of skill and product discovered.
2. The acquisitions were ultimately not completed and the $40 Million earmarked is now available for other investment opportunities.
3. Company A, as a standalone investment, remains under consideration subject to a plan for more rapid growth and investment return being developed.
4. Entity B is no longer of interest to the VC firm.
5. Within two Qs Entity B lost 70% of top line.

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