

Telling the story of Corel's retooling

By Julie Fortier, Ottawa Business Journal Staff

Wed, May 30, 2007 2:00 PM EST

No one can say that Corel has had an easy ride over the past 22 years.

From humble beginnings as founder Michael Cowpland's research lab, to one of the biggest software developers in Canada, to its spectacular stumble during the tech wreck, Corel has weathered the storm and has happily found its true place in the world, according to CEO David Dobson.

Just how did Corel successfully avoid becoming high-tech road kill after losing three-quarters of its stock price and suffering losses close to \$333 million in 1997 alone? Mr. Dobson will tell the story of the company's turnaround as the keynote speaker at the Ottawa Centre for Research and Innovation's Technology Executive Breakfast this week at Scotiabank Place.

Corel's turnaround began in August 2003, when it was wholly acquired by Vector Capital, a private equity firm, for a price of \$1 a share and subsequently delisted from the NASDAQ and Toronto stock exchanges.

Mr. Dobson was working in the U.S. as vice-president of corporate strategy for IBM when he was met with the proposition to run the troubled company.

"One of the areas that I was working on was in the software space and that got me connected with Vector Capital. It was through that connection that the managing partner of Vector asked if I were a Canadian, and I said in fact I am, and he said, 'Well, we have a portfolio company that we're looking for a leader with your type of background and experience,'" Mr. Dobson said.

Six months later he was managing Corel and he knew he had his work cut out for him.

The decision to go private in 2003 had not been a popular one and was fought tooth and nail by shareholders. However, Mr. Dobson said it was the right decision and the proof is in the results.

"When Corel was taken private in 2003, it had just over \$100 million US in revenue and was losing money. Last year, we were \$177 million US revenue and it and earned \$55 million in EBITDA (earnings before interest taxes depreciation and amortization) – that came from a dramatic transformation in focus, operational discipline and results as measured by our financial performance."

Many credit the fall of Corel to its 1996 acquisition of WordPerfect, a word processing agent that was supposed to be Corel's answer to Microsoft Word. Everyone knows where that story went.



Corel CEO David Dobson. (Darren Brown, OBJ)

"In hindsight, that really put Corel in a different direction and was the beginning of the struggles for Corel. They wanted to take that brand against Microsoft in the enterprise space and that proved to be a very costly investment," Mr. Dobson said. Corel's problem was recognizing the failure and moving to correct it.

Beyond the problems with marketing WordPerfect, the main criticisms of Corel through the early 2000s was its lack of focus, so the first priority of Vector was to refocus the company and people on core products. To do that, the company had to relieve the pressure of being public. "Primarily the public markets are not that patient as far as going through turnarounds," said Mr. Dobson.

Once private, Corel scaled back its products from over 20 to just five: CorelDRAW, WordPerfect, Office, Painter, Designer and iGrafx. "These were very high-quality products and we really focused all assets of the company on those products," said Mr. Dobson.

These products proved that Corel had what it took to be a successful company, it just needed the right focus.

"The reason Vector decided to acquire Corel and why I decided to join in 2005 was because the capabilities inside Corel that had been built up over 20 years were very attractive. The Corel brand around the world is very well known, at the time there were almost 30 million customers enjoying Corel products."

Refocusing on these core products as well as refocusing on the individual user and small business market led to an incredible turnaround that many believed couldn't be done. Rather than fading into the history of the tech wreck, Corel has been making very important acquisitions in the past three years.

In 2004, Corel acquired graphics software developer Jasc and along with its product Paint Shop Pro. It continued to grow stronger with an announcement in March 2005 that the U.S. government purchased 50,000 licenses of WordPerfect. WordPerfect was also adding four million new users per year through a deal with PC giant Dell.

In early 2006, Corel acquired the hugely popular WinZip Computing, which is the most well-known data compression technology in the world. Later in the year it acquired the multimedia software developer InterVideo. In April 2006, Corel completed its return to the public markets with an initial public offering on the NASDAQ.

"In four years we have built Corel back, but we have been very focused and very disciplined around meeting a very stringent set of criteria," said Mr. Dobson.

"Many times, it has been proved that someone from the outside who has experience with similar situations, like Vector Capital has been, are able to identify the value in a company that has not been tapped. They saw value inside of Corel and I believe they were completely correct to do those changes. We are seeing this reoccur around the world today, and what usually emerges is a stronger, more focused and much healthier company. That's clearly been the case with Corel."

For more information on the OCRI breakfast event please visit www.ocri.ca/events/teb.asp

