

Case Study: Acme Widgets uses AVS*

Acme Widgets has decided to engage NuQuest Inc. and enroll in the AVS™ platform to frame their company to receive \$5,000,000 for 25% of the company. The Consulting Agreement was signed and the AVS™ system deployed.

Acme delivered their existing Business Plan, marketing materials, historical financial statements and plans for an equity offering to raise the necessary capital for a marketing launch and to improve their supply chain management. A series of meetings with the senior management team and accompanying support staff were held.

(*The name of the company and terms of the deal have been changed to protect the privacy of the company and the integrity of any future negotiations. The accompanying case study and the integral components and statements of work have been reduced to a base level)

Assessment:

The AVS™ has been formulated to ask 65 queries regarding any Business Plan and in Acme's case and for the depiction of this Case Study, the main pressing issues were:

- Was there a persuasive request for funds?
- Was there a cogent statement of the purpose of the business?
- Was there a detailed analysis with supporting market research?
- Evaluation and analysis of the main competitors?
- A description of the marketing strategy
- A solid management team?
- Detailed financial information?

The AVS found:

1. The plan was far too technical in scope. There was too much colloquial jargon authored by scientific types and the message was stilted in comparison to the underlying value and the real deployment of capital.

2. Competitive analysis was weak in a crowded market. No showcase of relative strengths, poor identification of indirect competitors that pose a real threat based on our analysis of their market space.

3. A very thin go to market strategy based on the actual marketing plan that was proffered. Needed to upgrade channel partners and extend vertical markets to fulfill and match the actual marketing strategy.
4. Weak Risk Analysis. Market, technology, operational, management and legal risks were vague. A total overhaul of the risks were addressed and included.
5. Over optimistic growth expectations.
6. Financially, the financial projections were insufficient relative to cash flow statements, fair sensitivity analysis, assumptions were unrealistic and benchmark comparisons for convergence were light.
7. Valuation was not supported by the financials.
8. Exit strategy was not clearly articulated and poorly organized.

AVS: The working model re-positioned the Business Plan and was recalibrated to answer and address these issues. Detailed analysis and work flow with Acme's management had the Business Plan reformatted in 8 business days.

Valuation:

The working assumption to begin is that 25% of Acme's equity when the exit strategy is executed will give an investor an acceptable return on \$5 million invested today. With this in mind, the valuation stage of the AVS™ process begins.

1. Information from Acme's financial statements, that were completed and revised in the Assessment stage, are loaded into The *Capital MatchPoint™* Valuation Model.
2. Additional research is conducted to find out if the company has underlying value not explicitly stated on the financial statements (intellectual property, recognizable brands, etc.)
3. Key company, industry, microeconomic and macroeconomic variables are identified and assigned a range of fluctuation based on various market and economic forecasts.
4. Four different valuation methods were chosen based on common practices within Acme's industry and the amount of information available about other companies within Acme's industry.

5. The analyses were performed. Three were found to converge.
6. The outlier was discarded.
7. Iterations of the three remaining analyses were performed using different assumptions of variables identified in (3).
8. Finally, the offering was priced from the perspective of an investor.

The *Capital MatchPoint™* Valuation Model indicated that Acme's initial assumption regarding the value of their business was a bit optimistic given overall market conditions. In order to attract \$5 million of capital Acme needed to offer 35% of their equity. The Valuation Model was completed in 4 business days, (Note: in the case of Acme, the financials were in relatively good order).

Structure:

A Private Placement Memorandum, (PPM), had been written and the terms of the original agreement were dispensed with due to the AVS™ valuation determination that Acme was actually prepared to issue nearly 35% of its stock in exchange for the \$5,000,000 raise.

The matching capabilities of the *Capital MatchPoint™* located a series of investors, they were sent the Data Sheet on Acme and the introductions were made.

NuQuest advised the Company on the negotiation of the new terms as to voting rights, redemption provisions, liquidation preference and anti-dilution provisions with the eventual capital provider, re-structured the deal utilizing Convertible Preferred Stock and a warrant issuance.

NuQuest advised and aided the Company on the Term Sheet offered by the capital provider as well as the Investment and Stockholder's Agreement.

As consultants, NuQuest Inc. can not negotiate directly with any investor as NuQuest are not principals of the subject company, nor is NuQuest a registered broker dealer and cannot accept a Finder's Fee in relation to any fund raising activity. The *Capital MatchPoint* merely serves as an introduction tool and the ensuing negotiations must take place between the two parties off site. The Company is highly encouraged to retain qualified securities counsel.