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Britain's WPP Acquires Imaginet

Deal will help Web firm expand

Minneapolis / St. Paul Business Journal - January 5, 2001 by Mark Reilly Staff Reporter

E-services firm Imaginet has been acquired by global advertising and marketing giant WPP Group of London, in the latest twist to the Minneapolis company's sometimes convoluted history.

Under the deal, which closed Dec. 28, Imaginet will operate as a division of WPP's J. Walter Thompson advertising unit.

Terms were not disclosed, but valuations from similar acquisitions would put the deal in the $50 million to $70 million range.

Imaginet officials said that the company would continue to operate independently and the business combination will help fuel a planned expansion by Imaginet into other cities. In turn, Imaginet will help bolster WPP's high-end Web services offerings.

"This is how we see taking the business to the next level," said Imaginet CEO Scott Litman. "It will strengthen our business tremendously."

Imaginet, which was founded in 1991 as a seller of desktop publishing products, has grown into an Internet consultancy and development firm that helps companies develop Web-based businesses. The company, which employs 110 people, projects $27 million in revenue this year, up from $14 million in 2000.

Many of the largest e-services companies, such as Razorfish Inc. of New York, have seen valuations and finances hammered by the technology-market slide. But Litman and Imaginet President Dan Mallin said market pressure wasn't driving the sale.

"This isn't a let's-save-Imaginet deal," said Mallin, noting that Imaginet had exceeded its projections for revenue and profitability for 2000 and had begun talking with WPP in June, before the e-services market really went south.

Instead, Litman said, the impetus came from Imaginet's own growth plans. The company last year began looking at other cities to expand into, and was considering several financing plans to pay for that expansion.

In WPP, Imaginet found the tools it needs for the expansion, Litman said. With 55,000 employees, WPP is the world's largest holder of advertising and marketing agencies, owning ad firms Ogilvy & Mather and Young & Rubicam in addition to J. Walter Thompson.

Imaginet will work most closely with the J. Walter Thompson unit, partnering with JWT to develop Web businesses for its customers. JWT has nearly 40 offices in place nationwide, through which Imaginet can pursue new business and test the environment for a full-bore market entry of its own.

"It gives us great flexibility to get into new markets at a very low cost," Litman said. "Even more than another investment round or an IPO, this gives us the flexibility we need."

Chris Longley, a vice president of Internet Financial Services in Minneapolis, a firm that advises and backs Internet companies, said that the deal would likely pay dividends for Imaginet. "It's probably a good thing; it sounds like it gives them a much broader reach," he said.

The deal won't affect Imaginet's management or staff, or change its growth plans locally -- the firm is nearly doubling the size of its offices in downtown Minneapolis. "They invested in us because they like the management," Mallin said. "They know what they're doing, and they realize that we know what we're doing."

WPP has historically maintained a hands-off approach to management at its stable of more than 100 companies, which its executives refer to as "tribes."

Litman and Mallin have been through the merger process before. In 1997, they sold the company to Oakdale-based Imation Corp. and operated the business as Imation Internet Studio for almost two years. But the merger was short-lived; they later staged a buyout of the division, partnering with Gage Marketing Group to take Imaginet private again in 1999.

As a result of that deal, Gage took a 40 percent stake in Imaginet, with Litman and Mallin splitting the balance; Imaginet also had a tradition of issuing stock to its employees. After the deal, the J. Walter Thompson agency will be the sole owner.

Both founders of Imaginet said they see this corporate marriage lasting. "Bottom line, we did the deal [with WPP] because we want to work there."

"We've had a lot of M&A experience already," Mallin added. "We're not looking to do this again."

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