Client Profile: Microsystems

Microsystems, founded in 1988 as Freedom Solutions Group, rebranded seven years later. While it first provided word-processing solutions for small businesses, it later began developing proprietary software for document creation, editing, and metadata management, primarily in the legal space. These services enabled attorneys to devote themselves to revenue-producing activities, as opposed to reviewing and editing documents.

Following a 2016 sale and merger to K1 Capital Advisors, the company was rebranded once again, to Litera Microsystems, and soon after moved its headquarters from Downers Grove, Illinois, to Chicago. By that point the company had as its clients 85 of the world's top 100 law firms.

In addition, over 87 percent of the company's revenue is recurring, and it boasts a retention rate of well over 80 percent.

THE CHALLENGE
Microsystems, a leader in the legal document-solutions space, was looking to grow, and had a sponsor at the ready in K1 Capital Advisors, a California-based private equity firm.

THE SOLUTION
Saratoga, partnering with a bank, made a second lien loan of $8 million in the summer of 2016, then followed with two other rounds of capital over the next 18 months, bringing its total investment to $30 million.

OUTCOMES
The sale, as well as a subsequent merger with three other like-minded companies, fueled explosive growth for the company, which was rebranded Litera Microsystems. Its revenues more than doubled between the 2016 and 2017 fiscal years, and its EBITDA increased by over $4 million. That led in May 2019 to its sale to Hg, a British private equity firm.

MICROSYSTEMS

Rewriting the Tale of a Document Solutions Company, With the Help of Saratoga Investment Corporation

Saratoga supported the 2016 sale of Microsystems to K1 Capital Advisors, enabling it to become a leader in the legal document space.

In 2016 Microsystems, a leader in the legal document-solutions space, was looking to write a new chapter in its burgeoning history. Saratoga Investment Corp. stepped in to facilitate Microsystems' acquisition by K1 Capital Advisors, a California-based private equity firm, which was part of a $100 million deal that saw K1 acquire three other similar companies -- Litera, XRef and the Sackett Group -- and merge them to form Litera Microsystems.

"The size and scale we're at today, we want to be viewed as the grown-up in the room," Litera CEO Avaneesh Marwaha said on the LawNext podcast in March 2020.

Saratoga, partnering with a bank, made a second lien loan of

$8 million in the summer of 2016 to support Microsystems' acquisition by K1, then followed with two other rounds of capital over the next 18 months, bringing its total investment to $30 million.

The revamped company went from 60 employees to 250. Its headquarters was moved from Downers Grove, Illinois, to Chicago. It already boasted a London office, but at that point it opened one in New York City as well.

In May 2019 Litera Microsystems was sold to the British private equity firm Hg, at which point Saratoga moved on to other ventures. It had been a profitable partnership for all involved.

"Saratoga's ability to become a serial financial partner to Microsystems fueled the company's growth and enabled the platform to achieve massive scale," said Joe Burkhart, Saratoga's managing director and head of business development.

CONSTANT GROWTH

At its founding in 1988, Microsystems' predecessor, Freedom Solutions Group, sought to provide word-processing solutions for small businesses, but soon gravitated to the legal space. Rebranded as Microsystems in 1995, the company first provided law firms with conversion tools, then migration tools to Microsoft Word and most recently software to supplement the latter platform.

After the sale to K1 and merger with Litera, XRef and Sackett, the goal was continued growth, which led in 2018 to the launch of Litera Desktop, a document-drafting suite, and Clause Companion, which affords lawyers easy access to a library of pertinent content.

"The first thing I look at is, 'Can we make the first draft a user creates as close to final as possible on Day One?'" said Marwaha, a former attorney himself.

The sale to Hg in May 2019 was followed that summer by Litera's acquisitions of two leading deal-management platforms, Workshare and Doxly. The company later announced a partnership with Kira Systems, which through machine learning provides Clause Companion with the means to review contracts more accurately and efficiently.

In March 2020 came word of another acquisition -- that of Best Authority, a tool that scans and marks all legal citations in a document. By that point, some 60,000 clients around the globe were using Litera Desktop daily, with a goal, Marwaha said, of reaching 100,000 at some point in the near future.

> *"By that point, some 60,000 clients around the globe were using Litera Desktop daily, with a goal of reaching 100,000 at some point in the near future."*

Saratoga helped put the pieces in place to make it happen.

"This was like a down-the-fairway deal for us," Burkhart said. "We did not get any equity. We're not in anymore, as of (May 2019). This was a mutually beneficial relationship where we helped a sponsor close an acquisition to take Microsystems to the next level."

HOW SARATOGA HELPED

Saratoga's decision to invest in Microsystems was an easy one, and based on the following factors:

Market Share/Value Proposition

Litera and Microsystems enlisted as clients 85 of the world's top 100 law firms between them, and the services they provide enable attorneys to spend time on content creation and other revenue-producing activities, as opposed to reviewing and editing documents.

Recurring Revenue/ Retention

Over 87 percent of the company's revenue is recurring, usually from software licenses, and the respective gross retention rates for MIcrosystems and Litera were approximately 98 and 81 percent.

Solid Customer Base/ Limited Concentration

While Microsystems boasted 1,500 customers, none had an actual cash value higher than six percent.

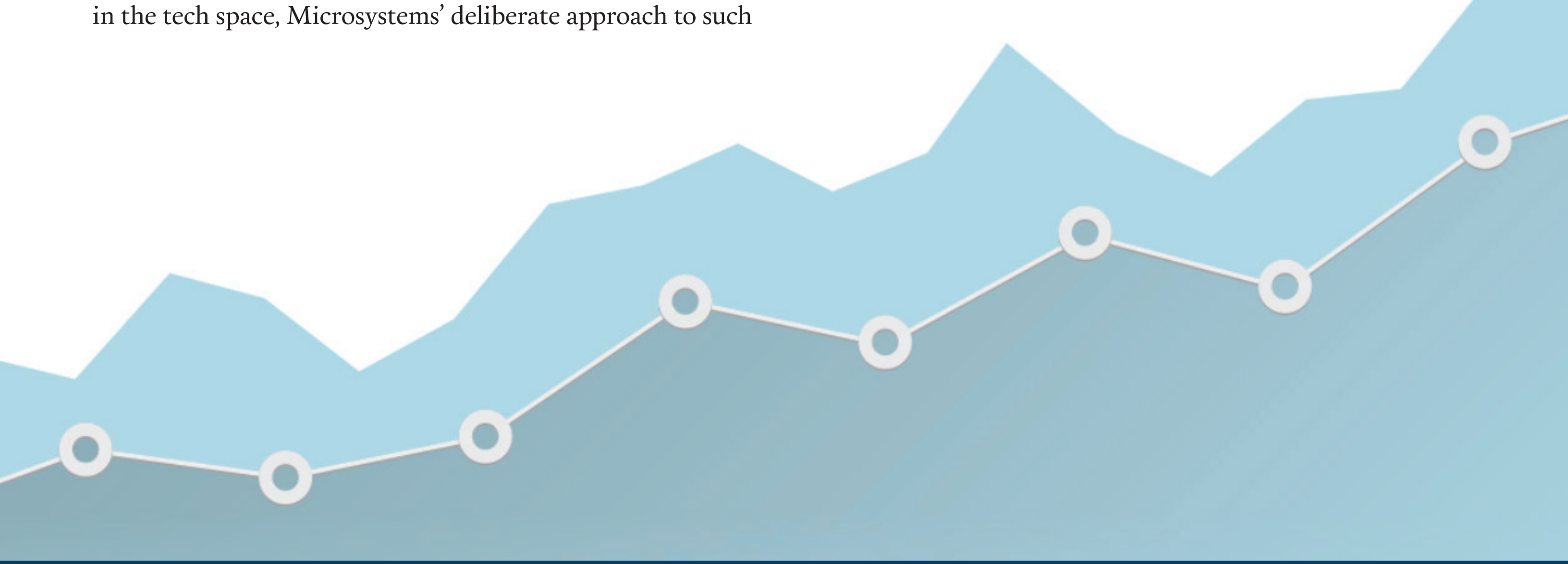
Proven Management Team

Marwaha and his fellow executives -- CFO Ed Tomczuk, CTO David Cook, vice president of marketing Julian Morgan and executive director Travis Leon -- were all highly regarded.

The results were dramatic. For the 2016 fiscal year, Microsystems reported revenues of $15.6 million and an EBITDA of $6.4 million. The respective numbers for 2017 increased to $34.7 million and $10.7 million.

Marwaha believes there is no looking back -- that while M&A hasn't always proven to be the best course for everyone in the tech space, Microsystems' deliberate approach to such matters has served them well.

"We've taken our time to make sure that if someone was to move to a product going forward, it's as consistent and smooth as possible," he said on the LawNext podcast. "I think that's given us the ability to keep doing this type of work."



CONNECT WITH US

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