How InvestmentNews may become nucleus of U.S.-based roll-up if UK investment banker succeeds with 'wild swim' across Atlantic to purchase it

8/5/2018 Originally Published by Keith Girard, RIABiz

The purchase of financial services newspaper InvestmentNews (IN) by London-based Vitesse Media PLC unites two companies with declining fortunes that hope to capitalize on an upswing in financial markets to build synergies across several disparate media platforms that have one common denominator-- lucrative events.

Simon Stilwell, 49, who is leading Vitesse in its first foray into the U.S. financial media industry, is an investment banker who evolved from a previous career as a hard-charging officer in the British Army's prestigious Gloucestershire Regiment. He served in Northern Ireland, Bosnia, Kuwait and other hot spots, before going into business.

He's fond of a peculiar hobby, known as "wild swimming." It involves plunging into "random lakes and tarns" according to UK media reports.

His latest plunge, into the U.S. market, comes at a time when InvestmentNews has seen an erosion in revenues and profits over the past three years, according to first-ever reveal of financial figures released as part of the deal. Revenue fell to $16.75 million in fiscal year 2017, ended Dec. 31, from $19.13 million in fiscal year 2015, a 12.5% decline.

68% profits decline

Profits before taxes fell to $670,000 from $2.13 million over the same time, a 68% decline. But that was after a yearly multi-million-dollar profit contribution to its corporate parent, Crain Communications of Chicago. Margins at the firm are temptingly fat. Profits before the extraction and taxes were $5.1 million last year and $6.7 million in 2015, a 24% decline, according to the company.

The way the two companies plan to prop up each other's eroding revenues is by playing to strengths.

Vitesse will apply its "expertise to InvestmentNews' smaller events portfolio with a view to increasing the quality, quantity and scale of events, growing revenues and improving margins," the UK company writes in its offering disclosures. Only $1.3 million of IN's $16.75 million in revenues derived from events in 2017.

Though its print and digital publications, InvestmentNews has greater marketing reach into the lucrative United States-based financial advisory market.

That U.S. presence also undergirds Vitesse's inorganic strategy to make IN the hub of a roll-up of like business properties. [The deal provides Vitesse] "with a platform to expand its Diversity proposition and for further ‘bolt-on’ acquisitions in the US," its offering reads.

"Once we become part of VIT we will be discussing potential synergistic acquisition opps," says IN Publisher Suzanne Siracuse in an emailed reply.

She adds that "print advertising is up this year from last year." She also squashed a rumor that IN would scale its printing schedule

For the six months ended June 30, publication revenue was up about 15% over the same period last year, according to the placement.

InvestmentNews publishes 45 times per year, skipping dates in July, August and over Christmas. Although it boasts an average circulation run of 61,000 per issue, only about 2,000 of those are paid. The rest is circulated on a controlled basis to pre-qualified readers, mostly financial advisors.

Founding IN publisher Bill Bisson Jr., who is now retired, said in an email exchange he was a "bit surprised" by the sale, but not "shocked."

Crain Communications announced in July a year ago it had bought out longtime President Rance Crain, who owned 50% of the Detroit-based publishing company. Chairman Keith Crain, along with his wife, sons and daughter, now have full control.

"The company acquired debt in buying out Rance and the Crains, having a deep dislike of debt, decided to work it out this way. We may see some other assets sold in the near future," said Bisson.

"That said, I am disappointed that it came to this. Unfortunately, with family-owned businesses stranger things have happened," he added.

Hard Charging

Family politics won't be an issue under new ownership. Instead, IN will be at the mercy of quarterly results. Vitesse is publicly traded on Britain's Alternative Investment Market (AIM). It bills itself as a "digital media and events company specializing in enterprise technology, growth business, investment and diversity," according to its offering.

"It will be interesting to see how they budget for news - reduce or stay the same? I doubt they'll increase it," says a financial media source.

Stilwell declined an interview request, citing the deal's "quiet period," putting off all comment until after matters are tidied up in mid-August.

But he gave a sign of his management style when he took over as Vitesse CEO last August. He promptly massacred the company's senior management in a sweeping overhaul and added his own officers and directors. Then, he floated a £2.1 million British pound stock offering (before expenses) and wiped the company's balance sheet clean of debt.

Stilwell is best known in the UK as head of Liberum Capital, an investment banking and alternative finance company that focuses on AIM, the equivalent of the U.S. penny stock market. He founded the company in 2007 and left in 2015 after a string of seven straight, profitable years.

His public profile soared when he got involved in the UK's Brexit campaign through a broad-based business group. He was ultimately branded a member of the "Dirty Brexit Brigade" by one consumer group because of alleged conflicts of interest between the group's stated aims--European Union reform-- and Liberum clients who stood to benefit directly from Britain's EU exit.

Overall overhaul

"Since I joined Vitesse last year we have overhauled the board and management team as well as the strategy and this is the first major step in executing on our growth plan," he said in a statement.

The acquisition is designed to advance the company's "ongoing strategy" to expand "business information, live events and data and insights in the technology, financial services and diversity and inclusion sectors."

Vitesse said Wednesday (Aug. 1) that it had successfully floated shares worth £18.7 million British pounds, or about $24.5 million, to finance the InvestmentNews purchase. Simon and other insiders bought a piece of the action worth about £2.3 million British pounds ($3 million).

The company announced a day earlier that it was paying Crain $27.1 million for the newspaper and all its assets, which include its Web site, trade shows and special events. (Full disclosure: I was editor of InvestmentNews from 1999 until 2003.)

Bisson said the price is no surprise. "It's 2018 and no longer 2005... the internet has changed things and prices for 'legacy' media aren't what they once were."

The purchase involves an initial payment of $16.1 million, $6.0 million in a deferred payment in cash over a 35-month period and the balance of $5.0 million in new Vitesse shares, according to a placement.

Because the purchase is a "reverse merger" under UK rules, the deal must get shareholder approval. But the company reported it has already locked up 50.35% of its shares in favor of the deal.

"You can only raise money if you're healthy and you have a good business plan. There's a ton of issues that go with the challenges of that," says **Dan Seivert**, CEO and founder of **ECHELON Partners**, a Manhattan Beach, Calif.-based investment bank largely for RIAs.

People need to believe in the management team, the strategy they're going after and have people who have the expertise to understand the strategy, he adds.

U.S. foray

Vitesse is the latest British company to make a foray into the U.S. financial services media market.

London-based Clearview Financial Media Ltd, bought Family Wealth Report, the London-based Financial Times, now owned by Japan's Nikkei Inc; Thompson Newspapers merged with UK wire service Reuters.

Closer to homer for RIAs, Informa of London owns WealthManagement.com, another owns Private Asset Management of London - plus the Financial Times, owners of Financial Advisor IQ. WealthManagement was formerly Registered Rep. See: Registered Rep. is finally changing its name

But Vitesse doesn't bring near the financial clout of any of its predecessors.

For its fiscal year, ended March 31, the company reported a 13% gain in revenue to £2.6 million British pounds, or $3.6 million, with an adjusted EBITDA loss of £393,000 British pounds, or $512,000, about equal to its previous year loss. The company reported about £1 million British pounds in cash on hand.

The results were counter to a pre-earnings announcement for a small profit.

Stilwell said, at the time. earnings were a reflection of the company's "history" and not its future as "an international B2B media industry brand, a model we believe will be successful due to its high margins, recurring revenues and cash generation."

"There are plenty of publicly traded companies that don't have earnings. And certainly that's often been the case with internet companies," says **Seivert**.

"If [InvestmentNews is] going to get more capital and more love as a primary focus of the new buyer, then they're probably going to do better," he adds.

Seeking Synergies

Actually, it may be the other way around. InvestmentNews will provide a much needed cash flow infusion for Vitesse.

Vitesse's leading sites have suffered significant downturns in traffic over the past year, according to Alexa, a web site that tracks online traffic.

Media brands include DiversityQ.com, Taxguides.co.uk, Information Age, which covers the tech space, SmallBusiness.co.uk, GrowthBusiness.co.uk and What Investment, its only print magazine focused on retirement. It also publishes Growth Company Investor, a digital magazine that follows small-cap stocks and the British AIM market.

InvestmentNews.com, on the other hand, has a solid footprint on the Web. The site averages 545,000 unique monthly users and 1.6 million monthly page views, according to the offering, which puts it far ahead of all of Vitesse's sites combined.

Events are a brighter spot in the Vitesse portfolio.

Vitesse hosts a "Women in IT Awards" series in the UK, Ireland, the United States and Asia. Its "Women in Finance" series is held in the UK and Ireland; while its "Women in Asset Management" series is held the United States and Asia.

It also hosts the Investor Allstars series in the UK and US; the "Grant Thornton Quoted Company Awards" the "British Small Business Awards," the "Tech Leaders Awards," the "Data Leaders Awards" and a program called the "Future Stars of Tech."

InvestmentNews sponsors 11 events, such as a Women Adviser Summit, "think tanks" on Retirement Plans, Diversity and FinTech, a Retirement Income Summit, "Women to Watch Awards" and "Best Practices Awards" among others.

In contrast to the business information segment, which includes the newspaper, live events actually saw revenues rise in the most recent fiscal year. They generated $1.45 million (up from $1 million in 2016), although the figure amounts to only 8.6% of total revenues.

Underinvested

Vitesse sees synergies on the event side and actually sees InvestmentNews as an "underinvested business" with potential for "accelerated organic growth" and acquisitions. :

"InvestmentNews has received relatively little investment over the last few years. There is, therefore, the potential to deploy capital to accelerate growth organically of revenues streams and margins, while also acquiring products and/or businesses that are aligned with the Enlarged Group's growth strategy," it says in its placement.

In the writing this article, the question arose of what becomes of IN's predecessor and sister publication, Pensions & Investments. The philosophical and physical split has been notable, with P&I keeping its traditional look and feel but also growing its conference and "custom content" franchise.

P&I will record about $23 million in total revenues for 2018 and grew each of the past five-plus years, according to its publisher, Chris Battaglia. "Much less" than 50% of those revenues come from traditional print branding advertising.

It entered into the manager search and selection process earlier this year with a joint venture called Global Fund Search to diversify revenue.

The two always shared offices in New York and around the U.S. in bureaus.

But in New York, the two have been on different floors for the last four years and at July's end, IN moved several more floors away to the 23rd floor albeit in the same building. Each will be continuing to utilize most centralized services of Crain for the immediate future..

"Mostly, I'm disappointed that it wasn't a P&I/IN sale as both publications do benefit in being sisters," said Bisson. "Frankly, I still know many who read both."

Now, as rivals, these sisters will be pulling each other's hair out for real.

Whether there is enough room for a lightly capitalized company to elbow its way into a fairly saturated financial media market remains to be seen. But for someone who gets his kicks diving into dark pools of water, Stilwell will do his best to make a splash.