

MTI ventures forth with confidence (September 2002)

The mission

Maintain and enhance long term business health by improving the success rate of investments.

The solution

Commission Cambashi to conduct due diligence scrupulously.

The results

Average failure rate of 25% compared with industry average of about 50% gives:

- Better cash flow position for MTI.
- Higher chance of success for companies in which MTI invests.
- Good returns for investors

The customer:

"Cambashi sorts out the gaps between what a company's management team thinks and what we are looking for."

John Polden, Director, MTI

MTI is an independent venture capital fund manager. It specialises in early stage high technology companies, particularly those developing products. Since 1983 MTI has invested in more than 50 companies and currently has over £150m under management. The investments it makes are between £250,000 and £5 million.

The remit of MTI's fund managers is to work closely with emerging companies to create long term commercial success. These individuals have extensive knowledge and experience within technology, business and industry. However they still need to call on specialist help in certain situations. One of these is the due diligence process that precedes a confirmed offer to invest.

MTI makes between four and ten new investments per year, having sifted through a huge number of potential candidates. Whilst MTI conducts its own research, the decision to make an offer to invest often has to be reached on scant evidence - because a delay may mean a lost opportunity. At this point MTI requires serious in-depth analysis that goes beyond its own expertise. "We are looking for detailed guidance from an advisor who is not afraid to say 'no' if necessary," said MTI director John Polden. "If a company fails we can lose up to £5 million, that's a big hit to take".

MTI is looking for partners who can assess technology, understand commercial market situations and evaluate the ability of a management team to fulfill business objectives. "The due diligence process is all about risk management yet it is not simply a matter of yes or no" remarked John Polden. "It is a collaborative process in which we seek illumination of the issues so that we can reach an informed decision. It's very much a team effort. We are looking for the ability to assess an offering against market requirements."

In particular MTI is looking for responsiveness. Once an offer in principle has been made then there is a rapid countdown; MTI needs to get the deal done as quickly as possible, usually within four weeks. It needs flexible suppliers who can be on standby, ready to move when things suddenly fall into place but

also able to cope with any delay. Whilst MTI does not enter into contract races there is always urgency because market opportunities do not last; a company may also be running out of money.

MTI usually conducts a competitive process for each due diligence project. Price is not usually the main factor, though it is important to avoid the costs of a deal becoming too high compared with the potential benefits. What matters most to MTI is to know that a supplier has the best knowledge of a particular industry or market along with technological expertise and commercial understanding.

Cambashi has provided advice and guidance to MTI since the early 1990s. "We see Cambashi as an expert in business to business IT, and pretty sharp with regard to design automation," said John Polden. "Cambashi's experts enter into dialogue with the management team, they do not cross examine. They also talk to existing and potential customers. This gives us what we want: a candid review of business expectations, not just a valuation. This is why we prefer Cambashi to some larger consultants who may have a process for due diligence but may not have detailed domain knowledge."

Through a long standing relationship MTI has come to rely on Cambashi to give serious input. "If due diligence reveals problems we do not necessarily walk away," commented John Polden. "With Cambashi's guidance we will consider reconfiguring the business. On the other hand Cambashi is prepared to point out real flaws. Some consultants see their job simply as rubber stamping. Cambashi will say no and explain why."

The strength of the relationship between MTI and Cambashi allows for concurrent progress. MTI can have Cambashi lined up for action without incurring any costs. Cambashi is willing to be there when needed even if circumstances change and there is ultimately no job to be done.

There is no guarantee of success and MTI places emphasis on a manageable failure rate so that it can maintain overall income. Published statistics are rare and the definition of failure varies yet John Polden estimates that up to 50% of companies that receive funding do not meet their business plan objectives. With an estimated failure rate of only 25%, MTI performs much better than average. "We would ascribe some of that to the care we put into diligence, which is not only about the deal. It is also about downstream management and that's a dynamic process. We aim to get involved so that we can help a company achieve its objectives. The better the knowledge we have at the beginning, the more chance we have of success."