**Globally Speaking**

**Podcast 017**

**Why Are Private Equity Firms Buying LSPs?**

R I’m Renato Beninatto.

M And I’m Michael Stevens, and today we’re looking at something that just was announced recently that’s a pretty big deal in our industry, Renato, why don’t you give people a summary of that?

 R The big news is that Lionbridge, the only publicly traded company, well, the major publicly traded company in the United States in the language translation business, was acquired by HIG Capital, a private equity firm, another private equity coming into the language business.

M And before you go too much into it, Renato, for me who has been in the industry about 10 years, I’ve only known Lionbridge as a publicly traded company. This was a surprise. You’ve known them a little bit longer, was it a surprise to you as well?

R Well no, I think it was inevitable at some point because Lionbridge was carrying the load of all the regulations of the SEC in the United States Securities and Exchange Commission, the Sarbanes Oxley compliance requirements, and they had a huge overhead that was affecting their margins. So, Lionbridge is this half billion-dollar company with relatively low capitalization of $350 million only and, actually, this is the ballpark value of the deal, I think they are paying $5.75 per share, which puts the deal at something like $350 - $360 million in market capitalization. That is the value of the company for those who are not experts in this space; market capitalization is you just multiply the value of the shares by the number of shares that are available.

M So, today, we’re going to take a look at a few different perspectives on this deal. We have some comments from Paula Shannon, herself, the CSO and SVP at Lionbridge. We have some perspective from competition; we have perspective from other private equity firms, and then, of course, just the view of where this leaves our industry and what it means.

R Yeah, it’s the talk of the moment. Everybody has, right now, we have very little information, and there is a lot of speculation, but in a conversation that we had with Paula, well, why don’t we let Paula say it with her own words.

P At the highest level, really, for clients and our employees, this change should have no impact on the services that we take in pride in providing our customers or on the investments that we make. Essentially, the only change is that we have a new capital partner and that we will no longer be a publicly traded company. We will continue to deliver on the high-quality services that Lionbridge is known for, and we expect that this will close in the next few months if that specific information is contained in the press release.

M So, it sounds like to me that the big difference between where Lionbridge is now and where they will be in the future is they will no longer be a public company. Okay.

R Yes, so what she is telling us is that Lionbridge is going private and, you know, Dell did this recently, and there are several companies that they get the private equity money; they have the opportunity to restructure and improve their efficiencies internally without the scrutiny of having to report on a quarterly basis to the shareholders. And you know that the whole stock exchange market infrastructure is designed to protect the minority shareholder, and I think that Rory Cowan shared the video with all the employees to announce this, and one of the things that he mentioned is that one of the challenges that they had was that they had to please too many people.

M Too many people. He said that the three constituencies he must balance—customers, employees and investors—and that for the next three to five years for the company, this is really the best way to be most effective for the future.

R Yes. And what also is very interesting is that they will have a chance to improve their numbers. So, if you compare other publicly traded companies, like RWS in the UK and Keywords in Dublin, these are companies that we can compare values. And you see that Lionbridge’s numbers are relatively low. They have about a 7% EBITDA, that’s the profit margin. Their sales growth year on year was about 14 or 15%, and when you look at companies like RWS, RWS has a 26% EBITDA and Keywords has a 15% EBITDA. And these companies grew—RWS grew 28%, and Keywords grew 55% year over year. So, I think that HIG saw a great opportunity because looking at the comparables, there is room for growth and room for improvement for Lionbridge.

M And it seems like they paid a fair price; it wasn’t a deal, but they didn’t even overpay. It wasn’t a surprisingly high number. From what I read, Reuters said that Lionbridge went public in 2009 and their share price at that time was $10 a share. So, for it to be just $5.75 a share that they paid, you can see it seems like fair for how Lionbridge has performed on the public market.

R Yes. And I think that it was time. And this is good. I don’t know. We received a quote from Smith Yule, the CEO of Welocalize who was also recently changed hands to another private equity fund. I think you have it in front of you?

M Yes, Smith is very familiar with the private equity market, and quoting Smith Yule, he says “an essential aspect of a healthy and growing industry is a strong investor component. Innovation requires investment, and I’m happy to see HIG invest in Lionbridge. With many industry leaders, WeLocalize, Moravia, and Lionbridge, to name a few, now backed by leading private equity firms, I expect to see innovation driven to new levels in order to meet customers’ rapidly evolving needs. The translation industry is not only about words anymore. It’s about content transformation in an increasing variety of ways.”

R So you see there…content transformation, Paula Shannon talking about digitization and globalization…

M Yeah, and Paula shared with us, we were saying what did they really want to get through in the news here, and let’s listen to what she says about that.

P It was very important for us to share the news and explain to our clients and customers and employees why we were so pleased to have found a strong and committed partner in HIG and that we feel that the new financial structure will give us added flexibility really to help us accelerate and increase our investment in industry-leading solutions that benefit our clients and our translators and employees, and HIG sees tremendous value in Lionbridge’s offerings; in fact, that was one of the most exciting things for us, was as they saw the breadth and strength of our client ecosystem, they really believe wholeheartedly in the two defining trends of the decade—digitization and globalization.

R Yes. So, we reached out to customers, and part of the due diligence deal that a private equity firm does before buying a company is they talk to the key customers, and they want to know, what is their relationship, what is their plan for the future, and how the relationship was in the past, and how they expect to maintain it moving forward.

So, from what I hear, from my sources, the feedback from the clients was essentially neutral. Most of the key players, and Lionbridge clients tend to be very big players in different segments that they provide services in. It’s essentially “we want a stable vendor, we want a strong supplier, and as long as Lionbridge continues to deliver what we expect, we will continue working with them.” So, there is no major impact from the client perspective.

 We also talked, I think that you talked, we all have friends in the industry, employees and people who work at different levels in this company. How are the employees taking it?

M Yes. So the perspective I’ve gotten from employees, and I know you’ve gotten a few quotes as well, there has been a lot of change with the reorg they had earlier this year at Lionbridge. So, there was preparation for this. I think now that there has been this large change, and it’s going to take a little while for impact. The people have expressed a level of satisfaction of, “well, we know what the big result of the reorg and everything else is, now let’s just wait and see, and see if we can really achieve our goals better.” How about you, what did you hear as you spoke with people?

R Yes. Wait and see, that’s the keyword. There is no fear. Everybody knows what is going on in this space, and they talk to their friends at Welocalize, at Moravia or other private equity companies, and the general feeling is that nothing is going to happen to the employee base in the immediate future. So, in the short-term, things should be the same, and there is no… it’s not like a merger of two big companies where people are afraid there is going to be some kind of optimization and consolidation, and some people are going to get fired.

M And Paula even mentioned that. She said that the merger agreement didn’t call for an elimination of any positions or specific head count, and they’re actually expecting the consistency of the senior management, including Rory Cowan, the CEO, to remain. So, everybody now knows who’s paying the bills, and it’s a wait and see as far as the business part, the delivery part…

R Yes, and one of the things that, in my experience, working with private equity is that private equity companies don’t buy operations… they don’t have management teams; they buy management teams; they buy the operation of the company. They don’t buy, this is not a failing company that needs a turnaround, needs a change of management, needs a revolution, and the private equity is coming just to put back…

M Divest or whatever it could be, yeah.

R Exactly. This company is well run and well managed, where there is room for improvement, and I assume they want to grow the business. Actually, one of the things that I would speculate, and it’s pure speculation, is that this is a big private equity firm—they have $20 billion in investment funds, and they are in, I don’t know, almost 20 different sectors. They have companies in aerospace, automotive, technology, media, manufacturing, energy, education, different sectors that they invest in, hundreds of companies.

 So, I wouldn’t be surprised, and we talked about this in a previous podcast, if they are going to bid for the acquisitions of Translations.com or TransPerfect, something that is coming up in the next few months, I wouldn’t be surprised, pure speculation, but we would have, there, the real, not a company that is valued at $1 billion, we would have a company that has $1 billion in revenue in the translation industry, finally.

M Yes, that would be really, really interesting. I would put my money on there will definitely be some quick acquisition that they will be looking to add to their services. I mean, you look at the clientele that Lionbridge serves, and that’s a very impressive list, from companies like Microsoft, to newer companies like Airbnb that are all mentioned in their public documents. In the due diligence, they were probably talking to some of these key customers to say “what is it you need, how can we serve you better?” And they are going to be on the market pretty quickly to make something happen in that area to show that they are still in a position of strength.

R Yes. The other constituency that has this acquisition on the radar, and where there is a lot of concern, is probably in their vendor base, the LSPs, freelance translators and suppliers that generate this revenue. Again, I would say that they at least immediately shouldn’t be concerned because it’s the same situation as is happening with the employees. It’s business as usual; it’s a change in the ownership of the company, it’s not a change in the management of the strategy.

M Yes. I liked one other point that Paula Shannon made for us as well when she was talking about private equity is becoming a regular in our industry, and she said it’s not just in the localization industry but across business at large that there are more private equity firms right now in the United States than there are stocks on the NASDAQ.

R Private equity-owned companies.

M Privately equity-owned companies, correct. And then in our conversation, one of the perspectives we got from this news was from John Haas at Clarion Capital Partners. He actually spoke at the last LocWorld in Montreal related to private equity and the impact on localization, and he said—and I quote him here—“the announced acquisition of Lionbridge by HIG Capital demonstrates that private equity continues to remain interested in the language services industry, and sees great potential in globalization trends.” So, if you’re an owner of a localization company, that’s pretty good news, I would say.

R Yes. For the LSPs, that means the eyes of the money world are in our industry. And this is one of the things that we’ve mentioned in previous conversations in our podcasts—localization and translation is a business that is a growth business; it hasn’t stopped growing, even during the crisis, and it’s also impervious to crisis. It’s one of those businesses that sometimes it even grows more during a crisis because there is more communication that is needed; there is more demand for services, and so on.

 So, if you look at individual markets, I know I’ve been talking to my friends in Brazil who are complaining about the crisis, political, economic, institutional crisis that is happening there, and that business is going down, but then you talk to the people in India, and they can’t find enough translators to do all the work that they need over there. So, from an industry perspective, the industry as a whole is growing, even though we might have pockets of geographies and sectors and language pairs and so on that go through a certain period of crisis. But, as a general trend, it’s always a good industry to be in; it’s a growth industry.

M It’s a growth industry. It’s still somewhat under the radar, and a move like this brings about a lot of optimism from people. Now, you told me about a quote that you used to tell one language service provider in the past that I really liked about what they do when they wake up in the morning.

R Oh yes! Somebody was saying “where do I put my attention; where should my focus be?” And I said “every time, when you wake up in the morning, you should think about three things. What can I do today to grow my business; what can I do today to buy another business; and what can I do today to sell my business?” So, these are three things that you have to have in mind constantly; you need to be prepared.

 So, in an environment like this, where there are lots of buyers interested in coming in, and one of the things that a private equity firm told me once is that there is a lot of private equity interested in the translation and localization business now because not many people have found out about this business. So, you have the early investors on. Very soon there’s going to be a deluge of other companies trying to buy it.

 If you went to the last couple of Localization Worlds, there are panels that are discussing mergers and acquisitions, and you have two, three, four private equity firms participating in these sessions and panels. So, the outside world is looking at us. So, it’s not the cottage industry or the commoditization industry that so many people talk about; this is the industry where big money is coming to.

M Absolutely, and that’s good news for all of us.

R So, if you have any questions about this and any comments, make sure to make them reach us; this is important news, and I hope you enjoy our podcast and you continue sharing and subscribing to it. It’s important to us. Give us a few stars on items if you have a chance.

M And share it with a friend if you like it—thanks guys!

R Have a great whatever, morning, evening, afternoon, whatever part of the day you’re listening to this podcast. Bye!

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