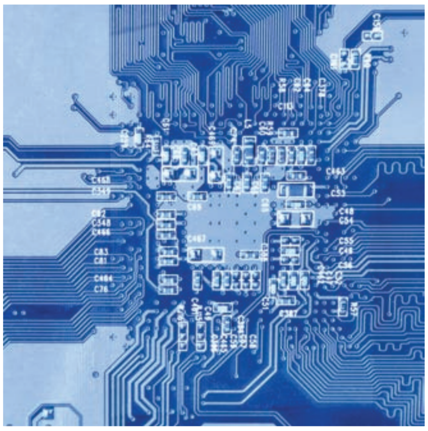

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Unsettled forecast

Recently private equity companies have been moving in on the LMS companies. Ken Chad gives his personal view of the consolidating systems market.

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In less than two years the majority of the UK's public and HE libraries have seen their library management system (LMS) providers come under new ownership. In the case of the largest deals the new owners are private equity companies. The pros and cons of private equity is currently one of the most hotly debated topics in the business press. 'Mind yer privates' ran a Sun headline after a Financial Services Authority discussion paper warned that banks may be lending too much to private equity firms.

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One of the much reported characteristics of private equity takeovers is that the purchased company (rather than the private equity company itself) takes on an increased debt burden that may be more than it can sustain. In February the *Telegraph* reported: 'Apax Partners, the private equity firm, has been forced to hand over Damovo, its Scottish-based telecoms business, to creditors in order to save the company from bankruptcy. The surrender will reinforce widespread concerns that private equity firms are injecting too much debt into the companies they buy'. In the same month the *Observer* reported concerns that 'In the world of private equity, people get rich, very rich'. Private equity is not the whole picture. When we look at all the ownership changes affecting the UK LMS market over the last two years the picture is even more dramatic:

- **June 2005:** Sirsi and Dynix merge and become SirsiDynix.
- **November 05:** Geac announces its acquisition by Golden Gate Capital, a private equity company.
- **December 05:** Ramesys becomes RedSky through a management buyout.
- **February 06:** Talis is 'reconstructed': the owners (BLCMP Ltd and an Employee Benefit Trust) vote to transfer ownership to a new company called Talis Group.
- **July 06:** ExLibris acquired by Francisco Partners, a private equity company
- **December 06:** Endeavor acquired from Elsevier by ExLibris and Francisco Partners.
- **January 07:** SirsiDynix acquired by Vista Equity partners, a private equity company.
- **February 07:** Isacsoft (owners of Bibliomondo) announces it is 'evaluating strategic alternatives' including but not limited to, a sale of the company.

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Between them DS, SirsiDynix and Talis now have over 80 per cent of the UK public library LMS market. The HE picture is barely more diverse with the merged Endeavor and ExLibris having roughly one quarter of the market. Talis and SirsiDynix have around a quarter each and Innovative around 15 per cent.

What is going on?

There have been mergers and acquisitions before but these recent changes represent a significant quickening of pace in consolidation. In my view one of the factors driving the change is the relative (compared to the best software industry examples) poor performance in terms of profitability of the library vendors. In the past low returns might have been acceptable to individual founders/owners or not-for-profit companies like BLCMP (which owned 75 per cent of Talis Information Limited), but times and markets change: inevitably owners at some point want to realise their assets and what we think of as the library market has itself evolved.

> **Given the short-term nature of their investment private equity companies probably won't deliver anything spectacular in terms of product development.**

So why would these underperforming companies be of interest to, for example, private equity investors who will need a good short-term return on their investment? Well precisely because they are underperforming there is scope for cost savings through product rationalisation and staff reductions especially when a merger takes place. In the Sunday Times on 18 February Ian Armitage, partner at HgCapital, is quoted: 'The discipline of private equity makes companies fitter, leaner and better able to compete.' The article also quotes Stephen Schwarzman at Blackstones: 'Private equity buys an entire company… improves the company and owns it typically for three to seven years. It then sells it or takes dividends by refinancing it'. Francisco Partners (new owners of ExLibris and Endeavor) claims rather more obtusely: 'Our objective is to generate superior investment returns by partnering with the management teams of technology companies facing strategic or operational inflection points and using differentiated experience, insight, and resources to build value.'

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For an investor, perhaps the prime asset these companies have is a revenue-based business model that is predictable, being largely based on customers who pay their annual maintenance fees in advance. Moreover public libraries and HE institutions don't go bust and can be incredibly loyal, remaining with the same vendor for sometimes 20 years or more.

What will happens to the LMS?

Should libraries be concerned about these dramatic changes? In terms of consolidation the industry is following a path well trodden in other industries. The technology matures, products get less differentiated from one another, the market gets more competitive and prices go down threatening to reduce margins. A perfectly normal response is mergers and acquistions. So maybe this is just business as normal. Consolidation means fewer LMSs to choose from. Vendors will do their best to manage the process in order to maintain their revenue base but it is hard to see them maintaining distinct product lines long-term. Innovation is risky so, given the short-term nature of their investment private equity companies probably won't deliver anything spectacular in terms of product development.

Indeed this seems an appropriate time for all local authorities and HE institutions to review their position with their LMS vendor.

What should libraries do?

The high likelihood of further mergers and acquisitions means that some libraries will already have their LMS on their internal 'risk register' and will be seeking a strategy to minimise that risk. Indeed this seems an appropriate time for all local authorities and HE institutions to review their position with their LMS vendor.

About US

Ken Chad Consulting works with organisations such as government, local authorities, universities, colleges and schools to help leverage technology to realise the full potential of their library and information function.

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