

## Meet The Manager

### Tech Buyouts, Two Brand Names

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*Technology buyouts are still a relatively untapped market. One firm aims to take advantage of the strategy's relative freshness – and it comes with quite a pedigree. Accel-KKR, which was founded venture capital firm Accel Partners and buyout shop Kohlberg Kravis Roberts and Co., looks to invest in what it calls middle market technology buyouts. Thomas Barnds and Ben Bisconti, the managing directors of Accel-KKR, recently spoke with PrivateEquityCentral.net about the firm's strategy, recent acquisition and the help provided by its namesake firms.*

### **PrivateEquityCentral.net: The firm recently acquired Apropos as an add on for CRS Retail Systems. What did you like about that combination?**

Thomas Barnds: Let me go back in time to when we made our investment in CRS. That leads into why Apropos was so strategic for us. CRS is a family-owned business that's been around for 50 years. The daughter of the founder has been running it for the past 12 years. Her parents, who owned a significant portion of the business, wanted to do some estate planning and basically cash out. They're in their late 70s. We purchased their stake in the company and Kathy Frommer, the CEO, who is in her 40s, wanted to take a bit of money off of the table as well. We recapitalized the business but kept the essence of what makes CRS successful intact – that is the existing management team and the focus on their customers. It's a well run, growing, profitable business in the retail systems market. The company provides point-of-sale systems to specialty retailers, like Ann Taylor, Foot Locker and Coach. They've been growing very rapidly. Their last big growth cycle was in 1998 or 1999. That was in advance of Y2K, so a lot of retailers upgraded their systems in the late 1990s. When we made our investment, we looked at spending cycles and when the next wave of retail systems spending was expected to occur. Frequently, systems last about six to 10 years. If we go back to 1998 and 1999 and project six to 10 years forward, you would expect to start to see a large wave of systems spending occurring in 2004 to 2006. We bought a majority stake in the business at the end of 2002 in anticipation of an expected upgrade cycle and we've seen that happen. We've had 30% growth at CRS.

We started thinking about other areas and complementary technologies that fit culturally with CRS. We were fortunate to find Apropos, which is smaller than CRS, but has a similar orientation toward their customers. They're both ranked in the top 10 in any category of customer satisfaction, ahead of the big names in the industry, like Microsoft. Both were family owned businesses and treat every dollar spent as their own. They also have complementary technology. CRS does store-based technology. Apropos does the corporate systems – the systems at headquarters that determine how you price products and allocate products. These are the systems that talk to each other with data going back and forth between the systems. So, by acquiring Apropos, we found a company with great management and strong technology that will also benefit from an increase in spending by retailers on technology.

### **PEC: How well do the two companies' technologies meld together to form one suite of products?**

TB: Excellent questions. There are two parts to it. One is what is the technology platform on which they're built. They both have a .NET platform we're developing on. That's a state-of-the-art, next-generation technology. Both are developed on the same technology platform which makes the interchange that much easier. We'll make an investment to make bring the look and feel of the products a bit closer together and making the connections between the two technologies. That's just a question of investing some time and development effort. But, because they're on the same platform, it's that much easier.

**PEC: The firm invests in buyouts of technology companies. At what stage of development are the companies you're looking to buy?**

Ben Bisconti: We define our market is mid-market technology buyouts. For the broader buyout community, the mid-market has a different meaning; it's typically larger deals. In the technology world, mid-market is \$25 million to \$125 million in revenue. If you look at the public technology universe, two-thirds of publicly traded technology companies have market caps of less than \$150 million, which is different from a lot of industries. You have a huge part of the industry that fits this mid-market. We think it's the largest segment of the technology market. We see thousands of companies that fit into that size profile and we see a lot of activity from public companies with subsidiaries or operating units. We see a lot of closely held companies like CRS, where they're family-run businesses. It's amazing. Less than 20% of the technology companies with more than \$25 million in revenue are venture-backed companies. We're surprised every day to run into a \$75 million business that's been growing at 20% or 25% every year, and is profitable, and it's two founders who founded it 15 years ago and trotted along for a few years and the in the last five, it's just taken off.

In the technology industry, there are segments that are maturing. The whole industry may be 25 or 30 years old, but there are whole segments that are maturing, meaning 10% to 30% growth, not 30% to 80% growth. A 10% to 30% growth business is a great candidate for buyouts. It's not a great candidate for traditional mezzanine tech investor or a venture investor. They're looking for higher growth. We're comfortable with the broadest segment of the market – companies growing less than 30%. We bring a buyout discipline to those types of companies with lower growth but higher cash-flow profitability. There are only a couple of firms we run into in this area.

**PEC: Is it your objective to increase the growth of these companies or are you looking to manage the growth and grow the bottom line?**

BB: There are a lot of companies growing at 10% and 15% and will always have that level of growth or will decline. We're less interested in those businesses. We're looking for companies with that size and growth profile but are at a point of time where there's an opportunity to accelerate revenue growth and expand margins. Our involvement can be a catalyst for those things. Sometimes, just springing a company from a public parent when it's a non-core subsidiary and creating an independent, well-capitalized, entrepreneurial environment can drive a company's ability to penetrate their market, gain customer's confidence and get right level of investment in the company. We look to work with management teams and executing a growth strategy to accelerate growth and help companies become a larger, more profitable business than it otherwise would be.

**PEC: What do you bring to these companies that they didn't have before?**

TB: There's the basics, which a lot of firms can bring, such as freeing them from a corporate parent and creating a better alignment of incentives. We can be creative in how equity plans

are structured. One company we're working with, they're bonus plan has been tied to revenue growth. That's the one metric they're judged on. We think value can be created by properly designing reward programs. That's just the easiest part of our job, though. The harder and more rewarding part is making introductions to our vast business and technology networks. You want to bring industrial buyout discipline to the technology market. We bring basic business building skills to these companies. That may be building the right kinds of boards. It's providing customer introductions. We do that quite a bit. KKR owns a lot of businesses that are large technology purchasers so we make introductions there as appropriate. So, we can help make the right introductions to people at Microsoft or IBM.

One other thing we do to add value is every company we invest in, we have a 100-day planning process. Before we make an investment, we sit down with the management team and lay out the plan to add value and get on the right track in the first 100 days. It's our experience that most companies either get on the right trajectory quickly or they don't. We want to make sure before we wire money that we have buy-in from the management team to a shared plan as to how value can be created going forward. We've found this to be a great process. Sometimes we find out we're not on the same page as management and we decline to make the investment. Many times, it's a great cathartic process for the management team to help layout how they plan to build value and work with us. We're rigorous about that. We lay out what needs to be done, when it needs to be done and who's going to do it and we measure against those metrics for the first 100 days. We think it's a unique program and it's one we take seriously. We think it helps improve the operations of our companies and the financial performance and ultimately the returns we can get for our investors on those investments.