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Smarter Libraries through Technology:

The Role of Private Equity in the Library Automation Industry

By Marshall Breeding

As libraries make investments in technology, it's important to be aware of the nature of the businesses that provide these products and services. We naturally evaluate software products on the merits of their functionality, alignment with current and anticipated library requirements, the soundness of architecture, and other technical considerations. But the software a library acquires today is only a snapshot in time over a broader lifecycle. Libraries also have a vital interest in the ability of a vendor to provide ongoing support and development of those products. Libraries need to have confidence that the organizations from which they acquire their strategic technical infrastructure will not only remain viable, but will aggressively develop those products in the future.

Because libraries have so much at stake in the performance of the corporations that comprise the library automation industry, I spend much effort gathering information and analyzing it. Today I see an interesting mix, including large corporations with a global presence and many small to medium-sized companies that tend to operate within a given country or region, often focusing on a specific type of libraries. Almost all are for-profit corporations, with the obvious exception of OCLC, which has a complex business structure that includes for-profit units within its broader non-profit organization.

Multiple ownership models can be seen among the major library technology vendors. OCLC is owned and governed by its member libraries. SirsiDynix, Ex Libris, Infor, and Innovative Interfaces operate under the full or majority ownership of private equity investors. Auto-Graphics is the only publicly-traded company. Most of the others are privately owned by their founders, executives, or other investors. Since there has been a spurt of private equity investment and ownership in the library automation industry, it seems worthwhile to work through some of the implications of this arrangement for libraries. While I make

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an effort to study and analyze the industry as much as I can, keep in mind, as I make these observations, that I am not an economist or business expert.

Private equity discovered the library automation industry beginning about 2005, when Golden Gate Capital acquired Geac, once a dominant force in library automation, but by then a large IT company providing software and services to banks and other sectors. SirsiDynix and Ex Libris came under private equity ownership in 2006. This year Innovative Interfaces, a company that had once set itself apart in the industry as owned and operated by its founder, came under majority ownership by a pair of private equity companies.

Private equity firms' investments in companies providing technology products to libraries can be seen as a positive indicator of the health of the industry. Despite libraries' limited resources and the declining budgets of recent years, automation companies show reasonable growth potential. Libraries increasingly rely on technology, even when other aspects of their operations, such as collections and personnel, suffer cutbacks. While the business creating technology for libraries may never show soaring growth, it can offer opportunities for sustained, moderate, long-term prospects.

While strategies vary, private equity firms tend to invest in stable, mature companies, unlike venture capital funds that get involved with companies at earlier stages, when the risks are considerably higher. In my observations within our industry, the companies that attract private equity investments are large, well-established, and positioned for long-term growth.

Private equity firms can also effect consolidation through the acquisition of multiple companies and merging them into a single entity. The library automation industry has seen considerable consolidation, resulting in a fewer number of quite large companies. Consolidation can be disruptive to libraries if it means that the automation systems that they rely on will not be further developed. But the merger of companies does not always mean immediate consolidation of products. We see examples, such as Ex Libris, that maintain and develop multiple ILS products. I think that merged companies ultimately work toward a single flagship product, which can be accomplished by developing new-generation systems that will supersede multiple legacy products.

With ownership comes control. Private equity firms investing in a company will require representation on its board of directors proportional to its ownership stake. That board, in turn will formulate high-level business strategies and assemble an executive management team to execute those strategies.

In some of these transitions, founders, who may be entrepreneurial technologists, hand-off to professional executives, usually with experience in related industries. I'm always interested to see a mix of incumbent executives, knowledgeable about libraries' technology needs, with new executives from related industries. With Ex Libris, the same management team has led the company through three different private equity owners. SirsiDynix saw a turnover in management when it was acquired by Vista Equity Partners. Innovative, as described later in this issue, has seen new appointments at the C-level with more continuity at the VP level.

Private equity ownership involves a complex business arrangement. In addition to the investment from the private equity firm's fund, most deals also include sizable bank loans. The company takes on the burden of repaying that debt. Some portion of the money that libraries pay for the products of these companies flows out of the company to investors and banks. Likewise, an owner may take profits out of the company or reinvest in new development. Ideally, I think that libraries would like to see all of the money they spend on technology go toward the support and development of current and new products. But practically, some layer of financial and administrative overhead is incurred. A key question is whether private equity ownership results in funneling a disproportionate level of capital out of the library economy.

I'm especially interested in seeing sufficient development capacity in the library automation industry to create technology products that will help libraries accomplish their strategic missions. My long-time readers will recall that I've often complained that automation products usually lag behind changes happening in libraries and broader society. We need much more aggressive product development. The capacity some companies to amass large development teams seems to me like at least one path toward this goal of more aggressive software development. In this issue of *Smart Libraries Newsletter*, I include a table that documents the personnel resources devoted to research and development in companies owned by private equity. The numbers point toward significant potential, and we're seeing the results in the creation of this new genre of library services platforms that has been chronicled in this newsletter.

So as I think about the ownership arrangements of the companies from which libraries acquire technology, private equity ownership is simply a reality of the industry. The ownership structure matters less than the company's product roadmap, its capacity to develop products and deliver support and services. Private equity ownership of companies has been a part of the industry long enough to establish a track record that can be compared against the ownership models. Almost by definition, companies involved with private equity are going to be large and stable. With size comes the potential for greater impact. Libraries generally appreciate the lack of disruption that comes with stability.

I've come to consider ownership as a fairly neutral factor in assessing the relative strengths and weaknesses of companies.

I've come to consider ownership as a fairly neutral factor in assessing the relative strengths and weaknesses of companies. I see both positive and negative performance factors among those owned by private equity to about the same extent as those with other ownership structures. As libraries form their technology strategies and make decisions regarding the specific products and services to fulfill them, ownership structure is but one among many factors in the equation.

Ex Libris Group Under New Ownership: Leeds Equity Sells Company to Golden Gate Capital

Ex Libris will soon change ownership from one private equity firm to another. The company is to be acquired by Golden Gate Capital (http://goldengatecap.com/), a major private equity firm managing funds representing more than $12 billion in capital. Golden Gate Capital invests in the software and information technology sector in addition to many other industries.

According to Matti Shem Tov, Chief Executive Officer of Ex Libris, this transition should not be considered a major event from its library customers' and employees' perspective. The new owners will retain the current management, workforce, and operating locations. Yet, with new ownership comes a new Board of Directors that will oversee the company and set its high-level business plan.

Ex Libris Group's strategic products focus on the academic and research library arena and include the Aleph and Voyager integrated library systems, the Primo discovery product and its Central Index, the, Rosetta digital preservation platform, the SFX link resolver, the Verde electronic resource management system, the MetaLib federated search, as well as Alma, the company's newest offering, a library services platform based on the concepts of unified resource management and cloud computing.

Through its business history of more than 20 years, Ex Libris has risen to become one of the largest, if not the largest, companies in the library automation industry, depending on whether measuring revenues, libraries served, or personnel employed. The company has maintained its focus on academic and research libraries, both individually and in consortia. Many of the consortia using Ex Libris products include public or special libraries in addition to academics. Ex Libris products find use in many national libraries, including the Library of Congress, the British Library, the National Library of China, and The National Diet Library of Japan. Indicative of its success with large academic libraries, Ex Libris has a high level of involvement with the members of the Association of Research Libraries, which includes the largest research libraries in the United States and Canada. Of its 125 members, 24 use Aleph,

Company	Total FTE	Development FTE	Percent
Ex Libris	512	170	33%
Innovative	311	83	27%
SirsiDynix	380	84	22%
Infor	71	16	23%

Table 1.

35 run Voyager, and another 5 have signed for Alma; many others use SFX or Primo.

Strategic Research and Development

Ex Libris has distinguished itself as a company in the library automation industry that invests heavily in research and development, creating new products and new product categories that support a strategy of long-term growth. At the end of 2011, Ex Libris employed a workforce totaling 512 personnel, with 170 dedicated to development, or around 33 percent. The table below demonstrates that Ex Libris embraces a stronger orientation toward research and development than other companies in the industry with complete or partial private equity ownership.

Golden Gate and Infor and Ex Libris?

Golden Gate Capital also has an ownership interest in Infor Library and Information Solutions. In March 2006, the company acquired Geac, one of the pioneering firms in the library automation industry. Even though library automation was at one point one of Geac's principal business activities, by the time that it was acquired by Golden Gate Capital for around $1.0 billion, it was involved in many other IT sectors, with libraries representing a very small proportion of revenues. Under the ownership of Golden Gate Capital, Geac was initially folded into one of its existing portfolio companies named Extensity and only months later transferred to Infor. Infor Global Solutions ranks as a company many times larger than the former Geac, offering enterprise applications and services across many different industry sectors. Today, Infor Library and Information Solutions sits as a relatively small business unit within Infor Public Sector, which is one of 14 areas to which Infor provides products. According to a recent company fact sheet, Infor takes in around $2.8 billion annually. Golden Gate Capital made a substantial new investment in Infor in April 2012, joined by Summit Partners, to recapitalize the company and to support a merger with Lawson Software, which produces a competing ERP solution and other business software products. Through its association with Golden Gate Capital, Ex Libris gains at least indirect ties so some of the largest companies in the global IT business sector.

The common ownership of Infor Library and Information Solutions and Ex Libris Group by Golden Gate Capital, while it sparks interest, does not necessarily imply short-term changes for either company. The two companies address two different library sectors, with Ex Libris focused on research academic libraries and the Vubis Smart and V-smart systems from Infor Library and Information Systems used primarily by public libraries. While Ex Libris Group has library customers in almost every global region, Infor's library customers are concentrated in the Benelux area of Europe, the United Kingdom, France, and Canada, with a smaller presence in other countries such as the United States and Australia.

Transaction Details

The definitive agreement for Golden Gate Capital to acquire Ex Libris Group was signed on November 14, 2012, with the deal expected to close by mid-December. Financial details of the transaction have not been revealed. Globes, an Israel-based business publication, estimated the value of the transaction in the range of $250-300 million (http://www.globes.co.il/serveen/globes/docview.asp?did=1000799064).

Ex Libris' Corporate and Investment History

Ex Libris traces its roots to efforts to create automation software for the libraries of Hebrew University of Jerusalem, beginning in 1980. The Automated Library Expandable Program, or ALEPH-100, system soon attracted interest by other universities. Yissum, the technology transfer unit of the University, facilitated the formation of a new company called Aleph Yissum to further develop and commercialize the software. Azriel Morag, an Israeli businessman with experience in the software industry, was recruited to lead the company. In 1986, another company was formed, Ex Libris, Ltd., to market the software outside of Israel, with Morag as its principal owner. Aleph Yissum and Ex Libris, Ltd. were merged in 1995 and shortly reorganized under the name Ex Libris Group. In July 1997, Ex Libris acquired a German company Dabis and its BIS automation product used by around 300 academic libraries.

In 1999, two Israel-based venture capital firms, Walden Israel and Tamar Ventures, made a combined $4 million investment in Ex Libris. The injection funded the company's entry into the United States and commercialization of the SFX linking technology, which it acquired from Ghent University. At this point, Morag and other company executives, Hebrew University of Jerusalem (30%), Walden Israel (20%), and Tamar Ventures (20%) shared ownership of the company. In addition to SFX, the company created a variety of other products to support academic libraries, such as the MetaLib federated search tool, Verde electronic resource management system, and DigiTool digital collections platform.

Beginning in 2005, Ex Libris Group began exploring other investment opportunities. In September 2005, the company attempted an initial public offering on the AIM (Alternative Investment Market) of the London Stock Exchange. At this point, Morag retired from Ex Libris, selling his ownership stake to the other investors. The IPO failed to generate the anticipated capital and was withdrawn.

Francisco Partners, a San Francisco-based private equity firm acquired Ex Libris Group in June 2006 for $62 million, marking a major transformation of the academic library automation sector. In a subsequent transaction in November 2006, Ex Libris, with support from Francisco Partners, also acquired Endeavor Information Systems from Elsevier. This merged company went forward with two flagship ILS products, Aleph and Voyager, continuing ongoing development, marketing, and support for both. One of the key strategic products created during this period was Primo, positioned as a discovery and delivery interface for academic libraries, which could be used not only with both Aleph and Voyager, but with the ILS products from competing companies. The company also invested in the development of Rosetta, a new digital preservation platform created in partnership with the National Library of New Zealand going to general release in January 2009.

Francisco Partners held on to this investment for just past two years, selling Ex Libris Group to Leeds Equity Partners in August 2008 for an estimated $150 million. Shortly after the acquisition by Leeds, the company began the development of a new Unified Resource Management product, subsequently branded as Alma. As a new library services platform built from the ground up, Alma represented a significant research and development project. Offering a forward migration path for both for existing customers Aleph and Voyager, Alma also held potential for attracting new library customers using ILS products from competing companies.

The sale to Golden Gate Capital comes during the phase where the initial version of Alma has been created and initial production implementation is underway in libraries such as Boston College, Fort Hays State University, and the University of East London. Many other academic libraries, including a contingent of development partners and early adopters, are on track to also place the software into production use in the coming months. The company is now positioned to begin reaping the benefits of the investment in the development of Alma as it enters its full marketing cycle. With the Alma now complete and Primo in its fourth major release, Ex Libris can be expected to be a formidable competitor in the academic library niche. The challenge for Ex Libris under its new ownership will be to not only reap the short-term rewards sown in previous rounds of investment, but to continue new developments that will benefit its libraries and its bottom line in the long term.

—Marshall Breeding

New Executive Management Team Emerges at Innovative Interfaces

A new executive management team is taking shape at Innovative Interfaces following its transition to majority ownership by private equity firms Huntsman Gay Global Capital and JMI Equity in May 2012. It is not surprising that the new board of directors would make new appointments charged with executing its business strategies. Since the business transition, several appointments and exits have taken place at the executive level.

Kim Massana was appointed by the new board in August 2012 to lead the company as its Chief Executive Officer, as reported in the October issue of *Smart Libraries Newsletter*. JMI and Huntsman Gay engaged the executive search firm Lancer Group to facilitate the process that led to the appointment of Massana. Lancer lists JMI Equity as one of its principle clients and states its key expertise as "… focused on search work for Private Equity firms, building out the senior management teams of their portfolio companies" (http://www.lancergroup.net/).

James A. Hofbauer, Executive Vice President and Chief Financial Officer exited Innovative at the time of its ownership transition. Hofbauer joined Innovative in 1992 and had previously served as Vice President and later President of CLSI, one of the pioneering companies in the industry. Bryan Urquhart became the company's new CFO in October 2012.

Other executive appointments at Innovative include and Satyadeep Prasanna as Vice President of Strategy and Business Development. On December 10, 2012, Innovative announced that Jayanthi "Jay" Shankar will join the company as Senior VP of Services and Support, having previously worked in a similar role at BMC Software. While Massana, Urquhart, Prasanna , and Shankar have not previously worked for companies within the library automation industry, they bring diverse experience from the broader information technology and software sectors.

Jerry Kline, who co-founded the company with Steve Silberstein in 1978, continues to own a significant portion of the company, serves as its Chairman of the Board of Directors, but is no longer involved in the day-to-day management of the company. Kline began a transition from the operational to board-level involvement with the appointment of Neil Block as company President in August 2010.

Following the appointment of Massana as CEO, Neil Block initially shifted from President to a newly defined role of Chief Sales Officer. This arrangement was short-lived. Block exits the company entirely as of December 2012. Block joined innovative in 1988 and had held a variety of roles including VP for Worldwide Sales.

Betsy Graham, VP of Library Services, has also left Innovative, retiring after 30 years with the company.

Executives continuing at the Vice President level include Hilary Newman, Senior VP of Product Development, Gene Shimshock, Senior VP of Product and Market Management, Mary Chevreau, VP North American Sales, Maryvonne Enjolras, VP of sales for Europe, Africa, the Middle East, and Latin America; and John McCullough, VP Product Management.

As a company goes through a major transition, such as the one that Innovative recently experienced, one would expect a blend of new appointments and retention of incumbents at the executive level. In this case, the top leadership positions have gone to fresh appointments made by the new board, with more continuity at the vice president level.

—Marshall Breeding

Polaris Reports Strong Sales for 2012

With one month to go in the annual sales cycle, Polaris released its list of contracts awarded so far in 2012. The 23 contracts represent a total of 675 individual library facilities. The list includes Boston Public, Columbus Metropolitan, New Orleans Public, and the Tampa-Hillsborough County-Public System, continuing its streak of success in the ranks of major municipal libraries. The Illinois Heartland Library System represents an even larger prize, as a consolidated library consortium that will provide automation to around 450 libraries, as reported in the September 2012 issue of *Smart Libraries Newsletter*.

Polaris also reports some sales to academic libraries, including Central Arizona College, Allan Hancock College, Clarkson University, and the University Canada West in British Columbia. This marks some success in the company's efforts to expand beyond its established market of public libraries. These smaller academic libraries share many of the same requirements as public libraries, even though large academic tend to prefer more specialized systems. The State Library of New Mexico is another organization outside the niche of public libraries that gave the nod to Polaris.

Polaris continues its streak of success in the ranks of major municipal libraries

Polaris characterized its sales in 2012 as 243 percent higher than the previous year in terms of total libraries represented by the contracts signed. In order to ensure sufficient resources available to provide support to its expanding customer base, the company reported that it has added 16 new positions.

Library Technology News in Brief

Ex Libris Promotes Linked Data Techniques, Joins the W3C Schema Bib Extend Community Group

Jerusalem, Israel—December 5, 2012—Ex Libris® Group, a world leader in the provision of library automation solutions, announced that it has become a member of the W3C Schema Bib Extend Community Group. This community group brings together diverse library organizations and individuals who are creating proposals for extending schemas to improve the representation of bibliographic information on the Internet. The group operates under the umbrella of the schema.org initiative.

As a member of the group, Ex Libris will work toward making the data managed by Ex Libris solutions more accessible to others in the scholarly community and, similarly, making data from other systems available to libraries that use Ex Libris solutions. Membership in the community group is part of the Company's ongoing initiative to take advantage of linked data for the benefit of its customers and the wider library community. Linked data is a method of Internet publishing that enables data to be linked to automatically, rendering the data more accessible and hence more valuable.

"Our customer community is very keen to take advantage of linked data methodology," remarked Oren Beit-Arie, chief strategy officer at Ex Libris. "At our recent international user meeting, a special interest working group on linked open data was established and members wrote a manifesto in support of linked open data. We have already begun discussing with the working group various ways in which we can use linked data in our solutions."

Sixty Publishers Add Content to Ingram's VitalSource E-Textbook Platform

NASHVILLE, TN—December 4, 2012—Vital Source Technologies, Inc., Ingram Content Group's leading e-textbook solution for publishers, academic institutions, and students, today announced that sixty new publishers have added more than 35,000 new digital textbooks and online course materials to its VitalSource Bookshelf platform.

The most recent publishers using the VitalSource platform to reach the education market include fourteen of the most recognized university presses. In addition, publishers that specialize in medical, scientific, law, religion, general trade, and standards-based education content have committed titles to the platform. These newest publishers join Cengage Learning, Elsevier, Wiley, McGraw-Hill, and more than 200 other publishers that currently make content available through VitalSource Bookshelf. VitalSource Bookshelf, with 2.7 million registered users on 6,000 campuses worldwide.

Agreement between EBSCO Publishing and University Library Online in Russia adds Educational and Scientific Literature to EBSCO Discovery Service

IPSWICH, Mass.—December 4, 2012—EBSCO Publishing (EBSCO) and University Online Library in Russia have developed a new partnership allowing content from University Online Library to be searched within EBSCO Discovery Service (EDS). The agreement will add e-book metadata from the University Online Library collection into the Base Index of EDS, the most comprehensive and robust collection of metadata from the best content sources.

University Online Library is an electronic library that provides access to the materials of leading publishers. The metadata content that will be added to EDS represents the largest Russian e-book collection available and comprises educational and scientific material specifically designed for students, graduate students, teachers, and professionals.

University Online Library's comprehensive collection of e-books span many different subject areas including humanities, history, economics, philosophy, psychology, sociology, political science, economics, as well as masterpieces of Russian and world classics. Database resources include educational books, directories, dictionaries, encyclopedias, interactive tests, maps and lecture notes.

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