

# **Do Diligence® Partners Technology Investment Evaluation**

## **Sample Executive Overview**

This document is an example of the Executive Summary for a Do Diligence® Technology Investment Evaluation report provided to a client. It illustrates the information and results that are reported by Do Diligence® Partners, Inc. during such an engagement. The full report contains supporting detail in additional sections of the report not included here.

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# 1. Executive Summary

## Background

DDclient, Inc. (DDclient) is in the process of evaluating the acquisition of TARGETCO, Inc. (TARGETCO). Do Diligence® Partners, Inc. (DDPI) was requested to complete a preliminary investigation and analysis of TARGETCO, its current and planned software products, and its management and technical staff. This report is the result.

All information has been obtained from public information sources, a review of marketing and technical documentation supplied to DDPI by TARGETCO, and onsite interviews with its President, its Chief Architect/Author, two programmers, and the Director of Custom Services. Three TARGETCO customers have been interviewed by phone.

Because an in-depth evaluation of its technology via due diligence and customer interviews is premature at this stage of the acquisition process, it is to be performed once DDclient and TARGETCO have signed a letter of intent (LOI).

## Situation

TARGETCO will require significant investments in management time and money to transform it into a successful commercial software development, delivery, and support organization.

A startup company with no experience in development and delivery of commercial software, it comprises an energetic team of individualists who have produced good software in spite of their inexperience. Their ideas have been warmly received by “early adopter” clients who see the value of the software’s functionality, which supports reduced cost-of-ownership on a Windows platform, versus the UNIX platform of other implementations. The software has good features and potential, according to TARGETCO management, but will require extensive development and testing to turn it into a commercial software product that can be installed and implemented by customers.

TARGETCO is being courted by five companies, one of which (not DDclient) is favored due to a previous and a current business relationship. TARGETCO has some uneasiness about entering into a deal with DDclient because of concerns that DDclient is a foreign-based corporation, that it might restrict development and marketing of TARGETCO’s main product in favor of DDclient’s current product line, or that it might even de-emphasize TARGETCO’s primary product altogether.

This evaluation was conducted early in the investment process, before a Letter of Intent (LOI) was signed. When risks greatly outweigh strengths at this point, potential investors often back away. When strengths outweigh risks, the investment process usually continues. Medium-to-low confidence in strengths calls for particular scrutiny once the LOI is signed, when complete disclosure is possible. The cautionary comments here, as well as the observations accompanying subsequent charts, highlight issues targeted for further investigation during post-LOI investigation.

**STRENGTHS**

In the following chart, *Strengths* of TARGETCO, its software products, and its people are identified. The *Confidence* column indicates the level of DDPI certainty in the strength; confidence is based on the source of information and on DDPI’s ability to corroborate information from reliable sources.

Please see **Section 3. Strengths** for a detailed, supporting analysis.

Confidence (5=highest)	Strength
3	1. There is <u>good acceptance of the software in the marketplace</u> . Software is installed in 15 sites. Interviews with three customers supplied by TARGETCO corroborate satisfaction.
5	2. Based upon interviews, informal discussions, and references, the <u>Chief Architect/Author’s knowledge of pertinent technologies is excellent</u> .
3	3. Based on review of design documents and product literature, as well as discussions with Chief Architect and customers, <u>product design is sound</u> . Areas considered were maintainability, portability, reliability, customization, and serviceability.
4	4. Based upon interviews, informal discussions, and industry references, the <u>President’s and Chief Architect’s backgrounds in the subject area are excellent</u> .
4	5. <u>The software is easy to install and use</u> . DDPI installed and worked with the product in a “recreated” customer environment.
3	6. <u>All code is owned by TARGETCO</u> . Current staff wrote the entire product, and the company is protected by employee agreements.

Caution: 3 customers interviewed are “alpha test” sites.

Caution: Major design changes in new release are in alpha test now.

Caution: Chief Architect and President designed competitive products.

**RISKS**

*Deal risks* and *Success Risks* are identified below. *Deal Risks* are concerned with factors that may influence the ability of DDclient to consummate the planned deal with TARGETCO. *Success risks* are concerned with factors that may reduce the possibility of success if a deal is struck. *Probability* is Do Diligence Partners' assessment of the likelihood that a risk will become a reality.

The *Risk Factors* column lists reasons why Do Diligence Partners believes such a risk exists and substantiates the *Probability* rating. Please see **Section 4. Risk Analysis** for further details and a complete evaluation.

## 1. Deal Risks

<b>Probability</b>	<b>Risk Factors</b>
<b>High</b>	a. <u>TARGETCO may reject DDclient</u> due to concerns about DDclient intentions, suitability, and commitment to the long-term success of its product line.
<b>Unknown</b>	b. <u>Another suitor may outbid DDclient</u> . There are four other companies in active discussions with TARGETCO.
<b>Medium</b>	c. <u>TARGETCO may come to terms with another suitor</u> that is a partner in software development with TARGETCO, and whom they view very favorably.

TARGETCO President revealed that there are **substantial** offers by other suitors.

## 2. Success Risks

Probability	Risk Factors
<b>High</b>	a. <u>TARGETCO software sales may be disappointing.</u> This is due to a history of product quality and reliability problems, missed deadlines, and inability to meet competition with required new features.
<b>High</b>	b. <u>TARGETCO software may fail to achieve product status in a reasonable time frame.</u> This is because substantial work remains to “productize” the software; at least 10 clients have “unique” versions of the software installed; development and testing methods are limited and poorly defined; and management and technical staff are inexperienced in commercial software development and delivery.
<b>High</b>	c. <u>TARGETCO software delivery schedules may not be met.</u> This is because missed deadlines are part of the company culture; there is no coordinated project tracking; deadline overruns have increased substantially for each of the last two releases; and management and staff do not appear to know how to bring the situation under control.
<b>Medium</b>	d. <u>Key personnel may abandon the venture.</u> This is due to cultural conflicts and problems with the perceived “big company environment” of DDclient.

Past quality problems were mitigated with costly onsite support.

Staff background is in producing custom services.

Company culture may be as critical a problem as lack of experience.

Key employees have threatened desertion if culture is not preserved.

# Critical Success Factors

Success, in the context of this evaluation, is defined as 1) closing the acquisition deal, 2) establishing a viable factory for producing and supporting commercial software, and 3) developing and delivering high quality commercial software to end users that satisfies their needs and meets or beats the competition.

Based on the limited data available at this stage of the acquisition process, we offer the following recommendations on how DDclient can ensure TARGETCO success once an acquisition has been completed. DDclient should consider each of the recommendations here *critical* to the success of the company’s products, within the context of the acquisition objectives articulated by DDclient – keeping in mind that the evaluation did not seek either to assess the market need for the products or to determine their marketability and competitiveness.

Please see **Section 5. Critical Success Factor Analysis**, for supporting details.

Priority (5 = highest)	Critical Success Factor
5	1. Develop an aggressive program to close the deal with TARGETCO.
5	2. Retain Product Architect (plus other key personnel) as part of the acquisition deal.
5	3. Install executive and line management with commercial software product experience and expertise, or provide real-time mentoring by an experienced management transition team.
5	4. Transform software into a commercial product as quickly as possible.
5	5. Quickly establish quality control/testing functions.
4	6. Establish and staff a support organization, and commit resources to automated problem management and help desk tools to support the organization.
5	7. Hire staff experienced in commercial QA and support, establish these functions and augment the development team.
4	8. Invest in major software upgrade to add features deemed critical for customer acceptance and to meet or beat the competition in key areas.

Sell benefits of DDclient while subtly building case against other suitors.

Develop a single version, fully BETA-tested, for all customers.

A highly successful, experienced staff offers the best insurance of success.

# Conclusion

Based on DDPI's early evaluation of TARGETCO and its software, it is clear that the company and the software are in their early stage of development. Only DDclient and TARGETCO can assess the market potential of today's TARGETCO software and the products that can be developed from the current software base. To make this venture successful from a product perspective, DDclient will need to invest heavily in turning TARGETCO software into a viable, commercial software product. It will also need to invest simultaneously in the transformation of this highly energetic and enthusiastic, but inexperienced, team into an efficient commercial software development organization.

Should DDclient sign a letter of intent to acquire TARGETCO, the following areas should be particularly scrutinized as part of a complete, post-LOI due diligence evaluation.

- Software acceptance and quality from the perspective of paying commercial customers.
- Faithful implementation of the latest design in the product that is being readied for commercial release.
- Code ownership of all product components shipped to customers.
- Incident and problems logs for evidence of product quality problems.
- Code review for evidence of code deficiencies that result in product quality problems.
- Staff perspective regarding inevitable changes in culture, including introduction of technicians and managers with commercial software development and support experience.