Center for Research Libraries Profile
Redwood City, one of the most competitive and high cost locations where software engineers are constantly looking for the next opportunity is a challenge.

My final example of a private equity play is OverDrive, the Cleveland based company supplying digital content to libraries, primarily schools, public libraries, and public library systems. OverDrive caught the wave of the shift from print to electronic formats and experienced a dramatic growth spurt. It needed a cash infusion to help pay for expansion and for a new headquarters. In 2010 Insight Venture Partners, a private equity firm provided the necessary cash investment and became the primary shareholder and majority owner. In five years with continued growth OverDrive became a hot target and in 2015 Insight Venture Partners sold OverDrive to Japan’s Rakuten, Inc. for $410 million. The OverDrive example is another great payday for a venture firm. Anytime you can turn $30 million into $410 million is an impressive win.

Back to my original question: Are private equity firms in the library marketplace good or bad for our industry? One thing is certain, a number of private equity firms have made investments in ILS, Book supply, and e-books that have yielded impressive returns. We can expect that private equity firms will remain players in our marketplace. In addition, private equity firms allow library service companies to raise much needed capital for expansion or for buying other companies.

On the other hand, private equity firms are focused on maximizing their profit potential and have little to no interest in growing, developing or even understanding our marketplace. A private equity firm most likely will have ownership positions in ten or more companies often in a variety of businesses. The library company they invested in is just a balance sheet to watch over and make sure that the profits grow. In some cases, the venture firm makes a wrong investment and after attempting and failing to find an exit strategy is left with the option of stripping the company of all its cash and/or other assets and simply walking away and leaving the company to fail. Recent examples of this type of venture play include both Swets and Faxon.

My money is on vendors that are long term players in the marketplace, who are conservative and who have a deep understanding of the marketplace. Libraries should avoid companies that are saddled with huge debt and pay attention to what is going on in the marketplace. The Swets situation is a prime example of too many people ignoring the warning signs. Investment banks were having second thoughts about Swets and in the end they stripped out all the cash, protected their investment and pocketed many libraries’ prepayment payments. Several major U.S. libraries each lost more than a million dollars.

My final thought… All of these private equity firms are investing enormous amounts of money chasing deals all over the world. When you stop and think about it, the money they are using is mostly from retirement funds. Your state, university, or other retirement program is supplying the cash for the various private equity funds. I guess we can all sleep well at night knowing that someone is using our money creatively… or not!