

E - FINANCE



A View on Consolidation in the LMS-LCMS Space

By Peter L. Martin

With all of the chatter about consolidation in the LMS segment, we thought we should weigh in on the topic. In contrast to Wall Street consensus, we at Jeffries believe that content management providers may actually be more likely candidates to consolidate the LMS-LCMS space than the large enterprise software providers. Ultimately, we think the ERP companies will also enter the market through acquisition, but we don't think they'll do it before the CM providers do.

In deciding whether to make an acquisition, potential buyers must decide whether it's more beneficial to build the

application in-house or buy off-the-shelf to accelerate time-to-market. If the decision is to buy, the acquisition target must meet top-line and profitability requirements. We believe that the "build versus buy" decision will play a key role in the trigger for consolidation. Acquirers that are capital constrained can't afford any dilution, which can inhibit deals from being consummated.

Further, due to the current environment, the vendors that would be attractive to buyers lack revenue visibility, profitability, and realistic valuation parameters. Software companies looking to enter the space have more often than not

deployed internal engineering resources to build an LMS-LCMS that they can offer to clients. Most important to consolidation, the LMS-LCMS segment needs to show sustainable profitability and revenues approaching \$100 million to garner the interest of the larger software providers. Without that level of operations, an acquisition wouldn't create a material financial impact. That can temper a vendor's interest in buying its way into the marketplace.

Lastly, we believe that a tremendous amount of attrition needs to take place to ferret out the leaders. That would aid the market-share gains and profitability necessary to jump-start consolidation.

With those points in mind, we think content management providers are more likely to become LMS-LCMS acquirers for these reasons:

- Several CM providers have in excess of \$100 million in cash to effect consol-

idation and expand their product offerings. In addition, combining the technologies would enable them to provide an end-to-end solution.

- Acquisition of an LMS vendor would have a greater financial impact on the business model of a CM provider than an enterprise software provider. In addition (and more important), CM providers need to accelerate profitability and long-term growth prospects.

- Several EPRs, including Oracle, PeopleSoft, SAP, and Siebel have grassroots LMS efforts in process (building versus buying).

It's apparent that ERP players will continue to struggle near term with internally grown offerings until market forces push the decision process or a leader separates itself from the pack. We've reviewed the products and strategies of the ERP players and found that they're not as robust or

functional as the systems offered by the pure players. If the ERP providers were to begin consolidating the space, we believe PeopleSoft is the most likely acquirer.

The first indication that our theory has validity was the recent announcement of a relationship between Docent and Interwoven. Those companies have established interoperability between Docent's e-learning application and Interwoven's enterprise content management application. Interwoven's content management infrastructure provides the taxonomy, storage, and retrieval of content; Docent's application provides a robust delivery system, providing an end-to-end solution to customers.

Long term, we believe that relationship may be the first step in the fulfillment of our thesis that content management providers will be key consolidators within the e-learning infrastruc-



E - FINANCE

Company	Ticker	Price 3/28	52 Week High	Low	Mkt Cap (mm)	3-Mon Avg Trdg Vol	
Infrastructure Software and Service							
Click2learn.com	CLKS	\$4.65	\$4.84	\$1.00	\$112.09	190,862	
Docent	DCNT	\$1.96	\$10.20	\$1.48	\$82.74	300,339	
EDT Learning	EDT	\$1.10	\$1.89	\$0.30	\$15.51	21,689	
General Physics	GPX	\$3.33	\$5.39	\$2.40	\$42.27	16,548	
RWD Technologies	RWDT	\$3.94	\$4.93	\$1.70	\$60.03	27,416	
Saba Software Systems	SABA	\$4.78	\$16.41	\$1.52	\$229.54	300,056	
					Average	\$90.36	142,818
Content Providers							
DigitalThink	DTHK	\$2.58	\$15.20	\$2.25	\$104.12	470,075	
Dow Jones & Company	DJ	\$55.23	\$61.60	\$43.05	\$3,506.06	335,175	
FactSet Research Systems	FDS	\$36.88	\$47.49	\$17.80	\$1,234.93	133,110	
Information Holdings	IHI	\$28.00	\$34.25	\$15.95	\$609.20	59,066	
John Wiley & Sons	JWa	\$25.49	\$26.30	\$17.90	\$1,266.88	60,890	
ProsoftTraining	POSO	\$1.29	\$9.75	\$0.29	\$32.84	99,490	
Skillsoft Corp.	SKIL	\$23.25	\$38.94	\$14.19	\$379.02	150,841	
SmartForce Public Ltd.	SMTF	\$12.95	\$41.22	\$11.67	\$732.87	1,467,641	
					Average	\$983.24	347,036
Collaboration and Communication							
Act Teleconferencing	ACTT	\$5.16	\$11.97	\$3.55	\$44.48	76,528	
Centra Software	CTRA	\$5.47	\$17.14	\$4.51	\$139.29	356,605	
Eloquent	ELOQ	\$0.69	\$1.60	\$0.45	\$13.45	45,523	
Genesys	GNSY	\$6.30	\$15.29	\$3.55	\$168.84	109,807	
Mentergy	MNTE	\$1.50	\$8.72	\$0.92	\$4.55	5,750	
Nuance Communications	NUAN	\$7.66	\$21.00	\$5.55	\$251.87	435,439	
Polycom	PLCM	\$24.81	\$42.60	\$10.75	\$2,475.79	3,293,881	
Raindance Communications	RNDC	\$3.99	\$7.40	\$0.74	\$190.54	642,090	
Speechworks International	SPWX	\$8.89	\$18.13	\$4.10	\$287.39	347,623	
WebEx	WEBX	\$16.68	\$37.87	\$5.06	\$656.01	1,204,928	
Wire One Technologies	WONE	\$5.02	\$10.22	\$1.44	\$126.10	275,015	
					Average	\$396.21	617,563
Content Management							
Actuate Corp.	ACTU	\$7.22	\$15.50	\$2.80	\$411.67	589,826	
Adobe Systems	ADBE	\$40.29	\$48.80	\$22.20	\$9,206.94	3,400,911	
Broadvision	BVSN	\$1.73	\$8.48	\$0.68	\$508.44	3,235,924	
Documentum	DCTM	\$25.45	\$26.70	\$5.88	\$995.25	854,350	
Imanage	IMAN	\$6.68	\$8.45	\$1.50	\$142.53	93,389	
Innodata	INOD	\$2.50	\$9.25	\$1.26	\$53.51	27,345	
Insightful Corporation	IFUL	\$3.00	\$4.44	\$1.25	\$33.44	14,226	
Interwoven	IWOV	\$5.00	\$24.14	\$3.11	\$527.64	2,008,451	
Macromedia	MACR	\$20.42	\$27.63	\$11.30	\$1,110.99	829,910	
Stellent	STEL	\$9.63	\$42.90	\$9.75	\$232.29	1,340,460	
Vignette Corp.	VIGN	\$3.44	\$11.35	\$2.65	\$857.67	4,667,475	
					Average	\$1,280.04	1,551,115
Instructor Led Training							
Corporate Executive Board	EXBD	\$36.80	\$43.60	\$22.85	\$1,354.72	490,684	
Learning Tree International	LTRE	\$23.05	\$31.00	\$14.50	\$437.60	132,495	
New Horizons Worldwide	NEWH	\$12.40	\$18.70	\$8.30	\$126.26	19,431	
Provant	POVT	\$0.64	\$6.50	\$0.32	\$13.69	88,984	
					Average	\$483.07	182,898
Staffing							
Administaff	ASF	\$26.00	\$36.48	\$15.40	\$726.52	526,982	
Manpower	MAN	\$38.84	\$40.51	\$23.39	\$2,953.43	402,023	
Robert Half Int'l.	RHI	\$29.10	\$30.90	\$18.50	\$5,103.65	596,110	
TMP Worldwide	TMPW	\$35.04	\$64.10	\$25.21	\$3,706.88	3,173,986	
					Average	\$3,122.62	1,174,775
Average Corporate Education Companies						\$937.94	748,167

Return (%)				
1-Mon	3-Mon	6-Mon	12-Mon	YTD
60.3	86.0	22.4	136.2	55.0
-20.0	-16.2	-36.4	NA	-38.2
0.0	-16.0	150.0	NA	-25.2
-2.1	5.7	-17.8	-29.6	-12.4
41.2	67.5	38.2	-1.5	52.1
25.8	-11.3	-23.0	-41.2	-8.4
17.5	19.3	22.2	16.0	3.8
-53.8	-76.8	-74.7	-63.5	-76.1
-0.6	8.0	4.7	5.4	0.9
3.6	15.2	57.9	25.1	5.5
1.8	22.3	40.0	17.6	-1.1
9.7	23.0	22.5	39.3	10.7
-2.3	89.7	43.3	-85.5	31.6
5.2	-3.1	13.2	10.7	-10.3
-8.4	-48.0	-46.1	-62.6	-47.7
-5.6	3.8	7.6	-14.2	-10.8
6.4	-40.3	3.2	-27.6	-32.5
-7.3	-32.0	-39.2	-5.9	-31.6
-18.8	21.1	-28.9	-31.0	9.5
55.6	0.0	8.6	NA	-3.1
-9.6	-38.5	7.1	-81.3	-49.5
8.0	-28.9	-19.5	-56.5	-15.8
-5.7	-26.1	29.6	14.7	-27.2
-0.2	-41.5	132.0	65.9	-30.1
-14.2	1.6	23.5	-26.3	-21.0
34.0	-43.3	-2.7	67.8	-32.9
-14.0	-2.9	17.3	56.0	-19.3
3.1	-21.0	11.9	-2.4	-23.0
32.5	25.0	70.3	-33.6	29.2
4.2	22.1	70.1	6.1	25.1
-9.1	-35.1	84.5	-70.2	-34.7
39.9	32.0	215.2	85.7	19.7
4.0	-21.4	63.5	148.2	-23.3
5.0	-12.0	22.5	-56.0	-15.8
12.2	30.5	32.9	100.9	27.7
-26.1	-46.1	40.0	-61.6	-48.3
4.0	7.5	64.5	12.7	6.1
-32.2	-64.4	-25.9	-60.0	-65.0
18.7	-27.1	-7.7	-49.0	-35.0
4.8	-8.1	57.3	2.1	-10.4
10.2	2.4	17.6	29.1	0.3
-2.5	-12.8	-3.9	-19.1	-17.4
7.2	4.2	-4.8	-26.0	7.8
-1.5	42.2	-55.2	-90.2	16.4
3.3	9.0	-11.6	-26.5	1.8
15.6	-19.5	-1.7	38.7	-5.1
15.4	15.9	33.2	28.5	15.2
10.3	12.7	26.6	28.1	9.0
-1.4	-14.5	-16.1	-13.7	-18.3
9.9	-1.3	10.5	20.4	0.2
4.6	-3.3	21.6	-1.8	-9.6

ture space. But due to the “build versus buy” mentality, lack of profitability, and poor IT spending environment, consolidation of the LMS-LCMS segment will be delayed by several quarters. We hope to see the first such transaction sometime in late 2002 or early 2003.

Strong March performance for the overall corporate sector was sparked by economists’ optimism that the recession has finally ended. With such pronouncements and positive economic data, the sector as a whole was up 4.6 percent for the month versus the S&P 500 and NASDAQ, which rose 4.3 percent and 3.1 percent. Infrastructure software and service stocks drove the out-performance, rising 17.5 percent for the month.

Click2Learn was up 60 percent in March, as the investment community garnered more confidence in its ability to reach and sustain profitability. We also saw a 10 percent jump in the staffing sector as investors looked for improved operating results based on their belief in a stronger economy going forward.

The content providers continued to struggle due to the poor IT spending environment. The outlook for first quarter 2002 is poor, and analysts are now expecting downward revisions to 2002 and 2003 estimates, which is weighing on the stocks. DigitalThink and SmartForce drove the decline, falling 54 percent and 8 percent. Other high-profile declines during the month include Stelent (off 32 percent) and Interwoven, sliding 26 percent on fears of missing 1Q 2002 earnings expectations.

 “E-Learning: A Consolidation Update” by Paul Harris (April 7+D) and E-Learning by Kevin Oakes in this issue.

Peter L. Martin, CFA, is a senior vice president with Jefferies & Co., San Francisco. He follows various segments within the knowledge services industry, which are broadly categorized under e-learning and traditional education and training.