

Company of the Year

M-Audio

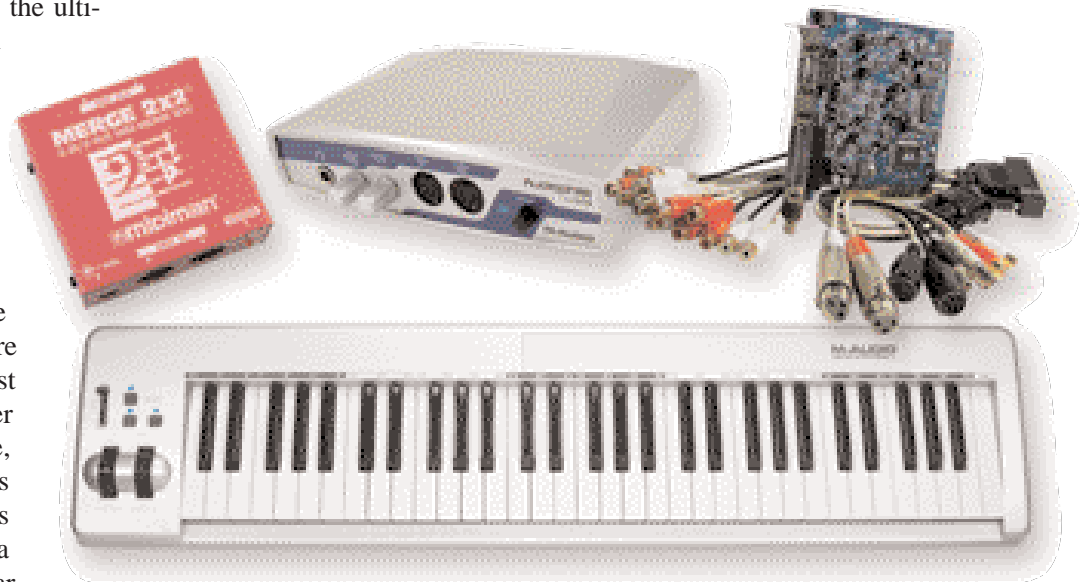
Proven ability to anticipate the needs of “computer-centric” musicians commands a \$174 million purchase price

With the price of computers plummeting and new music software applications coming to the fore, Tim Ryan became convinced that there was a rich opportunity in computer peripherals tailored for musicians. In 1988 he founded M-Audio (originally known as Midiman) to address that need. Last year his market assessment received the ultimate affirmation when Avid Technology's Digidesign division paid an eye-popping \$174 million to acquire M-Audio. How big a selling premium did this \$174 million represent? Most music and audio companies fetch little more than book value when they're put on the block, by contrast M-Audio sold for just under eight times book value, reflecting Digidesign's tremendous confidence in its future prospects. For a decade of residing at or near the top of our fastest-growing company list, and for earning the confidence of hard-nosed managers

at Digidesign, we name M-Audio our company of the year. M-Audio's initial product range included computer sound cards that enhanced the audio quality of the basic PC or Mac, and input/output cards that made it possible to run multiple audio channels in and out of a computer. Since then the company has become a virtual one-stop shop for the growing number of computer-centric musicians, offering keyboard controllers, USB guitar interfaces, monitor speakers, microphones, and even guide books on how to create music on a computer. If you use a

computer to record or create music, the chances are good that you'll have a few M-Audio products.

A creative R&D team that anticipates the needs of computer-using musicians with a steady stream of new products is part of what drives M-Audio's growth. Equally important, but less apparent, has been the company's heavy investment in technical



Tools for a new generation of musicians.

support. A cadre of well-trained techies man the phones around the clock at M-Audio's, Irwindale, California headquarters, ready to address consumer questions. "Installing a computer music/sound interface is one of the most difficult things many musicians have to do," Ryan says. "We spend a higher percentage of our sales revenue on tech support than any other m.i. company I know of to make it as easy as possible." End-users aren't the only beneficiaries of M-Audio's tech support; retailers are served as well. Ryan adds, "Dealers want to know that when they send a

customer home with a computer-centric music product like a sound card, it won't be coming back. We give them that comfort."

Digidesign pioneered the concept of software-based recording systems and its Pro Tools is the recording system of choice in top recording studios around the world. A lower priced Pro Tools LE, introduced in 2003, expanded Digidesign's market reach. With the M-Audio acquisition, the software maker hopes to serve the entire market. Dave Lebolt, Digidesign general manager, explains, "The entry-level audio market offers attractive growth opportunities. As a combined entry, Digidesign and M-Audio can tap into sub-segments that we would not otherwise reach as strongly on our own."

"The segment represented by Apple's GarageBand, which ranges from people experimenting with creating a soundtrack for a home video to serious musical hobbyists on a budget is a key group. M-Audio's breadth of product offerings below \$500 is large. Digidesign's Pro Tools LE



starts at around \$500. Together, we can supply complete systems."

Assessing the potential size of the market, Ryan adds, "Just as all folks using typewriters switched to word processors, nearly all the musicians who were using tape have switched or are switching to computer-based recording. Nearly everyone involved in music creation is interested in recording, including pro and hobbyist musicians as well as amateurs creating music with loops. It's a big base."

The evolution of music has always been driven by a symbiotic relationship between musicians and those who make their tools. The demands of musicians spur the tool-makers to develop new and improved instruments, and the creative developments of the tool makers allow musicians to explore new creative horizons. Just look at how rock 'n' roll and the electric guitar grew up together. The growth of M-Audio and its future prospects suggest that we're in the early stages of a similar evolutionary process with computers.