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Straight Talk — Springer Nature Cancels €3.2 Billion IPO at the Last Minute

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The library, publishing and investment community news sources have been filled with articles and notices announcing **Springer Nature's** failed IPO. What's the story here? Does this mean that **Springer Nature** is in financial trouble? What does this failed IPO mean for the library community? Has the Open Access movement put a stake in the financial plans of our second largest STM publisher? I am not sure that the answer is all that complex. Before I tackle that issue perhaps a little background is necessary as this is not the first time an IPO has been on the table.

In 2015, **Springer Nature** was formed by the merger of publishing units from the **Holtzbrinck Publishing Group** and **Springer Science+Business Media** held by the large venture firm **BC Partners**.

Springer is not a new company but has a long history of scientific publishing founded in 1842. My first exposure to **Springer** was in 1973. As a new librarian working at the **National Library of Medicine** I was given the task of working with the top 50 STM publishers and selling them on the concept of Cataloging in Publication. I visited all 50 publishers and worked with their editorial staff to implement the CIP program. One of my favorite publishers was **Springer**. They were an old world classic German publisher and I visited them every time I was in New York City. The friends that I made there lasted for more than 25 years and I was fortunate enough to continue working with various family members during my tenure as President and CEO of **Readmore**, a library subscription agent based in NYC. Every year for ten years that I attended the **Frankfurt BookFair** for **Readmore**, I was invited to the private dinner that **Springer** held for the major subscription agents. **Springer** was a family run company with a great corporate culture.

As the **Springer** family aged and lacked new leadership, the company was sold and fell into the hands of **Bertelsmann**. **Bertelsmann** owned **Springer** from 1998-2003 and basically left them alone. They were more like caretakers than new owners. With some chaotic changes in **Bertelsmann's** management, the company began selling off several of its newer acquisitions including **Springer**. In the spring of 2003, **Springer** was sold to two British private-equity firms **Cinven** and **Candover**. **Cinven** and **Candover** also acquired **Kluwer Academic Publishers** and merged the two companies. In 2004, **Derk Haank**, the chairman of **Elsevier** was poached to lead **Springer**. **Cinven** and **Candover** had a plan to take **Springer** public and with the addition of **Kluwer Academic** plus the leadership of **Haank**, the stage was set for a public offering. In fact, **Haank** was promised a huge payday as a condition to leave **Elsevier** and lead the

new **Springer**. The combined **Springer** and **Kluwer** revenues were sufficient to support the market expectation and an IPO was considered nearly certain.

In the end the global financial meltdown in 2006-7 ruined the **Springer** IPO opportunity and **Cinven** and **Candover** did the next best thing. They raided **Springer's** assets, stripped out as much cash as possible, and borrowed heavily leaving **Springer** in near financial ruins and then sold **Springer** with its new debt to **EQT** and **GIC** in 2009. After a short time, the next venture group sold **Springer** to **BC Partners** in 2013 for €3 billion.

Since 2004, **Springer** has been under the same leadership. **Derk Haank** has had to face different owners, changes in market conditions and expectations, navigate the Open Access movement, continue to grow the business even with the library attacks on the Big Deals. He continued to grow the company and prosper independent of market conditions. His 13 years at the helm of **Springer** showed his high level of competence and stomach for managing through chaos.

The new owners **BC Capital Partners** soon decided that **Springer** by themselves would not make a strong IPO candidate primarily due to the heavy debt load that was still on **Springer's** books. They went looking for a partner that would greatly improve the story to investors, someone with blue ribbon credentials and a merger partner that would improve the financial conditions that the market seeks for a successful IPO.

Within a short time, **BC Partners** found a very successful potential IPO partner and they convinced **Stefan von Holtzbrinck** of the benefits and serious financial rewards that would come from a merger of the privately held **Holtzbrinck Publishing Group's Nature Publishing Group**, **Palgrave Macmillan**, and **Macmillan Education**. **Stefan** was sold on an opportunity to significantly increase the value of his publishing units and to enjoy a very handsome payday. A merger was completed with **Holtzbrinck** owning 53% of the new company and plans for a public offering were developed. **Derk Haank** had been planning for this IPO since 2004. His goal to run an IPO was finally in range. In the end **Derk** did not see his dream fulfilled at least under his leadership.

Working for a venture firm is always difficult as the venture organization often lacks a real understanding of the market but does give CEO's an opportunity to achieve certain goals.

The downside is that if you don't achieve those goals, then a change of management occurs. In the **Springer Nature** case certain targets were established, and **Springer** did not achieve those goals partly due to a change in market conditions. **Derk** could no longer keep the wolf from his door. **Springer Nature** was left to announce **Derk's** retirement. A sad farewell to the one executive that had worked tirelessly to keep **Springer** alive and thriving. But business is business and the owners wanted an IPO. A new CEO from the business world was hired to deliver on the IPO promise. **Daniel Ropers** the very successful founder and CEO of **bol.com** who has a sterling reputation in the investment community was brought in to orchestrate the IPO.

Now with the IPO planning back on track, **JP Morgan** and **Morgan Stanley** were hired as the global coordinators. **Bank of America**, **Merrill Lynch**, **BNP Paribas**, **Credit Suisse**, **Goldman Sachs** and **Societe Generale** are the book runners. Everything was planned for July 2018, but then suddenly the IPO was moved up to the end of April. The IPO had the best banks lined up to sell the offering to potential investors. Normally an offering with this type of backing would be a slam dunk, the story was solid, the companies are highly profitable. **Springer Nature** posted €1.62 billion euros in sales last year and employs 13,000 staff. It publishes 3,000 scientific journals and about 12,000 new books a year. Its 2017 EBITDA of just below €600 million euros after €564 million in 2016 is still a solid profit return.

And yet with all that revenue and profit, the IPO was killed! Why? How could this happen? Is **Springer Nature** in trouble? What does this mean to my library, my big deal, or access to my e-subscriptions?

First and foremost, I believe that **Springer Nature** is a solid well-run company and your library subscriptions are secure. Your ebooks and big deal will continue. **Springer** is also one of the largest open access publisher's publishing over 550 OA titles each year and this is a growing area. Unfortunately, most OA titles do not deliver the same level of revenue as a traditional subscription title. STM titles published even with the Gold OA model do not yield the same revenue and that is not likely to improve soon. **Springer** still obtains 95% of their profitability from traditional scholarly publishing.

There are some individuals in the library community that would like to think that the OA access movement was largely responsible for **Springer Nature's** failed IPO. That the

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uncertainty of the market has cast a shadow on **Springer Nature**. Certainly, the investment community is aware of the OA movement but when you review **Springer's** renewal rates for their Big Deals or consider any other financial factor, other than a large amount of OA chatter, the OA access movement has done very little damage to **Springer Nature**, nor has the OA movement hurt the financial returns of **Elsevier's RELX**, **Kluwer** or **Informa** the owner of **Taylor & Francis**. I would have to say while the OA movement is alive and well, it has not impacted the financial performance of any publicly held STM company and I don't believe that the investment community was in any way influenced or bothered by this factor when considering the investment in the IPO.

What then explains the failed IPO?

I believe that there are three primary reasons that the **Springer Nature** IPO failed. I believe the primary issue is the debt level. The IPO proceeds would have been used to reduce **Springer Nature's** debt level down to 3.75 times earnings before interest, tax, depreciation, and amortization. **Springer's** debt currently stands at €3 billion euros and too much of the IPO funds raised were going to be used to pay down the debt. Why would an investor that is already carrying **Springer**

bonds want to buy more debt or just replace one form of investment for another? **Springer** has too much debt and I believe that the company should have renegotiated their debt with their banks and reduced the level down to a more manageable level. Investors did not like buying debt. Shareholders don't like to use their funds to cover housekeeping items. They often want their money used to expand products and services, for acquisitions, or to fund growth.

The second reason for the IPO failure is the lack of growth opportunity. Investors while happy to see a well-run company that is profitable, always demand to see substantial growth potential. A 3% growth forecast is almost surely a kiss of death for a deal. It certainly takes any excitement out of an investment opportunity. Given so much of the investment money chasing IPO's these days is being used to invest in some form of internet idea, along comes **Spring Nature** and offers a story of 3% growth with a promise that it could get worse if the OA access movement gets out of hand. So really the best growth rate an investor will ever see out of **Springer** is a disappointing 3% and investors must be prepared for the possibility that growth rate get even worse. Not a very exciting story to sell investors.

Perhaps the last reason that the **Springer Nature** IPO failed is that investors were pricing the IPO at the bottom range of the offering. The bookrunners selling the IPO had to offer the shares at a considerable discount, below

the price that the owners had expected. The investment banks had priced the offering at €10.50-€14.50 range per share. Most of the contracts for shares came in at the low end of the offering price. The target price was so low that **BC Partners** decided not to sell any of their holdings and to keep their current investment. This is significant because the IPO was going to be a big payday for **BC Partners**.

A weak market demand for **Springer Nature** shares, the low IPO price per share, the lack of growth and high debt level all created the perfect storm. The owners decided to cancel the IPO. Wise decision? Perhaps but my personal feeling is that the market conditions may continue to deteriorate, as the growth rate is not going to improve, and OA investment will not yield the same financial rate as a traditional journal. I think I would have gone for the IPO now. At least the debt level could have been addressed.

The library community can expect business as usual. The IPO makes little difference to the everyday workings of our second largest publisher. What **Springer** needs is a merger with another group that is growing rapidly and is profitable. Stay tuned to see if **Springer Nature** decides to try another IPO.

Publicly owned or private publisher, **Springer Nature** still has a significant impact on academic libraries and that role should continue for years to come. 🌸