



SEMI-FINAL ROUND PROPOSITION

QUANTUM QUANDARY

2ND ALLEN & OVERY - NLU JODHPUR
INTERNATIONAL DEAL
NEGOTIATION COMPETITION
16 - 18 FEBRUARY, 2024

BACKGROUND INFORMATION

Quantum Leap Management Plc

QuantumLeap (“**QuantumLeap**”) is a global technology company incorporated in Jodhpuria. It forms part of CLIQUE, a group of the world’s six largest and most influential technology companies. Founded by Debbie Gardner in 2003, QuantumLeap initially started as a website to download music. It later branched into social media, film, television, virtual reality, and other multi-media ventures. Today, QuantumLeap is a publicly listed company, valued at an astronomical £1.1 trillion as of December 31, 2023.

QuantumLeap is infamous for its ‘profits above all else’ philosophy and has been facing increasing criticism for prioritising profits, even at the cost of environmental and ethical considerations. A recent documentary into the workings of QuantumLeap, and its various subsidiaries, has raised allegations that the company allows its social media platforms to be used to incite hate speech and that it has adopted tactics to make its platforms highly addictive for teenagers, and in so doing, harming the mental health of its teen users. These criticisms do not appear to have landed far within the company and have not resulted in any personnel or strategy changes.

A key part of QuantumLeap’s expansion strategy has been its ‘shark’ mentality, whereby it undertakes a 100% takeover of a smaller company with a positive growth rate

and profit potential and replaces its existing management with a management that will toe QuantumLeap’s party line. This also includes the winding up of any subsidiaries or departments that are not profitable and the termination of contracts that outsource the use of technology that could be relevant to any of QuantumLeap’s own businesses. The targets of such acquisitions tend to be companies that could either grow to become threats to QuantumLeap or that possess technologies or tools that QuantumLeap itself does not possess and that could assist its existing businesses. The technology sector is highly competitive, due to which QuantumLeap sees great value in acquisitions that have a negative impact on its competitors.

A recent company that piqued QuantumLeap’s interest for a takeover is InnoSync Tech Plc (“**INT**”). INT possesses in-depth expertise in Generative Artificial Intelligence (“**AI**”) and is ahead of all other companies in this field. Acquisition of INT’s technology and intellectual property is likely to provide great synergy to QuantumLeap’s existing businesses. Further, QuantumLeap considers that there is considerable risk in INT becoming its competitor, or for INT to be acquired by one.

PrimeTrust Wealth Advisors LLP

PrimeTrust is a private equity investment firm founded in 2005 by Hamza Sheikh, and invests in a range of industries and sectors. Its investment philosophy is driven by ethical investment, looking beyond conventional financial investing principles. Rather than focussing on short-term profits, PrimeTrust emphasises more on the long-term improvement of a target company, while benefitting the society at large.

This practice of ethical investing is supported by PrimeTrust's specialised technical teams. These teams research into the operations and management of companies in relevant sectors and oversee the progress of PrimeTrust's investments.

This all-industry expertise empowers PrimeTrust to navigate short-term investment cycles to generate long-term returns, while also delivering on social and environmental metrics.

PrimeTrust's investments and investment management strategy has proven to be very effective, with some of its long-term investments averaging returns in the range of 15-20%. At the same time, PrimeTrust has been at the forefront of ethical, social, and environmental revolutions. An investment that PrimeTrust is particularly proud of is INT.

As of December 31, 2023, PrimeTrust's investment portfolio was valued at approximately £30 billion, making it one of the largest ethical investors in the world.

However, PrimeTrust is currently facing some liquidity issues due to a decrease in earnings and dividend payouts, resulting from the fear of a global recession. Accordingly, PrimeTrust is considering selling one of its investments and has been evaluating its portfolio for this purpose.

GENERAL INFORMATION

Overview of INT

INT is a publicly listed company at the Landis Stock Exchange (“**LSE**”) located in Jodhpuria. INT has a market capitalisation of £2 billion with each share being priced in the market at £1.00 per share, as of December 31, 2023. The largest shareholder of INT is PrimeTrust, holding 49% of INT’s issued share capital.

INT has made more technological advancements in the Generative AI space than any of its peers in the past five years. This is due to its Research & Development Team (“**R&D Team**”) comprising of three data-science engineers. They, along with INT’s software, are INT’s key assets, from which INT derives a considerable part of its value.

At the helm of INT’s leadership is Ethan Bennett, its visionary founder and chief executive officer (“**CEO**”), who owns 26% of INT’s issued share capital. Of the remaining 25% of INT’s shareholding, 6% is held by the R&D Team (2% per engineer) and the rest by the public.

Ethan has been hailed by many as one of the ‘fathers of modern AI’. Ethan had founded INT with a vision to make it a ‘force for good’ and to use technology for societal benefit. He has, in his role as the founder and CEO, prioritised this core vision over short-term profits.

Due to their shared vision for ethical corporate growth, Ethan has a close relationship with Hamza Sheikh. Hamza has been known to invest in ‘people’ more than in companies and was INT’s first investor. The bond between the two has continued to grow over the last decade, ever since PrimeTrust first invested in INT in 2010.

PrimeTrust has drag-along rights over Ethan’s shareholding in INT as well as those of the R&D Team.

The highest executive decision-making body in INT is its board of directors, consisting of 5 directors (the “**Board**”), including Ethan and two appointees by PrimeTrust.

INT’s primary sources of revenue are its licensing agreements with XFuture Pvt. Ltd. (“**XFuture**”) and Entertail Pvt. Ltd. (“**Entertail**”). XFuture operates in the virtual reality and gaming industry and Entertail operates in the television and movie industry. The contracts with both of these companies are set to expire in mid-2025. Non-renewal of these contracts can have a material adverse impact on INT, as these two customers contribute around 60% of INT’s total global revenues. INT is presently engaged in negotiations with the companies to renew the contracts. These negotiations have been ongoing for nine months, with no agreement having been reached yet.

INT has three wholly-owned subsidiaries that focus on societal welfare projects:

- Anti-Fake Pvt. Ltd. (“**Anti-Fake**”), which identifies deepfake images on social media platforms.
- Verity Pvt. Ltd. (“**Verity**”), which verifies news articles and identifies fake news.
- Anti-Hate Pvt. Ltd. (“**Anti-Hate**”), which identifies instances of hate speech.

The companies allow individuals, companies, and governments to use their services for a nominal fee. All three of these companies use software that is owned by INT. The software has been licensed to the subsidiaries through licensing agreements that have an outstanding term of 2 years each, expiring in mid-2026.

The Offer

The Board has been approached by QuantumLeap with an offer to purchase the entire issued share capital of INT and delist it from the LSE, making it a private company. The offer is to acquire each of INT’s issued shares at a price of £1.1 per share (the “**Offer**”). At this share price, the market capitalisation of INT would be £2.2 billion.

In addition to the share price, the Offer consists of the following terms:

- Termination of the employment of each of the directors of the Board and payment of a bonus of £300,000 to each director upon completion of the share transfer.
- Payment of an additional £1 million to Ethan to enter into a non-compete agreement that restricts Ethan from joining

INT’s direct competitors, developing new technology that could compete with INT’s software and poaching the R&D Team for a period of three years.

- Winding-up of Anti-Fake, Verity, and Anti-Hate.
- Non-renewal of contracts with XFuture and Entertail.
- Due diligence should not reveal any concerns or restrictions relating to INT’s ownership over the intellectual property of its software.
- QuantumLeap pays 70% of the offer price upon completion of the acquisition. The balance amount would be paid three years after closing, provided that the R&D Team remains with INT during this three-year period.

Negotiations began in late 2023 between QuantumLeap and PrimeTrust, during which PrimeTrust noted the following:

- INT is close to both Ethan’s and PrimeTrust’s hearts. It is a prominent example of how a company does not need to compromise on its ethics in order to achieve good returns. Due to this, PrimeTrust does not wish to sell its shareholding in INT. As an ethical investor, it believes INT can be a real driver for change and bring about a ‘positive AI revolution’ in the society by controlling the growth of generative AI in a responsible manner.
- If PrimeTrust were to consider selling, it would require a big financial incentive. INT’s generative AI technology is the so-called ‘next big thing’.

Any valuation of INT has to be based on the future earnings potential of INT and not its current value. A fair value in PrimeTrust's view is £1.5 per share. Further, PrimeTrust wants assurances that INT's technology will still be used for wider societal benefits, and not only as a profit generating machine.

- Ethan does not wish to sell his stake in the company that he has worked very hard to build and believes that his exit would lead to a future investor focussing more on INT's profitability while abandoning its core 'society first' principle. Given QuantumLeap's current reputation, Ethan is not eager to sell to them. If Ethan were to consider selling, he would want an assurance that he would be retained as the CEO for at least another 3 years.
- Winding up of Anti-Fake, Verity, and Anti-Hate is unacceptable. PrimeTrust and Ethan have seen the substantial benefits these projects have had for society and will continue to have, and believe that they form essential pillars of INT.
- Retention of 30% of the offer price for a three-year period, with the payment being subject to INT retaining the R&D Team, is unreasonable.

The second round of negotiations will take place on February 18, 2024. PrimeTrust is representing both itself and Ethan at the negotiations.