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Training Industry News

A FEW ACQUISITIONS, A LITTLE PAPERWORK, A PUBLIC OFFERING, AND POOF! YOU'RE AN INDUSTRY LEADER.

Like a stealth reconnaissance plane, financier Paul Verrochi has quietly been scouting private training companies to consolidate into one large holding called Provant, Inc., whose stock was offered to the public in April. Using cash from the $32 to $38 million offering to buy more companies, Verrochi may be able to build one of the biggest training companies in the United States. In Provant's first year, he expects it to be a $100 million business.

Building a big company by acquiring a lot of small companies in a single industry is called a "roll-up," and it's one of Wall Street's hottest money-making fads. (See the box, How and Why Consolidations Work, on page 31.) In a roll-up, an outsider locks onto an industry that has no leading supplier. Using cash or stocks, he or she buys or pools the assets of several small successful companies, consolidates them into one, and takes the whole thing public. Wall Street analysts sometimes refer to roll-ups as "poof companies" because they tend to appear suddenly out of nowhere.

If a public offering is successful and the new company proves its mettle in the marketplace, the investor can keep packing his snowball to get bigger and bigger. Most roll-up entrepreneurs sell out after a few lucrative years and move on to the next opportunity. The best known roll-up star to date is Wayne Huizenga, who built his first empire, Waste Management, on garbage trucks and his second, Blockbuster, on video stores. Currently, he's rolling up car dealerships through a company called Republic Industries.

This is Paul Verrochi's fourth consolidation effort and, given his track record, it could be big and successful. The 47-year-old, Boston-based entrepreneur has already moved into and out of the building service, environmental, and ambulance businesses. In 1995, *Inc.* named him "national entrepreneur of the year for emerging growth companies," citing Verrochi's success in consolidating the ambulance business through a company called American Medical Response. Four years after its launch, AMR had $750 million in revenue, 10,000 employees, and operations in 26 U.S. states. Verrochi then obtained a $100-million credit line on top of $90 million from a second stock offering and continued to build AMR. In January 1997, less than five years after its launch, he sold AMR to Canada's Laidlaw for $1.4 billion.

Roll 'Em Up!

BY PATRICIA A. GALAGAN

Illustration by Victor Stabin

Rumors of impending consolidations, roll-ups, and public offerings of training companies began circulating last year as suppliers reported discreet inquiries about selling, going public, or both. Third-party scouts for Verrochi and other potential buyers were shopping the floors of industry conventions and expositions. Some were cold calling likely target companies culled from mailing lists. The Instructional Systems Association, made up of training suppliers, held a couple of one-day seminars on going public. SEC regulations regarding planned public offerings sealed everyone's lips and denials flew, but there was a buzz in the air.

When Provant went public, it had quietly rolled up seven companies: Behavioral Technology, Decker Communications, J. Howard Associates, Learning Systems Sciences, MOHR Retail Learning Systems, Novations Group, and Star Mountain. (See the box, Provant's Founding Companies.) Three investment banks participated in Provant's initial public offering, with NationsBanc Montgomery Securities as the lead underwriter. The other underwriters were Salomon Smith Barney and Piper Jaffray.

From an investor's perspective, the training business is ripe for consolidation. It's made up of thousands of small- to medium-sized businesses that, though doing well, are often short of the capital needed to grow, do research and development, or try new technology. Moreover, there has been no single brand name that spanned the industry. "The field is ripe for a roll-up play," says Anver Suleiman, CEO of Luntz, Suleiman & Associates, an investment bank that describes itself as a catalyst in the training industry's coming consolidation.

Investors see that many training company owners are approaching retirement age and looking for ways to cash out. By selling to a roll-up company in exchange for its stock, the owners may get a better-than-average price and avoid paying federal capital gains taxes until they sell the stock.

In today's turbo-charged stock market, roll-up stocks are attracting plenty of investors. NationsBanc Montgomery Securities estimates that investors have bought more than $8 billion worth of stock in roll-up companies since 1994. The bank has identified 20 industries that are ripe for or in the process of consolidation. Their combined domestic market value is estimated to be about $700 billion.

There has been plenty of investor money looking for a home in the training industry. Knowledge Universe, created with $500 million from rehabilitated junk bond king Michael Milken and Oracle's Larry Ellison, last year acquired a clutch of information technology training companies. The Times Mirror Company—a publisher that purchased Learning International, Zenger-Miller, Kasset, and Customers First—showed signs of being an early industry consolidator but then seemed to lose steam. Companies in the former Times Mirror Training Group now call themselves AcheiveGlobal. The Thomson Corporation, a large Canadian publisher, is also rumored to be exploring a major consolidation of training companies.

So, how did Verrochi beat everyone to the punch in rolling up the so-called soft side of the training industry?

Training isn't trash trucks

How do you enter an industry that you know nothing about? How do you win the trust of small-business owners who believe that their products are unique, that training is an art, and that growth may undermine customer service? You make sure your team includes a respected insider. Enter Jack Zenger, the veteran training entrepreneur some people call "Mr. Integrity." Zenger, retired from the Times Mirror Training Group, which owns his former company, Zenger-Miller, was

Provant's Founding Companies

Behavioral Technology, Inc.
Founded: 1978, by Paul C. Green
Headquarters: Memphis, Tennessee
Lead Product: *Behavioral Interviewing*
Revenue for most recent fiscal year: $7.1 million

Decker Communications, Inc.
Founded: 1979, by Bert Decker
Headquarters: San Francisco
Lead Program: *Effective Communicating*
Revenue for most recent fiscal year: $8.4 million

J. Howard & Associates, Inc.
Founded: 1977, by Jeffrey P. Howard
Headquarters: Lexington, Massachusetts
Lead Product: *Managing Inclusion*
Revenue for most recent fiscal year: $7.1 million

Learning Systems Sciences
Founded: 1979, by Robert Steinmetz
Headquarters: North Hollywood, California
Lead Product: Custom-designed, computer-based training for retailers
Revenue for most recent fiscal year: $5.1 million

MOHR Retail Learning Systems, Inc.
Founded: 1981, by Herb Cohen and others as a division of MOHR Development, Inc. Purchased in 1991 by Cohen and Michael Patrick
Headquarters: Ridgewood, New Jersey
Lead Products: *Retail Management Series III*, *Creating Loyal Customers*
Revenue for most recent fiscal year: $3 million

Novations Group, Inc.
Founded: 1986, by Norman Smallwood, Jonathan Younger, Joe Folkman, and Randy Scott
Headquarters: Provo, Utah
Lead Product: Strategic consulting services
Revenue for most recent fiscal year: $9 million

Star Mountain, Inc.
Founded: 1987, by A. Carl von Sternberg
Headquarters: Alexandria, Virginia
Lead Product: Customized training services and products for federal, state, and local governments
Revenue for most recent fiscal year: $16.3 million

a smart addition to Verrochi's roll-up team of lawyers, CPAs, and investment types. Acting first as a consultant, Zenger helped identify training companies that would make "the ideal configuration" for a public offering. In November 1997, Zenger was named president and COO of the then-unnamed company that Verrochi's team was preparing to take public. Other players included Dominic Puopolo, a long-time associate of Verrochi and CFO of his three previous consolidated companies; Don Glazer, a Boston lawyer and businessman with SEC experience; and Rajiv Bhatt, a financial manager and CPA, who will be Provant's treasurer and chief accountant. (See the box, The Players at Provant, for a rundown on Provant's management team.)

The story of Provant begins with Michael Davies, a former *Baltimore Sun* publisher who became a managing director of the investment firm Legg Mason Wood Walker. As a specialist in investments based on intellectual property, he was approached by a training company wanting to go public. His investigation of the training industry convinced him that it was ripe for consolidation. He approached Verrochi, knowing of his successful track record in consolidations and that his team included people with significant Wall Street experience and a working knowledge of the legal requirements for going public.

Provant's strategy, according to Zenger, was to assemble a group of founding companies whose combined annual revenues the first year would be approximately $100 million—big enough to excite Wall Street but small enough to show dramatic growth once it got rolling. Says Zenger, "Our clear goal is to be the industry leader in the performance improvement industry."

The Players at Provant

Paul Verrochi, *chairman and CEO.* Named National Entrepreneur of the Year (1995) for Emerging Growth by *Inc.* for his successful consolidation of the ambulance industry. Provant will be Verrochi's fourth consolidation. His other companies have included American Medical Response, Allwaste Asbestos Abatement, American Environmental Group, and Omni Building Services. His company-building strategies are said to be market dominance, operating synergies, and technology.

Jack Zenger, *president.* A respected training industry pioneer, Zenger founded and ran Zenger-Miller before selling it to the Times Mirror Company. He retired from the Times Mirror Training Group in 1996. In 1994, he was inducted into *Training's* HRD Hall of Fame.

Dominic Puopolo, *chief financial officer.* Puopolo is former chief financial officer and a co-founder of three of Paul Verrochi's earlier consolidation companies. At American Medical Response, Puopolo completed 58 acquisitions.

Rajiv Bhatt, *treasurer and chief accounting officer.* Bhatt is a financial manager with experience in equity, debt and bank financing, mergers and acquisitions, new-business development, strategic planning, financial planning, and SEC reporting. He's also a CPA.

Philip Gardner, *vice president.* Gardner was a McKinsey & Company consultant on financial services, insurance, publishing, and other industries before joining Provant. He's also a former U.S. Navy strike fighter pilot.

Michael Davies, *business development consultant.* A former newspaper editor and publisher with the *Baltimore Sun* and other papers, Davies was the first to bring the idea of a training industry roll-up to Paul Verrochi. Until recently, Davies was a managing director with Legg Mason Wood Walker, a Baltimore-based investment firm.

The seven companies that make up Provant cover these major training bases:

- organizational strategy consulting
- culture change
- organizational audits
- business communications
- diversity
- 360 feedback
- leadership and management development
- sales performance
- TQM
- customer service
- the federal sector
- high tech
- multimedia.

Provant will steer clear of IT training companies, already partially gobbled up by the Milken-Ellison partnership. "That's a commodity business," says Zenger. "It's not where we want to be."

Provant plans to market its range of products to small, medium, and large companies through such channels as direct marketing, direct mail, telesales, and telemarketing. The mix will include off-the-shelf training products as well as highly customized services such as consulting and implementation of corporate strategy. Provant also hopes to cash in on the ability to offer one easy point-of-purchase for a range of products, many of which complement each other.

The deal—pro and con

With Verrochi's group and other would-be consolidators combing the bushes for companies to roll up and take public, many training suppliers have considered the pros and cons of going public versus going it alone. The pros are pretty obvious: growth potential, market penetration, access to Wall Street capital, and the lure of taking on a significant new venture. For companies of the right size that have a history of solid growth and loyal clients, a public offering makes sense.

For some companies, the risks of going public outweigh the potential gain. Management Concepts, a training publisher and seminar provider in Vienna, Virginia, is one company that said no to scouts from an industry consolidator. Tom Dungan III, 32, Management Concepts's president, having recently succeeded his father as head of the 25-

year-old company, was skeptical of the benefits the scouts were touting.

Says Dungan, "Training doesn't always benefit from economies of scale. Something done for economy's sake—let's say, a common registration process for courses—could mean a loss of customer service." The prospect of major R&D in training technology didn't turn him on either. "It's a promise that is hard to define and place a value on," he says.

The biggest stumbling block for Dungan was the potential loss of control of his company. "I'm a young guy," he says. "I'm not ready to turn the company over to someone else. It could disappear due to someone else's actions, not mine." Dungan wants to guard the quality of his company's products and the relationship he has with employees. He sees both of those possibly suffering in a public offering. "Interaction and culture add value, but Wall Street doesn't see that," he says.

And then there was the matter of the financial arrangements. "I was concerned about how they would value my company, and how much of the market cap they were promising would be mine and how much theirs." Dungan figured the underwriters would discount his company to make it more attractive to institutional investors. He wasn't comfortable having his net worth tied up in stock. And no one could tell him the offering price of the IPO. For Dungan, it all added up to "No thank you."

Zenger agrees that it can be hard for people who have been calling the shots to give up some freedom in a consolidation." But you can look at it another way," he says. "It frees up people to do what they do best." Once shed of responsibility for such areas as administration and manufacturing, many companies could focus on developing new products and on working closely with favorite clients.

To Bert Decker, founder and head of Decker Communications, Provant's offer was pure opportunity. The concept of a group of narrow-niche companies going to a wider market together was exciting. He says, "I saw a bigger playing field for us to work on. We [the Provant group] will be able to provide major companies with the solution to all their people-performance needs. Very few companies can do that."

Paul Verrochi,
Provant chairman and CEO

Decker also saw an opportunity for his employees to work with higher levels of management clients, to take on new kinds of work, and to have their eyes opened to a wider world. In his view, the business discipline demanded of public companies would help upgrade everyone's performance.

Skeptical at first, Decker says he was won over by Paul Verrochi's professionalism and track record and by the presence of Jack Zenger on the management team. Decker was impressed and reassured by the common values among the proposed partners and Provant's management. "Best practices don't happen unless there is cooperation, integrity, and trust," he says. "I'm astounded at how quickly that has already happened."

A 20-year veteran of the training business, Decker is pleased to find himself charged up again over an entrepreneurial venture and the prospect of putting his company's products into many more hands. "The bottom line is that I love making an impact. We do transform lives."

Given the track record of roll-up companies in the public markets, Decker's enthusiasm may be warranted. The outsourcing trend, the need that companies have for skilled workers, and the role of intellectual capital in the new economy all suggest that a big public training company could do well.

Provant is structured as a holding company with seven subsidiaries. Each founder will take 20 to 30 percent of the value of his company in cash and the remainder in Provant stock, which the founders must hold for at least two years. During that time, most of their net worth is tied to Provant's performance in the public markets—a measure of their confidence in its future success.

As with any merger, there are risks. Provant intends to seek internal growth of 25 to 30 percent by continuing the natural growth of each operating company and by capitalizing on cross-selling opportunities among the founding companies. That strategy depends on a shared sales-and-marketing effort for a wide variety of products and on a salesforce that has yet to be unified. In Provant's favor, however, is the fact that each founding company has a history of internal growth as well as individual sales and distribution channels that have been working well for years. They also bring with them a number of large, loyal clients.

The founding companies will continue to operate under their own names to capitalize on the brand awareness they've built over many years. Their chief executives, through their roles as Provant board members, will set policy jointly for such areas as marketing and product distribution.

Many of the founding companies stand to gain substantially from Provant's planned exploration of technology for training delivery. It will have the resources to invest in technology that the individual companies could never muster. Zenger says that even those that have already put their products onto CD-ROMs or the Internet admit to struggling to stay ahead of new developments.

They're off!

When industries consolidate, companies that are first into the marketplace have higher prospects for future success than latecomers, according to data collected by the Strategic Planning Institute. Provant is not the only large consolidation of training companies, but it was the first out of the starting gate in the race to become *the* national brand in the nontechnical training arena. If it is successful, it will pull along many more players, including some with strong name recognition. "The McKinseys, Bains, and Boozes aren't going to stand by and watch," says Zenger, "but these firms may be handicapped because they lack the tactical tools that we have for linking strategy to performance."

Successful roll-ups have a way of sorting the thoroughbreds from the nags in any industry when one consolidated company quickly dominates a market and brands it with its name. But even that is no guarantee of success. According to Michael Scherer, a Harvard professor of economics and former chief economist for the U.S. Federal Trade Commission, "Mergers run the gamut from hugely successful to spectacularly unsuccessful." Chances of success increase when the merging firms know a lot about each other's businesses, have similar business cultures, and can enjoy economies of scale by centralizing such efforts as R&D.

Centralized R&D works well, according to Scherer, if a brute-force effort is required. If, on the other hand, success lies in a strategy of "letting 100 flowers bloom" to see which one emerges as best, "a single homogenizing approach would detract from success." Sometimes the so-called synergies of a merger—a gain in market

Jack Zenger,
Provant president

clout, improved distribution channels, and combined R&D—never materialize. More often, mergers run aground in the post-deal integration of the consolidated companies' values, processes, and strategies. And for employees, there is often the anxiety and pain of layoffs or the pressure of rapid change.

Consolidators are betting that their customers want simpler relationships with fewer suppliers. Donna McNamara, director of global education and training at Colgate-Palmolive, confirms that simpler is better but says that's not the whole story. More important to her company is finding suppliers that can deliver consistent quality on a global basis.

Perhaps the biggest question for people in the training industry is how Provant will influence the quality and practice of training. To many training professionals, their work is not a job; it's a calling. They're put off by the idea of entrepreneurs and investors outside of the industry playing such influential roles. They're worried that small training companies may have a hard time competing in the shadow of a giant. People in companies that buy a lot of training question whether the convenience of one-stop shopping could come at a higher price than they've been paying. If Provant brands training, will it be a brand that everyone can live with? ■

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How and Why Consolidations Work

First, let's distinguish a consolidation from the ordinary buying sprees that big companies undertake all the time. When General Motors buys a parts distributor, that's driven by strategic necessity. When a professional management company, backed by public capital, buys up many companies in one large, fragmented industry, that's a consolidation. The point is to create a national brand or industry leader where one does not exist.

A consolidation, by the way, usually comes from one large company within the target industry while a roll-up comes from outside. One beauty of a roll-up is that the founding companies—the ones acquired simultaneously by the roller-upper—often are not subject to the "goodwill" expenses usually associated with an acquisition. Another is that when a roll-up goes public, it usually has instant critical mass in the market. That's why roll-ups are sometimes called poof companies.

Consolidation is not a new story. Wayne Huizenga started building his trash-truck empire 25 years ago. What is new is Wall Street's interest in funding consolidations and their recent performance in the public markets. More than $8 billion of equity capital has poured into consolidations from the public markets since 1994. A Consolidator Index maintained by NationsBanc Montgomery Securities shows them outperforming the S&P by three to one.

Running eagerly toward this river of money are vast numbers of mom-and-pop business owners looking for a way to cash out. Funeral homes, dry cleaners, and office-product stores, along with dozens of other businesses, have been rolled up by consolidators into national service chains.

In 1997, Montgomery Securities compiled a list of business services thought to be ripe for rolling up. Among them were benefits management, outplacement services, post-secondary education, and corporate training.

Looking over the hits and misses among consolidations, Montgomery Securities also came up with this checklist of what looks good:

- Size. A highly fragmented industry in excess of $5 billion.
- Health. Solid growth. Professional management.
- Speed. Ability to make an aggressive grab for market share.
- Readiness. Ability to achieve synergies quickly.
- Targets. A universe of motivated sellers.
- Leverage. Opportunity to spread a brand or technology across the acquired companies.

Adapted from Main Street Meets Wall Street: Mom and Pop Give Way to the Consolidators, *by David M. Scharf and Michael T. Moe, NationsBanc Montgomery Securities, 1997*