

The Growth of a Small Empire

Getty Images

And Their Meteoric Rise

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Brilliantly guided through the turbulent years of the dotcom bust and September 11th, two partners, Mark Getty (grandson of J. Paul Getty), and Jonathan Klein (acting CEO) built Getty Images (NYSE:GYI) from an analog film based agency, serving the needs of photographic artists, to a corporate empire, spanning the globe and absorbing over half of the world's market share in the commercial media industry.

With prescience, their initiative was born out of the “Creative Destruction”¹ of an industry that was built on film, chemicals and analog photography. They foresaw the power of the burgeoning internet and digital technology that would eventually bring such legends as Polaroid and Kodak to their knees. They absorbed the content of every major stock photo agency and media company, and commanded market share with a combination of quality product, clever marketing and lightning swift moves into complementor² business models that built on their strengths and added value for their customers.

Getty describes itself as a visual content provider and “major supplier of creative stock and editorial still and moving image and illustrations, as well as music. It also offers photo services for corporate clients. The company targets four main markets: advertising and graphic design firms; editorial organizations, such as newspapers, magazines, and online publishers; corporate communications departments; and film and broadcast producers.”³

Mere highlights of its acquisition strategy demonstrate a yearly growth pattern that hasn't faltered for over a decade:

1995: Getty Investment Holdings takes 80% stake in Tony Stone Images
(Quality branding, setting their course in the industry.)

1996: Getty buys Hulton Deutsch Collection for £8.6M
(19th and 20th century historic work that allowed them to compete with Corbis images (2nd largest)

1997: Getty buys Gamma Liaison for US \$9.4M
(Gaining a foothold in contemporary news and photojournalism.)

1997: Getty Communications buys Photo Disc of the US & becomes Getty Images
(An investment of foresight into a “royalty free” business model about to take off.)

1998: Getty buys All-sport for £29.4M
(Branded Getty for sports imagery.)

¹ Joseph Schumpeter, <http://www.wired.com/wired/archive/10.03/schumpeter.html>

² Barriers to Entry from the Porter Five Force Framework and Complementors from A Brandenberg and V. Naelbuff, *Co-Opetition* (New York: Currency Doubleday, 1996)

³ <http://corporate.gettyimages.com/source/investors>)

1999: Getty buys The Image Bank for Eastman Kodak for US \$183M
(Contemporary and archival photos and film, that Kodak didn't know how to market.)
1999: Getty buys Art.com for around US \$110M
(Attempt to get into the art and consumer business.)
2002: Getty lists on the New York Stock Exchange
2003: Getty buys Image Direct music, entertainment, and fashion photography
(Celebrity event and red carpet images, popular to the consumer industry.)
2005: Getty buys Photonica (US and European operations of leading Japanese online photo stock company Amana) for US \$51M
(Purchased merely to keep it out of the hands of its competitor – Corbis Images (owner – Bill Gates).)
2006: Getty pays US \$50M for iStockphoto.com
(The company that pioneered microstock images for \$1, making use of “crowdsourcing.”)
2006: Getty acquires Ireland-based Pixel Images Holdings (Stockdisc and Stockbyte, Getty's largest image partner) for US \$135M
2007: Getty buys celebrity photo distributor Wire Image (including Media Vast, Film Magic, and Contour Photos) for US \$200M
(Last major competitor for the celebrity image business.)
2007: Getty buys UK ‘citizen journalism’ agency Scoopt
2007: Getty buys Pimp Audio music licensing company for US \$42.5M
(The jury's still out on these two.)
2008: It's Official on February 25, 2008 Getty Images sold to a Private Equity Firm

Monetary growth highlights:

1996: Gross sales of \$60,940,000 and net profit of \$1,229,000
1997: Gross sales in excess of \$140 million
1998: Total sales of \$185.1 million
1999: Total sales of \$247.8 million
2000: Gross revenue for year of \$484.8 million
2001: Fourth quarter revenue of \$101.1 million
2002: Fourth quarter revenue of \$117.7 million
2003: First quarter revenue of \$130.3 million
2004: First quarter revenue of \$156.6 million
2005: Fourth quarter revenue of \$185.8 million
2006: Fourth quarter revenue of \$203.5 million
2007: Well over \$807 million for the year

What's interesting along the way?

February 1999: E-commerce sales reached 15% of total sales, working toward an effort to segway from analog to digital, as the commercial client upgraded their systems to accommodate these moves.

May 1999: The purchase of Art.com was an attempt to dip into the \$9 billion global consumer art market.

July 1999: Getty announced an internal re-organization to focus on e-commerce solutions for their four key markets: Creative Professional, Editorial & Press Businesses, Business User Market and Consumer Market.

September 1999: The purchase of The Image Bank from Kodak was from a combination of debt and the proceeds of selling shares of stock. The image Bank has an international network of 10 wholly owned and 62 franchisee offices spanning 40 countries.

“When the intent to acquire was announced in September, Getty’s stock was selling at \$23 per share. Their announced intent was to sell five million shares to raise part of the funds to pay the \$182 million acquisition cost for The Image Bank. They predicted at the time that the rest of the money needed for the all cash sale would come from their current cash. After going on the road to explain the value of their company to major Wall Street investors, they were able to sell six million shares at \$39 per share and raise more than enough to pay for the entire acquisition. Then the stock was trading at around \$43 per share. The investment bankers also exercised their option to buy an additional 900,000 shares at the offering price. These 6,900,000 shares raised Getty’s total shares outstanding to 43,968,658. After the offering Getty ended up with extra cash of something in excess of \$50 million in cash in addition to The Image Bank.”⁴

March 2000: The acquisition of Visual Communications Group was financed using the proceeds of a \$250 million 5% convertible subordinated note offering due 2007, which closed on March 6, 2000. This left Getty with excess cash over and above the \$220 million purchase price. The continued acceleration of their e-commerce revenue growth, increasing more than 160% in 1999 validated their business strategy.

May 2000: 20% of the business was coming from new customers. They launched a system to handle digital asset management for others who want to move image on the internet.

January 2001: In order to make the business profitable at a level that would satisfy investors, Getty needed to cut costs. Their biggest payout was to suppliers, the photographers. This created bumps along the road to success, as the cut was in direct conflict with the image creator’s desire for larger shares of the total revenue. Getty needed new images, but a large percentage of their suppliers were sitting back and waiting to submit until they got a satisfactory new contract.

January 2001: Mark Getty expressed public anger with the international capital market. He felt the investment banks fueled the technology boom to unsustainable levels and precipitated its collapse. He claimed that analysts within the investment banks abandoned any attempt to be objective stock pickers, and became powerful marketing tools for their employers. He saw repeated incidents of barely concealed blackmail he and his company has been subjected to by analysts trying to win fees for their banks. Getty felt that regulators such as the Securities and Exchange Commission in the US should act in the wake of the dotcom collapse to prevent broking analysts being used to generate investment banking fees.

October 2001: Stock photo industry in the US recession. Even before September 11th, sales were off for the year compared to 2000.

February 2002: THE COMEBACK: Getty reported better than expected 4th quarter revenues and 61% of sales are now e-commerce. Gross margins are improving because Getty is getting their image inventory on more favorable terms.

⁴ 9/1999 Selling Stock Update, www.selling-stock.com

February 2003: TURNED A CORNER ON PROFITS: For years Getty invested in growth with a loss in earnings per share of \$.39. Now the company reports a new income of \$7.5 million or \$0.13 per diluted share for the 4th quarter, compared to a loss of \$38.8 million (loss of \$0.75 per diluted share) for the same period of 2001. Achievements: completed digital migration, re-invigorated major brands and initiated unification strategy, enhanced news and sports coverage, and initiated 3rd party distribution strategy.

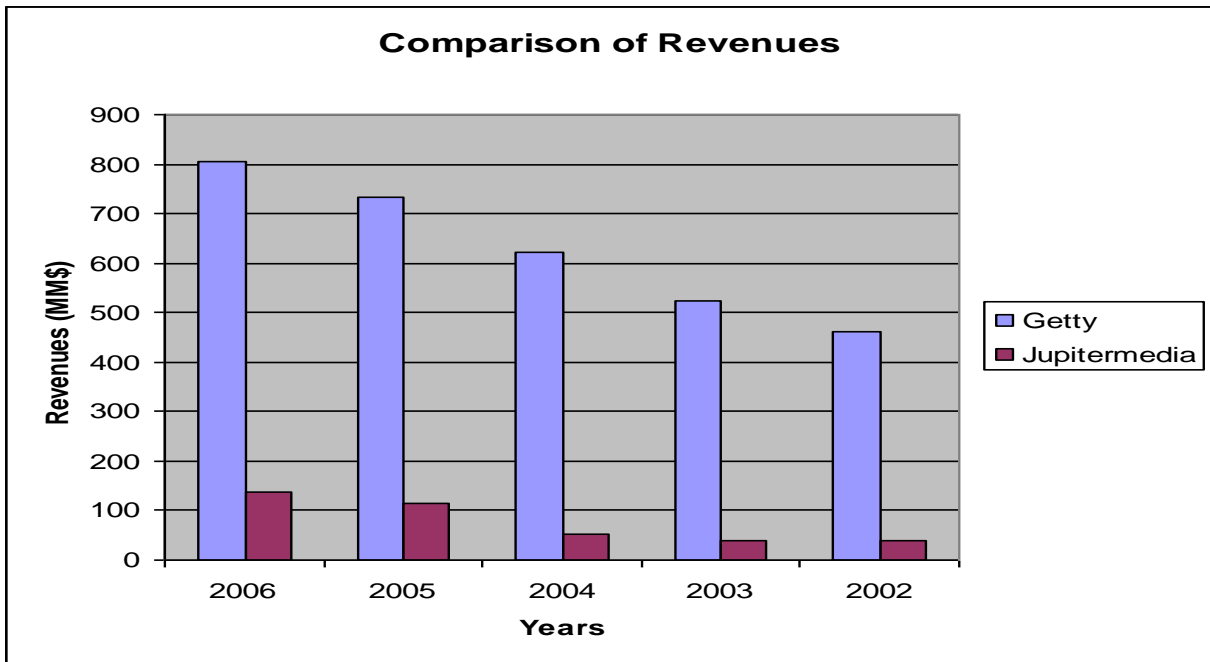
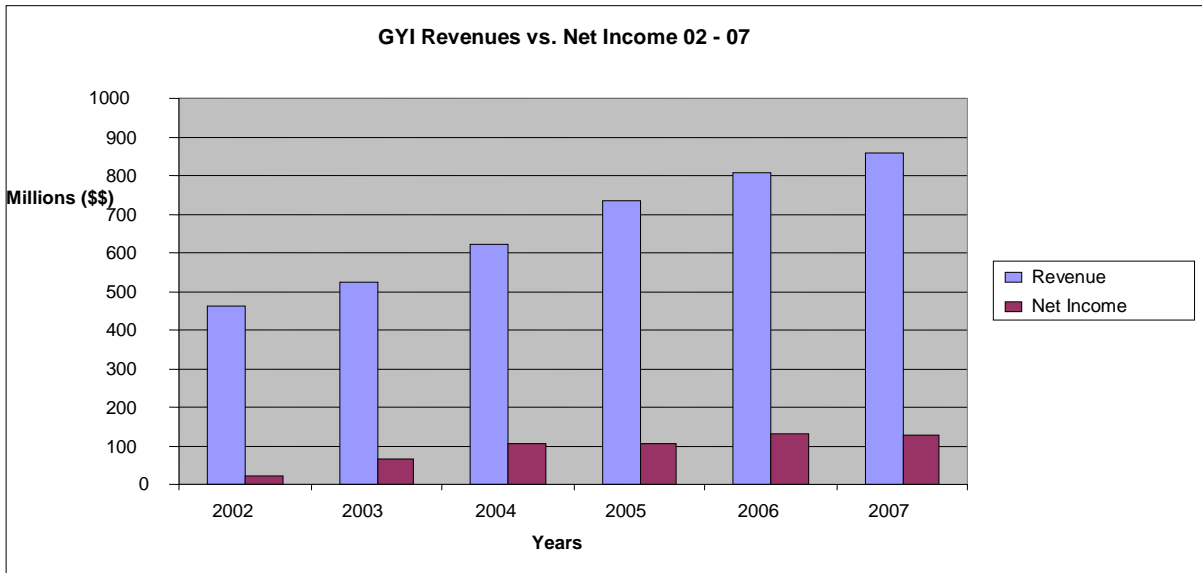
February 2004: Made a radical adjustment to keyword search results for the rights managed and royalty free business models, improving penetration into editorial markets. Getty makes a major push into the editorial markets.

August 2005: Getty launches a radical new business model of licensing subscription imagery, catering to the price conscious clients.

January 2006: Getty's share price drops 6% in spite of record earnings because they missed their estimates. Issue to solve: stock price could continue to drop if investors perceive more investments outside their core business, or if they start paying dividends instead of plowing back money into core business.

January 2007: Stock price rises. Royalty free business model grew 132% and micro business grew. Innovations included new products, footage, multimedia, entertainment video and mobile application developers.

June 2008: Form 10-Q shows the quarterly 2008 net income to be \$23,864,000. Stockholders vote to adopt a merger agreement with affiliates of the private equity firm Hellman & Friedman LLC. Price - \$2.4 billion.



Jupiter Media is considered to be the third largest company in the industry.

Hellman & Freidman LLC and Getty Images

Hellman & Freidman LLC is an investment firm with offices in San Francisco, New York, and London. Among their many investments, they focus on industries specializing in media and marketing services, financial services, information services and other. They have managed over \$16 billion in capital. According to the financial releases, “Under Delaware law, the merger agreement was required to be adopted by the holders of the majority of the shares of the company’s common stock outstanding on the record date of May 20, 2008. Holders of approximately 75% of these shares voted in favor of the adoption of the merger agreement, representing 96% of the votes cast.”⁵

Private Equity Firm	Private Equity Fund	Private Equity Portfolio Investments (Partial List)
Hellman & Friedman	“New 2008 Fund”	<ul style="list-style-type: none">• Getty Images• DoubleClick• Goodman Global• Gartmore• Texas Genco• Nielsen Company NASDAQ

Summing up

Note the meteoric rise over the past decade. Note the nimbleness with which Mark Getty and Jonathan Klein negotiated the market demands for profits and return on share value. Note the constant array of new and appropriate product lines that tapped into the growing demands of the commercial clients worldwide – the continued technical updates to improve image search, the varied pricing models that reached the needs of new budgets, the swift expansion into news, celebrities, editorial and footage, all while grabbing market share from competitors. The company also budgeted their money allowing them to acquire every major company with a name and a product line on which they could build their branding and quality.

Having absorbed between one to seven companies each year, Getty Images has expanded with horizontal mergers to become the indisputably largest company globally in its industry. It commands over half the market and continues to grow. It has managed to integrate intellectual property in the media genre as varied as film, music, sound, and still photography, not to mention asset management and assignment photography. It has enjoyed economies of scale by quickly integrating its product lines into major branding campaigns, and eliminating any staff and office that is redundant.

The company pioneered the digital age by funding the scanning and on-line e-commerce of all of its early acquisitions, and made excellent use of all the complementary resources its mergers offered. New management teams, more knowledgeable in corporate finance, replaced old ones, and each merger created additional “economic rents” whether financing with stock, or debt or cash.

⁵ <http://corporate.gettyimages.com/source/investors>

They gobbled up market share, not only by being the biggest and the best, but by purchasing any business that held the share they needed. Then, in 2006, they made their biggest leap into the modern age in order to head off the newest era of “Creative Destruction” by purchasing iStockphoto, the “crowdsharing”⁶ business model that once again, is changing every pricing model formerly common in the industry, tapping into a new body of imagery fostered by amateurs and semi-pros, and offering a modern and fresh approach to image search. This highly discounted business model demands large volume purchasing, and has continued to threaten the whole image media empire that has been constructed on the strength of the internet over the last decade.

Is this the reason to get out of the public eye? We think so. Now Getty can chase that growing but sometimes elusive consumer market that its competitors have been trying to lure for a decade. They can do it without answering to share value and public scrutiny. They can create market share that never existed. They can continue to build their global empire.

To date they have not suffered opposition as a result of antitrust laws, and are now enjoying a new direction under the “private equity partnership” label. We agree that, according to Brealey, Myers and Allen in *Principles of Corporate Finance*, “Perhaps going private avoids public investors’ ‘short-termism’ and makes it easier to invest for the long run.”

⁶ <http://www.wired.com/wired/archive/14.06/crowds.html>

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