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Civica Transitions to Private Equity

Smart Libraries Newsletter

Smart Libraries Newsletter delivers hard data and innovative insights about the world of library technology, every month.

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Civica Transitions to Private Equity

Although not well known in the United States as a library automation company, Civica ranks globally as one of the largest companies that provide software to libraries. Although based in the United Kingdom, Civica currently has its largest base of library customers in Australia. It has a growing presence among UK libraries, however, with only a small handful of library clients in the United States. Civica's Spydus automation system has been adopted by libraries in many regions of the globe. The company and its antecedents have been involved in library automation for almost 30 years.

3i After AIM

Civica, a large software and services company that includes a library division offering the Spydus automation system, has undergone a business transition where it changes from a publicly traded company on the London-based AIM exchange to a private company, primarily owned by 3i Investors, a major private equity firm.

3i is a very large private equity firm with £5.6 billion in market capitalization. The company operates in 14 countries, and follows a policy of socially responsible investments, stating "respect for human rights is central to good corporate citizenship." This transition has not been characterized as a hostile buy-out, but rather as a mutually agreeable arrangement that will provide the company a stronger financial position for future growth and business development than was possible as a public company.

Civica traces its business history through a complex course of antecedent companies. Its latest era began on March 1, 2004 through its flotation on the AIM, a segment of the London Stock Exchange for smaller companies early in their business cycle, involving higher investment risk. Readers may recall that Ex Libris attempted a flotation on AIM in September 2005, but failed to generate the valuation expected by its investors. Ex Libris quickly moved on to a buy-out by Francisco Partners, a large private equity firm.

When Civica Plc began trading on the London AIM exchange, it raised £15 million of new capital and was valued at £79.2 million.

Civica's 4-year tenure on AIM was fairly short-lived, primarily due to the inability of its stock price to hold at a level that would supply it with a sufficient level of capital to fulfill the company's business ambitions. Following its initial offering at 175 pence in March 2004, the price climbed through the beginning of 2007 peaking at about 280p. The price fell to about 165p in December 2007, rising to and holding at about 200 through the first quarter of 2008. The sale price of 270p represents a substantial premium to the stockholders as 3i acquires the company.

Continued on next page

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Figure 1. Graph showing Civica stock price from initial flotation to final offer. (From Civica web site)

As a portfolio company of 3i, Civica will gain access to substantial capital for its business development and will operate more efficiently without the reporting and regulatory overhead required of public companies. Part of the company's strategy going forward involves organic growth through continued sales to new clients as well as expansion through business acquisitions. Under the ownership of 3i Investments, the company will have access to the financial resources it needs to execute this strategy.

The existing management team will remain in place and no major changes are planned for its operations.

The transition of Civica follows a pattern similar to Geac's acquisition by Golden Gate Capital, another public to private conversion. Like Geac, the business unit involved with library automation represents a relatively small portion of the company's overall activities. Private equity firms also own SirsiDynix and Ex Libris.

Civica offers a number of products for public agencies. According to Peter Anderson, Managing Director of Civica International, the library automation division represents about 15 percent of the company's overall activities.

The Transition Process

The purchase of Civica involves the procurement of all outstanding stock through an offer put forward by Cornwall Bidco, a company controlled by 3i and formed specifically for the purpose of this acquisition.

As of April 18, 2008, sufficient shares had been purchased by Cornwall Bidco to allow for the de-listing of the company on AIM. Following the completion of the transaction, 3i will own the majority of the company, with company executives owning a minority share. The value of the transaction was about $380 million or £190 million.

Private equity firms hold onto their portfolio companies for a finite period. We can expect 3i Investors to maintain ownership of Civica for the next three to five years.

A Privatization Trend

The transition of Civica from a public company to one under the ownership of a private equity firm reflects the realities of the current economy in which the library automation industry resides. In a highly competitive market fueled primarily by non-profit organizations, such as libraries, companies need flexibility and efficiencies that are difficult to achieve by publicly traded companies. In recent months Canadian-based Isacsoft made its transition from the Toronto Stock Exchange to private ownership by its founder. Auto-graphics, though still technically a public company, de-listed itself, following rules allowable for small companies not actively traded, to simplify its administration. Private equity has increasingly become the dominant ownership model for the companies involved in the library automation industry. Civica joins the club that also includes SirsiDynix, Ex Libris, and Infor.

Civica's Background

Civica traces its corporate history through a fairly complex path of antecedent companies. As we trace our way back through the company and product names involved, it becomes clear that Civica carries forward a library automation business with some of the deepest roots in the industry.

One of the key companies involved in Civica's past is Sanderson Group, a large and complex company offering software and services to a wide variety of business sectors.

Sanderson Electronics was a UK company founded in 1983 by Paul Thompson, who served as its chairman until 2000.

In 2000, the company went through a major transition in the form of a management buy-out. Founder Paul Thompson sold his shares and exited the company. Prior to this time, Sanderson Group was a public company, heavily involved in business acquisitions. The company had as many as 23 business units. Beginning in 2001, the company began simplifying its structure, consolidating its business units. An operating group was formed within Sanderson through the consolidation of several public sector businesses, which became Civica in 2003.

In December 2003 Sanderson Group was split into three companies, each specializing in a specific set of business activities.

1. **Sanderson**. One part of the company retained the Sanderson name, focusing on the retail and manufacturing sectors. Its products address e-commerce, mail order and fulfillment, and wholesale distribution.
2. **Talgentra** specializes in enterprise billing and customer management software for public utilities such as energy, water, and airports. The company offers software products for utility billing, for managing data from meter readings, and Airport 20/20 airport information management. The company also offers ServicePoint, a self-check kiosk for libraries.
3. **Civica** includes the part of the business involving consultancy, software, and managed services for local governments and libraries. Civica offers a variety of products and services for the public sector. In addition to the Spydus library automation system, Civica develops software for law enforcement, local government, education, and healthcare.

Spydus Background

Spydus, the automation system offered by Civica, continues today following a long and tangled history. Spydus stands as the last strain of the Urica library automation system, originally produced in South Africa, which was developed and marketed in several parts of the world through the independent efforts of multiple companies.

Urica was originally developed in the late 1970's. The software was marketed by Urica Integrated Systems, and found considerable success with public and academic libraries in South Africa. In 1998, Urica Integrated Systems merged with a company that offered the competing Erudite library automation system to form a company called Universal Knowledge Software, or UKS. This version of Urica eventually slipped into obsolescence. UKS became a distributor of Unicorn for Sirsi Corporation in 2005. Many of the libraries operating the South African version of Urica have since moved to other systems such as Millennium and Unicorn.

Urica was offered in the United Kingdom by McDonnell-Douglas Information Systems (MDIS). The system prospered, with about 35 UK libraries adopting this version of Urica. As this version reached the end of its lifespan, MDIS began creating a next-generation client server system called LION. About this time, the company began experiencing financial difficulties and the next generation system did not materialize. Support of the UK version of Urica was acquired by Ameritech, the US telecommunications company, that was just beginning its foray into library automation that eventually played out with its acquisition of NOTIS and Dynix to form the Ameritech Library Services division. Ameritech also acquired the support of other automation systems at the end of their life-cycles, including LS/2000 from OCLC Local Systems.

The Australian version of Urica began in 1979 when a division of Amalgamated Wireless Australasia, Ltd. (AWA Computers), a major computer services company in Australia, licensed the Urica software from its original developers in South Africa. AWA Computers saw Urica as the best system available to provide a circulation and cataloging system for the University of Tasmania. To satisfy the needs of this project, the software was further developed and enhanced, in collaboration with the staff of the University of Tasmania. In 1989, AWA Computers was acquired by UK-based Sanderson Computers.

Though the 1980s and beyond, this version of the software prospered as the most successful automation system in Australia.

Unlike the other strains of Urica, the Australian version successfully evolved through transitions in computing platforms. Urica was ported from Pick to Unix in about 1991. The system saw continued development and increasing adoption by libraries throughout the region. In 1999, Sanderson renamed Urica to Spydus.

Beginning in 1985 Urica was marketed throughout Asia. Top Information Technologies became distributor of Urica for Taiwan at this time, and has found a

"In a highly competitive market fueled primarily by non-profit organizations, such as libraries, companies need flexibility and efficiencies that are difficult to achieve by publicly traded companies."

strong market for the product, especially among public libraries. About two-thirds of public libraries in Taiwan use Spydus today as well as about a third of the major academic libraries. Top Information Technologies also offers ALEPH 500 and other products from Ex Libris, and its own Torica library automation system.

To add yet another wrinkle to the story, General Automation, Inc., another company intertwined with Sanderson, licensed Urica for distribution in the United States beginning in 1993 under the name Zebra 2000. General Automation manufactured computer systems and offered software applications based on Pick. The company did not find a large degree of success in marketing Zebra 2000. On August 28, 1995 General Automation entered an agreement where sales and support reverted back to Sanderson Computers, Inc.

Recent Activities

Despite being based in the UK, the largest portion of Civica's library automation business lies in Australia and Asia. Civica began marketing Spydus in the UK beginning in 2005. Since its introduction, Spydus has been adopted by 12 public library authorities in the UK representing 202 local libraries. In these last three years, Spydus has seen a strong rate of adoption in the UK.

One of the Civica's largest recent contracts involves school libraries in Singapore. In 2005 the Singapore Ministry of Education awarded Civica a major contract to provide library services for its 352 libraries—including both software and personnel. Civica reported that it completed the implementation of this project in June 2007, 16 months ahead of schedule.

In February 2008 the division of Civica involved with Spydus was renamed to "Library and Learning" with Philip Barr named as its Managing Director. Barr has managed the Spydus product globally since 2002. The change in the name of the division reflects its increased involvement with educational institutions, such as its contract with Singapore.

An important part of Civica's business strategy involves Software as a Service, which it markets as Managed Services. The company indicates that about 1,500 libraries worldwide use Spydus. About 680 of these libraries have adopted Managed Service rather than the locally installed version.

A North American Presence

Civica currently has a very small presence among libraries in the United States, with only five installations to date. Most of these libraries use Spydus Managed Service. Previous efforts to market Urica/Spydus have produced minimal results, but the company now seems intent on playing a larger role in the North American library automation scene.

Civica has been represented in the United States for at least twenty years by its wholly owned subsidiary based in Englewood, Ohio, named Creative Microsystems, Inc. CMI was originally part of Sanderson, and went by the name Sanderson CMI. In 2003, CMI became part of Civica, focused especially on managed services for local governments. In December 2007 CMI began marketing Spydus to libraries in North America, launching a sales and support office.

As the ILS options have narrowed in recent years, the entry of a new system may find a warm reception by some libraries. The demand for new automation systems among US public libraries is strong among small libraries moving away from PC-based systems, as well as some lingering legacy migrations. In addition, a large number of libraries using Horizon are weighing their options. Many will seek products from commercial competitors as well as open source alternatives.

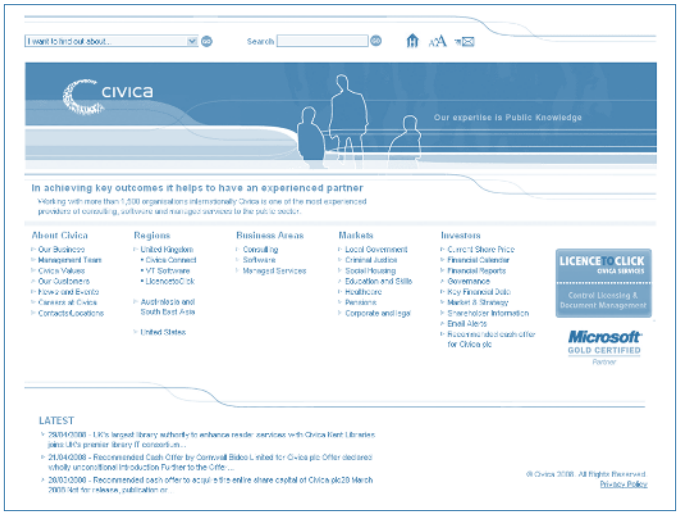
Should Civica carry out its stated goal to expand through acquisition, it may make a more dramatic entrance to the US automation market. Whether it happens through winning new sales or through an acquisition of or partnership with an existing company, Civica is a company to watch and is one that may soon become more familiar to librarians in the United States.

—Marshall Breeding

More Info. @:

Civica Library Systems Homepage:
http://www.civicaplc.com/UK/Software/Core+Business+Systems/Libraries/

3i Investing Website:
http://www.3i.com/



WiMAX May Raise and Extend the Wireless Bar

Libraries and librarians are great at collaborating, but they tend to collaborate on shoestring budgets, with few zeros involved. Big corporations, on the other hand, often don't collaborate well. They seem to prefer competing. Nevertheless, in May a huge collaborative project centered around the WiMAX wireless technology, involving many of the leading for-profit telecommunications and technology companies, was announced. If the project develops on the scale and timeline announced, it may have a major impact on how information workers, an increasing percentage of the American economy, gain access to communication, information, education, and entertainment services. If WiMAX arrives at about the same time that all these mass digitization projects approach completion, we may experience a perfect storm that will rock the boat of libraries and library users.

Sprint and Clearwire announced the formation of a new publicly-traded company to be called (confusingly) Clearwire that will build a nationwide wireless network. Google, Intel, Comcast, and Time Warner are the other major investors in the project, with a current price tag of $3.2 billion. Other investors in the project include Bright House Networks and Trilogy Equity Partners. AT&T and Verizon Wireless currently dominate the wireless industry in the United States. Glenn Fleishman at the WiMax Networking News estimates the total initial value of the new company at $14.5 billion.

Here's how the May 7th press release describes WiMAX: "Mobile WiMAX is a standards-based wireless broadband technology designed to operate multiple times faster than today's 3G wireless networks. With embedded WiMAX chipsets in laptops, phones, PDAs, mobile Internet devices and consumer electronic equipment, mobile WiMAX technology is expected to allow users to wirelessly access a range of multimedia applications, such as live videoconferencing, recorded video, games, large data files and more—anywhere in the network coverage area."

WiMAX transmitters provide a wireless connection that cover approximately one square mile. Clearwire plans to deploy enough transmitters to turn the lion's share of the heavily populated portions of North America into one large hotspot. Clearwire has an ambitious timeline. By 2010 they plan to be able to offer WiMAX services to approximately half the U.S. population.

According to the May 7th press release, when the proposed new Clearwire company comes into existence, Sprint will own approximately 51 percent, the existing Clearwire shareholders will own approximately 27 percent, and the new strategic investors will be acquiring a 22 percent share in the company.

The new Clearwire management team will include Benjamin Wolff, the current CEO of Clearwire, as the new CEO of the new Clearwire. Barry West, currently Sprint's chief technology officer, will become president of the new Clearwire. The new Clearwire will be headquartered in Kirkland, Washington, with a major R&D facility in Herndon, Virginia.

Bloggers and pundits have been having a field day over the WiMAX announcement. Several have commented that, despite all the recent heavy investment in WiMAX, the alternative wi-fi technology has sufficient market penetration and evolutionary history to continue to give WiMAX a good fight.

A deal this big is bound to raise some rancor and litigation. In mid-May Engadget reported that iPCS, and affiliate of Sprint, has filed a suit claiming that the new WiMAX service would compete in markets in which iPCS now operates, which would violate the exclusivity agreement Sprint signed back in 1999 with iPCS. **—Tom Peters**

More Info. @:

May 7th Clearwire Press Release:
http://newsroom.clearwire.com/phoenix.zhtml?c=214419&p=irol-sArticle&ID=1141157&highlight=

Glenn Fleishman's blog post:
http://wimaxnetnews.com/

Wikipedia article about WiMAX:
http://en.wikipedia.org/wiki/WiMAX

Engadget report about iPCS suit:
http://www.engadget.com/2008/05/12/sprint-affiliate-gets-litigious-to-block-clearwire-wimax-deal/

The Cost of a Virtual Presence

Many libraries and library-related organizations are talking about, planning for, or actually implementing the process of "developing a presence" in one or more virtual worlds. That's the phrase that usually is used—developing a presence. The costs of and best practices for doing so are beginning to emerge.

Before libraries dive in, they may want to consider the possibility that, if history has anything to teach us, real-world organizations striving to develop a toehold in virtual worlds may already have two strikes against them. Born-virtual organizations may have a much better chance to develop a presence, survive, and thrive.

Consider the Web. Microsoft, IBM, and other organizations that had emerged and risen to prominence prior to the Web have tried to develop a strong Web presence, but born-on-the-Web companies such as Google and Yahoo have done much better. A detailed examination of the reasons why are beyond the scope of this article, but it may be primarily because the upstart organizations are focused entirely on exploiting what the new medium has to offer and are not encumbered by prior organizational history in another medium or format, which tends to cloud the organization's thinking about presence-building in these brave new worlds.

Another cause for pause is that the best means for developing an organizational presence in a virtual world remains open to much speculation and debate. Some library organizations—and organizations in other fields, too—got off on the wrong foot, thinking that the surest way to speedy presence building involved the building of elaborate buildings and surrounding landscapes. Early experiences in virtual worlds indicate that organizing events and exhibits may be a better way to develop a presence.

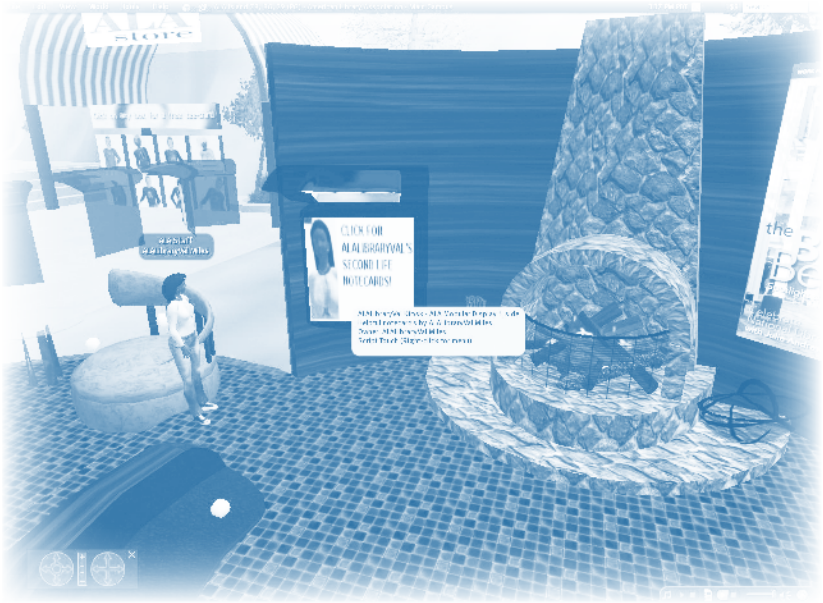
While all these larger questions need to be duly discussed and considered, there still remains the question of cost. A real-world library management team that is ready, willing, and able to undertake the development of a virtual-world presence, needs to have some ballpark cost figures. What will it cost to develop a virtual world presence for this specific library or library-related organization?

The short answer to that question is: It depends. Although Second Life is the current darling of the virtuoti, the world of virtual worlds soon will become quite crowded and competitive. Each virtual world has at least its own cost structure, if not its own currency and economy, some of which already surpass the real-world economies of several nations.

Libraries do not need to initially launch with a full presence-building-machine. Starting small and building your library's presence incrementally actually seems to be a better strategy. The Alliance Library System in Illinois and other library-related organizations have followed the start-small route with great success.

Although Second Life may soon be superseded, its cost structures are well known. Lori Bell, the Director of Innovation at the Alliance Library System, recently summarized them for a group of graduate students taking an non-credit in-world course being taught by the Graduate School of Library and Information Science at the University of Illinois at Urbana-Champaign.

Land in Second Life can be either leased or owned, and the cost of buildings and other structures ranges from free to rather expensive. Organizations often start small by leasing a plot from another organization. For example, both



The Member Lounge on ALA Island in Second Life.

the Alliance Library System and the New Media Consortium offer "starter plots" that organizations (and individuals) may lease as they begin to build a presence in Second Life. The Alliance Library System leases out land to educational and cultural groups at the rates of $100 per year for 1024 square meters, $200 per year for 2048 square meters, etc.

As organizations build a presence, usually they graduate eventually to owning one or more islands in Second Life. Linden Lab, the company that develops and operates the Second Life platform, offers an educational discount on the set up and maintenance fees for an island, which currently are $700 and $150 respectively. An annual maintenance fee of $1800 per island can be a significant ongoing financial commitment for a library or library-related organization. An island contains 65,000 square meters (approximately 16 acres) and can accommodate up to 15,000 prims—primitive objects, the basic building blocks of everything one sees and experiences in Second Life.

Lest you think that developing your library's presence in one or more virtual worlds is going to break the library's budget, rest assured that there are many free resources available in most virtual worlds, and many organizations and individuals who are farther down the happy road in developing a presence often give resources, expertise, and advice to public good institutions such as libraries for free or at deeply discounted prices. Most virtual worlds have a bona fide economy, but usually greed and inflation have not yet developed a presence within these economies.

Other virtual worlds have completely different cost structures. Whyville, for example, a virtual world for tweens, is developed primarily by the parent company, not by individual and organizational residents. The cost of developing a library in Whyville will run into five figures in U.S. dollars. Yet other virtual worlds can be developed and hosted entirely by the using organizations, such as universities, corporations, and not-for-profits.

When calculating start-up and ongoing costs, a library needs to factor in estimates of the value of the time librarians and library staff will spend developing resources and services for the virtual world. The value of staff time probably will be the single most expensive item in the budget. Most virtual worlds require quite a bit of time spent in-world becoming acclimated with the interface, the ambient environment, and the growing population of resident avatars.

—Tom Peters

Open Relais Event

Software companies seem to be evolving from organizations where the underlying code to the software is the primary company asset to ones where support in all phases of developing and using software, from initial development through implementation, customization, and upgrades, is the primary source of revenue, while the underlying code is open source and freely shared.

In late April Relais International, Inc., an Ottawa-based company founded in 1996 to develop software systems and support services surrounding the interlibrary loan and document delivery functions in libraries and other organizations, announced that it would be transforming itself from an "old-style" software company that owns and develops its own code to one where the code is open source and the company concentrates on developing value-adding collaborative partnerships with its clients.

The press release was a little vague on several counts, stating that "all or part" of Relais' software will be transitioned to an open source model. Also, an "appropriate license" by which all or part of the Relais will be offered has not yet been selected, as the Relais management team continues to investigate the open source software licensing options. The press release was relatively specific on the date: The actual process of offering code open source will begin before October 1, 2008. —Tom Peters

More Info. @:

Relais Press Release:
http://www.relais-intl.com/relais/home/Relais%20Products%20Go%20Open%20Source%20-%20Press%20Release.pdf