# DUE DILIGENCE REPORT

## Project Starlight

**Proposed Acquisition of**

NovaTech Solutions, Inc.

**Prepared for:**

Meridian Technologies Corporation

Board of Directors & Executive Team

**Prepared by:**

Sterling Advisory Group

Mergers & Acquisitions Division

*Report Date: November 30, 2024*

*STRICTLY CONFIDENTIAL - BOARD EYES ONLY*

# 1. Executive Summary

Sterling Advisory Group ("Sterling" or "Advisor") has completed financial, legal, commercial, and technical due diligence on NovaTech Solutions, Inc. ("NovaTech" or "Target") in connection with the proposed acquisition by Meridian Technologies Corporation ("Meridian" or "Acquirer").

Transaction Overview:
- Target: NovaTech Solutions, Inc.
- Proposed Purchase Price: $285,000,000
- Deal Structure: 70% cash / 30% stock
- Expected Closing: Q1 2025
- Code Name: Project Starlight

Key Findings:
- NovaTech is a profitable, growing SaaS company with strong technology
- Revenue growth of 42% YoY demonstrates market demand
- Customer concentration risk with top 3 customers at 38% of revenue
- Identified $12.4M in potential earnout adjustments
- IP ownership confirmed; no significant litigation risk
- Integration synergies estimated at $18-24M annually

Recommendation: PROCEED WITH ACQUISITION
Recommended adjusted purchase price: $267,500,000 - $275,000,000

# 2. Target Company Overview

## 2.1 Company Information

Legal Name: NovaTech Solutions, Inc.
State of Incorporation: Delaware
Date of Incorporation: March 15, 2018
Tax ID: 82-4729183
Headquarters: 2500 Sand Hill Road, Suite 300, Menlo Park, CA 94025

Officers and Directors:
- CEO: Alexander Volkov (Founder, 42% ownership)
- CTO: Priya Sundaram (Co-founder, 28% ownership)
- CFO: Thomas Richardson (5% ownership)
- Board Members:
  - Alexander Volkov (Chairman)
  - Priya Sundaram
  - Marcus Webb (Sequoia Capital)
  - Jennifer Liu (Andreessen Horowitz)
  - Independent: Robert Martinez

Cap Table Summary:
- Common Stock Outstanding: 45,000,000 shares
- Employee Option Pool: 8,500,000 shares (15.9%)
- Preferred Stock (Series A-C): $47.5M invested
- Fully Diluted Shares: 53,500,000
- Implied Valuation at $285M: $5.33/share

## 2.2 Ownership Structure

| Shareholder | Shares | Ownership % | Proceeds at $285M |
|---|---|---|---|
| Alexander Volkov | 18,900,000 | 35.3% | $100,695,000 |
| Priya Sundaram | 12,600,000 | 23.6% | $67,130,000 |
| Sequoia Capital | 8,100,000 | 15.1% | $43,155,000 |
| Andreessen Horowitz | 5,400,000 | 10.1% | $28,770,000 |
| Thomas Richardson | 2,250,000 | 4.2% | $11,990,000 |
| Employee Pool | 4,250,000 | 7.9% | $22,648,000 |

| | | | |
|---|---|---|---|
| Other Investors | 2,000,000 | 3.7% | $10,660,000 |

# 3. Financial Due Diligence

## 3.1 Historical Financial Performance

| Metric | FY2022 | FY2023 | FY2024E | CAGR |
|---|---|---|---|---|
| Revenue | $28.4M | $42.7M | $60.6M | 46.1% |
| Gross Profit | $22.1M | $33.7M | $48.5M | 48.1% |
| Gross Margin | 77.8% | 78.9% | 80.0% | - |
| Operating Income | $2.8M | $6.4M | $12.2M | 108.7% |
| EBITDA | $4.2M | $8.9M | $15.8M | 94.0% |
| Net Income | $1.9M | $4.8M | $9.1M | 118.8% |

Quality of Earnings Adjustments:

We identified the following adjustments to reported EBITDA:

| Adjustment | FY2024E Impact | Notes |
|---|---|---|
| Reported EBITDA | $15,800,000 | Per management |
| Non-recurring legal | +$1,200,000 | Patent litigation |
| Founder compensation | -$850,000 | Below market |
| Related party lease | -$420,000 | Above market rate |
| Customer credits | -$680,000 | Unrecorded liability |
| Adjusted EBITDA | $15,050,000 | Normalized |

## 3.2 Revenue Analysis

Annual Recurring Revenue (ARR): $58.2M (as of October 2024)
Monthly Recurring Revenue (MRR): $4.85M
Net Revenue Retention: 118%
Gross Revenue Retention: 94%
Customer Acquisition Cost (CAC): $18,500
Lifetime Value (LTV): $142,000
LTV/CAC Ratio: 7.7x

Revenue by Customer Segment:

| Segment | ARR | % of Total | Customers | Avg ACV |
|---|---|---|---|---|
| Enterprise | $32.4M | 55.7% | 47 | $689K |
| Mid-Market | $18.6M | 32.0% | 156 | $119K |
| SMB | $7.2M | 12.4% | 412 | $17K |

## 3.3 Customer Concentration Analysis

Top 10 Customer Revenue Breakdown (Confidential):

| Customer | ARR | % Revenue | Contract End | Risk |
|---|---|---|---|---|
| Goldman Sachs | $6.8M | 11.7% | Dec 2026 | Low |
| JPMorgan Chase | $5.2M | 8.9% | Mar 2025 | Medium |
| Bank of America | $4.1M | 7.0% | Jun 2026 | Low |
| Citigroup | $3.4M | 5.8% | Sep 2025 | Low |
| Morgan Stanley | $2.9M | 5.0% | Dec 2025 | Low |
| Wells Fargo | $2.4M | 4.1% | Mar 2026 | Low |
| Capital One | $1.8M | 3.1% | Jun 2025 | Medium |
| American Express | $1.6M | 2.7% | Sep 2026 | Low |
| US Bank | $1.4M | 2.4% | Dec 2025 | Low |
| PNC Financial | $1.2M | 2.1% | Mar 2025 | High |

Customer Concentration Risk:
- Top customer (Goldman Sachs) represents 11.7% of ARR
- Top 3 customers represent 27.6% of ARR
- Top 10 customers represent 52.8% of ARR

Key Customer Contacts (for relationship transition):
- Goldman Sachs: David Chen, VP Technology, dchen@gs.com
- JPMorgan: Sarah Williams, Director IT, sarah.williams@jpmorgan.com
- Bank of America: Michael Torres, SVP Digital, michael.torres@bofa.com

Contract Terms:
- Average contract length: 2.3 years
- Contracts with auto-renewal: 78%
- Contracts with termination for convenience: 34%
- Change of control provisions: 12 contracts (representing $18.4M ARR)

# 4. Valuation Analysis

## 4.1 Comparable Company Analysis

| Company | EV/Rev | EV/EBITDA | Rev Growth |
|---|---|---|---|
| Datadog | 14.2x | 89.4x | 28% |
| Snowflake | 18.7x | N/A | 36% |
| MongoDB | 12.8x | 156.2x | 31% |
| Cloudflare | 16.4x | N/A | 32% |
| Median | 15.3x | 122.8x | 31% |
| NovaTech (at $285M) | 4.7x | 18.9x | 42% |

Valuation Summary:

Based on our analysis, the proposed $285M purchase price represents:
- 4.7x FY2024E Revenue ($60.6M)
- 18.9x FY2024E Adjusted EBITDA ($15.05M)
- 4.9x ARR ($58.2M)

This represents a significant discount to public company comparables, reflecting:
- Private company discount (25-30%)
- Size discount (smaller scale)
- Customer concentration risk
- Integration execution risk

## 4.2 Discounted Cash Flow Analysis

DCF Assumptions:
- Revenue CAGR (Years 1-5): 35%
- Terminal Growth Rate: 3.5%
- WACC: 12.5%
- Terminal EBITDA Margin: 28%

DCF Valuation Range: $245M - $295M
Midpoint: $270M

Recommended Offer Range: $267.5M - $275M

Recommended Offer Price: $272M

# 5. Legal Due Diligence

## 5.1 Corporate Structure

Legal review confirms:
- Clean corporate records since incorporation
- All required state filings current
- Board minutes properly maintained
- Stock issuances properly authorized
- 83(b) elections filed for founder shares

Subsidiaries:
- NovaTech UK Ltd (100% owned) - London office
- NovaTech EU GmbH (100% owned) - Dublin office
- NovaTech Singapore Pte Ltd (100% owned) - APAC operations

## 5.2 Intellectual Property

IP Portfolio:
- 12 issued US patents
- 8 pending patent applications
- 4 registered trademarks
- All employee IP assignments on file
- No known IP infringement claims

Key Patents:
- US Patent 10,847,291: Real-time data synchronization method
- US Patent 10,629,184: Distributed caching architecture
- US Patent 11,284,739: ML-based anomaly detection

Open Source Review:
- Uses 147 open source components
- 3 components with copyleft licenses (contained to internal tools)
- No GPL code in customer-facing products

## 5.3 Litigation and Claims

Active Litigation:

1. Patent Infringement Claim (Defendant)
   - Plaintiff: DataSync Technologies, LLC (patent troll)
   - Claim Amount: $8.5M
   - Status: Motion to dismiss pending
   - Estimated Settlement: $1.5M - $2.5M
   - Insurance Coverage: $5M policy

2. Employment Dispute (Defendant)
   - Claimant: Former VP Sales (terminated)
   - Claim: Wrongful termination, unpaid commissions
   - Amount: $450,000
   - Status: Mediation scheduled January 2025
   - Estimated Settlement: $150,000 - $200,000

Material Contracts Requiring Consent:
- AWS Enterprise Agreement ($2.4M/year) - 30 days notice
- Salesforce License ($840K/year) - Assignment allowed
- Office Lease (Menlo Park) - Landlord consent required

# 6. Synergy Analysis

## 6.1 Revenue Synergies

Identified revenue synergy opportunities:

1. Cross-sell to Meridian Customer Base
   - Target: 150 enterprise accounts
   - Estimated penetration: 20% (30 accounts)
   - Average deal size: $250,000
   - Annual Revenue Impact: $7.5M (Year 2+)

2. Geographic Expansion
   - Leverage Meridian's APAC presence
   - NovaTech currently has minimal APAC revenue
   - Estimated Impact: $3-5M (Year 2-3)

3. Product Integration
   - Bundle with CloudSync Enterprise
   - Premium pricing opportunity: 15% uplift
   - Estimated Impact: $2-3M (Year 2+)

Total Revenue Synergies: $12.5M - $15.5M annually (by Year 3)

## 6.2 Cost Synergies

| Category | Year 1 | Year 2 | Steady State |
|---|---|---|---|
| G&A Consolidation | $2.1M | $3.8M | $4.2M |
| Cloud Infrastructure | $0.8M | $1.5M | $2.0M |
| Sales & Marketing | $1.2M | $2.4M | $3.0M |
| R&D Efficiency | $0.5M | $1.2M | $1.8M |
| Real Estate | $0.4M | $1.1M | $1.5M |
| Total Cost Synergies | $5.0M | $10.0M | $12.5M |

Implementation Costs:
- Severance and retention: $4.5M
- Systems integration: $2.8M

- Facility consolidation: $1.2M
- Professional fees: $1.5M
- Total one-time costs: $10.0M

Payback period for synergy investments: 14 months

# 7. Key Risks and Mitigants

| Risk | Severity | Probability | Mitigation |
|---|---|---|---|
| Key person departure | High | Medium | Retention packages |
| Customer churn | High | Low | Change of control protection |
| Tech integration | Medium | Medium | Phased approach |
| Culture clash | Medium | Medium | Integration planning |
| Competitor response | Low | High | Quick close |

Recommended Deal Protections:

1. Escrow: $28.5M (10%) held for 18 months
2. Earnout: $15M based on Year 1 revenue retention
3. Key Employee Retention:
   - CEO: 3-year contract, $2M retention bonus
   - CTO: 3-year contract, $1.5M retention bonus
   - Top 10 engineers: 2-year retention, $500K pool
4. Material Adverse Change clause
5. Customer consent requirement for top 5 accounts

## 8. Proposed Transaction Terms

HIGHLY CONFIDENTIAL - BOARD DISTRIBUTION ONLY

Proposed Offer:
- Base Purchase Price: $270,000,000
- Earnout (contingent): $15,000,000
- Maximum Total Consideration: $285,000,000

Consideration Mix:
- Cash: $189,000,000 (70%)
- Meridian Common Stock: $81,000,000 (30%)
- Stock Price for Calculation: $45.50 (10-day VWAP)
- Shares to be Issued: 1,780,220

Financing:
- Cash on hand: $150,000,000
- New Term Loan: $50,000,000
- Bank: JPMorgan Chase
- Term: 5 years
- Interest Rate: SOFR + 225bps
- Commitment Letter: Received November 25, 2024

Key Dates:
- LOI Signature Target: December 5, 2024
- Exclusivity Period: 60 days
- Definitive Agreement: January 31, 2025
- HSR Filing: February 1, 2025
- Expected Closing: March 15, 2025

Negotiation Strategy:
- Initial offer: $265M (all-in)
- Walk-away: $290M
- Key leverage: Competing bidder rumored (Vista Equity)
- Seller motivation: Sequoia fund life expiring 2025

## Appendix A: Deal Team Contacts

MERIDIAN DEAL TEAM:

Executive Sponsor:
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Financial Lead:
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Board Representative (Sequoia):
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# Appendix B: M&A Best Practices from Prior Transactions

The following case studies represent successful acquisition strategies from our advisory practice:

## B.1 Integration Excellence - Case Study: Platform Consolidation

Transaction Profile: $420M acquisition of workflow automation company by enterprise software provider

Challenge: Prior acquisition (3 years earlier) resulted in 40% customer churn and 18-month integration timeline. Board demanded different approach.

Integration Strategy Implemented:

1. Pre-Close Planning (Day -90 to Day 0)
   - Integration Management Office (IMO) established Day -60
   - 12 functional workstreams with dedicated leads
   - Customer retention playbook developed
   - Day 1 readiness checklist (847 items)
   - Communication plans for all stakeholders

2. Customer Retention Program
   - Personal outreach to top 50 customers within 48 hours of close
   - Executive sponsor assigned to each strategic account
   - Price protection guarantee (24 months)
   - Product roadmap commitments documented
   - Dedicated customer success team preserved

3. Employee Integration
   - Retention packages for key personnel (funded from deal)
   - Cultural integration workshops (mandatory for all)
   - Unified compensation structure within 90 days
   - Clear role definitions and reporting structures Day 1
   - Town halls: Day 1, Day 30, Day 60, Day 90

4. Technology Integration
   - Phased approach over 18 months (not big bang)
   - Customer-facing products: 12-month parallel operation
   - Back-office systems: 6-month integration
   - Data migration with customer validation checkpoints

  - Rollback plans for each phase

Results Achieved:
- Customer retention: 97% (vs. 60% in prior deal)
- Employee retention: 94% at 12 months (vs. 71%)
- Integration timeline: 14 months (vs. 18 months planned)
- Synergy realization: 112% of plan
- Revenue growth: 28% in Year 1 (vs. 8% decline in prior deal)

Key Success Factors:
- IMO leader with prior integration experience
- Dedicated budget for retention ($8M)
- Board-level integration oversight committee
- Weekly integration scorecards published

## B.2 Valuation Discipline - Case Study: Competitive Auction

Transaction Profile: $185M acquisition of AI/ML startup in competitive process with 6 bidders

Challenge: Target company had 4 interested strategic acquirers and 2 PE firms; needed disciplined approach to avoid overpaying while still winning.

Valuation Framework Applied:

1. Intrinsic Value Analysis
   - DCF with conservative assumptions: $145M
   - DCF with management case: $195M
   - Sensitivity analysis on key drivers
   - Independent technology assessment

2. Synergy Valuation
   - Revenue synergies: $25M NPV (conservative)
   - Cost synergies: $18M NPV
   - Synergy sharing: Maximum 50% in price

3. Strategic Value Assessment
   - Competitive impact of not acquiring: -$40M (market share loss)
   - Talent acquisition value: $15M
   - Patent portfolio: $8M
   - Speed to market: 24 months acceleration

4. Walk-Away Discipline
   - Maximum price set at $195M (Board approved)
   - Defined deal-breakers documented in advance
   - Competitive intelligence on other bidders
   - Alternative targets identified if unsuccessful

Negotiation Process:
- Round 1 bid: $155M (signaling seriousness without leading)
- Round 2 bid: $175M (with enhanced terms)
- Final bid: $185M (at ceiling of synergy-supported value)
- Winning margin: $12M over second-highest bidder

Transaction Outcome:
- Paid: $185M (within valuation range)
- Actual synergies achieved: $52M NPV (vs. $43M modeled)
- IRR realized: 34% (vs. 22% projected)
- Payback period: 2.8 years

Lesson Learned:
- Discipline prevented bidding to $215M (rumored competing offer)
- Post-close analysis: Competing bidder would have overpaid
- Target's second choice buyer withdrew from market 18 months later

## B.3 Due Diligence Excellence - Case Study: Hidden Liabilities

Transaction Profile: $95M proposed acquisition of data analytics company (deal NOT completed)

Challenge: Attractive target with strong growth, but comprehensive due diligence revealed significant issues.

Due Diligence Process:

1. Commercial Due Diligence
   - Customer interviews: 25 of top 30 customers
   - Competitive positioning analysis
   - Market sizing validation
   - Pricing sustainability assessment

Finding: 3 of top 10 customers indicated likely churn due to relationship with departing CRO

2. Financial Due Diligence
   - Quality of earnings analysis
   - Working capital normalization
   - Revenue recognition review
   - Customer cohort analysis

Finding: 34% of "ARR" was actually one-time implementation revenue

3. Technical Due Diligence
   - Architecture review
   - Code quality assessment
   - Technical debt quantification
   - Scalability analysis

Finding: Core platform required $12M rebuild within 24 months

4. Legal Due Diligence
   - IP ownership verification
   - Contract review (change of control)
   - Litigation assessment
   - Regulatory compliance

Finding: Key patent licensed (not owned); license terminable on change of control

5. HR Due Diligence
   - Key person risk assessment
   - Compensation benchmarking
   - Cultural assessment
   - Pending employment matters

Finding: 4 of 8 executives had offers from competitors

Aggregate Issues Identified:
- Revenue at risk: $8.2M (28% of stated ARR)
- Hidden liabilities: $4.5M (technical debt, legal)
- Key person flight risk: $3.2M (replacement cost)
- IP risk: Potentially fatal (core technology)

Decision: Walk away from transaction

Post-Script:
- Target acquired by different buyer at $85M (11% less than our rejected bid)
- Acquiring company wrote down investment by 60% within 18 months
- Patent issue resulted in product discontinuation

Lesson: Rigorous DD prevented $50M+ value destruction

## B.4 Earnout Structuring - Case Study: Aligned Incentives

Transaction Profile: $240M acquisition of cybersecurity company with significant earnout component

Challenge: Valuation gap of $45M between buyer ($220M) and seller ($265M) expectations. Seller confident in growth trajectory; buyer concerned about sustainability.

Earnout Structure Designed:

1. Base Consideration
   - At close: $195M (74% of max)
   - Cash: $140M / Stock: $55M
   - Stock lockup: 12 months post-close

2. Earnout Components
   - Revenue earnout: Up to $30M
   - Retention earnout: Up to $15M

- Total potential: $240M

3. Revenue Earnout Mechanics
   - Year 1 ARR target: $42M (baseline $35M)
   - Year 2 ARR target: $56M
   - Linear interpolation between 90-110% of target
   - Below 90%: No earnout for that year
   - Above 110%: Capped at target payout

4. Retention Earnout
   - Net Revenue Retention > 110%: $5M
   - Key customer retention (top 20): $5M
   - Employee retention (key 30): $5M

5. Governance Provisions
   - Acquired company operates as standalone BU for 24 months
   - Seller representation on integration steering committee
   - Quarterly earnout calculation with third-party verification
   - Dispute resolution: Independent accounting firm

6. Protection Mechanisms
   - Minimum investment commitments from buyer
   - Sales territory protection
   - Pricing authority retained by acquired leadership
   - No forced product bundling without consent

Actual Results:
- Year 1 ARR: $47M (112% of target) - Full $15M earned
- Year 2 ARR: $61M (109% of target) - $13.5M earned
- NRR: 118% - Full $5M earned
- Key customers: 100% retained - Full $5M earned
- Key employees: 28 of 30 retained - $4.7M earned

Total Earnout Paid: $43.2M (96% of maximum)
Total Transaction Value: $238.2M

Seller Perspective: "Fair deal - we earned what we deserved"
Buyer Perspective: "Paid for performance delivered - exceeded expectations"

Key Success Factor: Aligned incentives + operational autonomy