SkillSoft goes private - acquired by private equity (Feb 10)

Josh Bersin

Today SkillSoft announced that the company is being acquired by a private equity firm for approximately $1.1 billion. This acquisition price reflects a 14% premium over the public share price and a price to sales ratio of 3.3, which is quite high for a company of this size.

Why did this private equity firm decide to acquire the company? I actually had conversations with several of the buyers over the last few weeks so let me give you some perspectives.

1. SkillSoft is a very healthy company financially. The company's revenues of $328 Million are growing modestly (16% last year) but its after-tax profit is over 15% - so essentially the company is a "cash cow." SkillSoft is the dominant market leader in packaged e-learning content and the new owners now have a strong franchise from which to either cut costs (e.g. reduce the company's high cost of sales) or acquire other content companies to grow its footprint.

2. SkillSoft has very strong market presence. The company has thousands of customers throughout the world, and offers them corporate e-learning courseware, online books and publications (from the Books 24x7 acquisition), online videos, leadership resources, and even a low-end learning management system. This footprint on the market is very valuable and can be leveraged as the company develops or acquires new products. It takes many years to build a customer base like this, so there is a tremendous amount of intrinsic value here.

3. SkillSoft has a tremendous asset library. The SkillSoft and Books 24x7 content library, is one of the largest professional development content libraries in the corporate learning landscape. While some of this content is somewhat dated, and the company must continuously refresh highly volatile areas like IT, many of these titles are timeless - they will be relevant and useful for years to come. This means that the SkillSoft owners can further leverage, license, and sell this content and the margins are very high.

4. SkillSoft has a very powerful technology platform. While most companies do not consider Skillport an enterprise-class learning management system, it actually has many very advanced features which are hard to build. The company built an extensive API which allows corporate buyers or other vendors to license SkillSoft content, the company hosts and delivers a wide range of media, and SkillSoft is just about to announce a very exciting social networking component to its offering. The platform itself represents both a barrier to entry and a strong potential revenue source going forward.

5. SkillSoft has a very seasoned leadership team. In fact, the SkillSoft leadership team is one of the most senior teams in the training industry. Chuck Moran, Lee Ritze, Jerry Nine, Mark Townsend, and John Ambrose have been in this industry for many years and together make up a brain trust of savvy, experienced professionals who understand the dynamics of this market. SkillSoft is the most profitable of any e-learning company and has managed to weather the rapid transitions in this market over the last 10 years.
What's Next and What this Means

Let me speculate on a few things that may happen next.

In general, when private equity firms acquire companies they do so to bring new ideas, new capital, and fresh ideas to the business. They see an opportunity to unlock more value in SkillSoft and you can bet they will work hard to exploit it. This often includes restructuring, acquisitions, change in market strategy, and sometimes a breakup.

In this case SkillSoft is a highly profitable company that must evolve its business to grow. The packaged e-learning market has matured and SkillSoft is looking for new, growth markets to enter. While businesses now consider e-learning a "staple" of their training needs, the market is somewhat saturated and the adoption rate for catalog e-learning content is not high. Companies want more dynamic content and new media, industry-specific content, high-value titles (like leadership development programs and expert-branded programs), and the ability to leverage their content libraries for user-developed content.

All these needs represent new opportunities for SkillSoft - along with the opportunity to expand "down market" and sell to smaller emerging companies.

There are also many industry markets SkillSoft could explore. Each industry has its own library of specific compliance or professional content needs. Law firms, accounting firms, healthcare providers, and many other industries need packaged off-the-shelf content. SkillSoft could acquire and grow in these vertical markets. Of course SkillSoft could also try to acquire its few remaining competitors: ElementK, Mindleaders, and a few of the other global e-learning players.

The company could enter the LMS business in a more formal way. LMS market is nearly a $1 Billion market today, and with its huge footprint SkillSoft could offer a low-end LMS which would be used by many of its mid-market companies and many departments within its current client base. This represents new incremental revenue for the company and would position SkillSoft well for the slow and steady adoption of informal learning as a core of corporate training.

As a leader in the e-learning industry, SkillSoft has continually been a company to watch. This latest move will bring exciting opportunities to SkillSoft and the training industry as a whole.

©2010 Bersin and Associates