Endeca case study

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Strategic benefits of each deal comparison/contrast In the current situation, price per share should definitely not be the only choice criteria.

One of the deal (Ampersand) sounds like a last minute call whereas the other (Venrock/BVP) is obviously the fruit of a long term partnership. While the first one looks sexy – regarding depressed economic situation -, the other one could bring a major customer and involve people that use to work together. Furthermore, the firm has already delayed the new round and thus need to secure a financing as soon as possible.

In this context the insider agreement looks far more serious and viable. Additionally, IT specialized VC Ampersand would not provide any synergy with other portfolio firms due to systems' incompatibility. Choosing the outsider could also imply substantial changes in the firm governance structure (investors' council) and thus disrupt the newly built top-rate management equilibrium.

Yet, DSCGP would only act as a passive investor on a trust basis. Clearly, valuation should not be the main issue for this kind of startup.

Most important are people, commitment and trust. This is a school case of what should be avoided. Hence, despite the relative attractiveness of the outsider term sheet, people just don't know each other and do not have the time to make a proper due diligence, in both directions.

Another major point is that strategic investors such as DSCGP are reported to be far more likely to take part in the insider deal while AOL could be involved in both options.

Even though the valuation is surprisingly lower than for the latest financing round, it would make more sense -image is a real issue for startups- to take a coherent offer than to just appear as starving and opportunist. To be honest, due to the valuation crisis, both deals are deceiving for a hardworking CEO, but the firm just needs money. They shouldn’t take the risk of being seen as a “ traitor” by its historic partners, just to get a slightly better price. Money is offered at the market price by entities that are strongly willing to go on working together.

As Endeca has no time, one of the choices looks far more reasonable. Thus it should be promoted and hardly defended by Papa at the board meeting. The board members could rise concerns focusing on the market instability and thus prefer a larger amount to be invested but according to Papa, the Venrock BVP deal could provide sufficient funding to attain the breakeven point which is the direct forthcoming issue for the firm. The market conditions might improve later on, allowing more profitable negotiations.