

ORANGE COUNTY BUSINESS JOURNAL

Tech Buys Likely to Slow Despite Cos. Sitting on Piles of Cash

TECHNOLOGY: Deals will see more scrutiny, strategic buys key

■ By SARAH TOLKOFF

Orange County technology companies still are turning to acquisitions for growth this year, but deals are likely to be fewer and further between.

The slumping stock market and whispers of a recession may have local companies thinking twice about jumping into a deal, according to Paul Bodet, vice president of Costa Mesa-based investment bank RSM EquiCo Capital Markets LLC.

"The OC tech community will certainly see its share of mergers and acquisitions, but maybe not as many as some of the other hotbeds," Bodet said. "Deals may be a little slower in this coming year as people try to understand what the market is doing."

Companies may find more opportunities because acquisition targets are a little cheaper in a down market, according to Jeanne Malmo, director of business development at RoseRyan, a consulting firm in Irvine.

"The interest may escalate," she said. "I think there will be a lot of due diligence and looking at companies and what they have to offer. But actually closing the deals may be protracted."

Tighter credit markets and slumping consumer demand—the engine of the tech industry—are causes for hesitation, Malmo said.

"Even if they have cash, deals are going to be closer scrutinized," she said. "I think they are going to be a bit less aggressive than maybe in the prior year because of the tightening economy."

If deals slow down this year, it won't be for a lack of cash. Some of OC's most acquisitive tech companies started the year with piles of it.

Irvine's Broadcom Corp. has the most at \$2.2 billion. Lake Forest-based Western Digital Corp. is next at \$967 million. Aliso Viejo's Quest Software Inc., Aliso Viejo-

based QLogic Corp., Costa Mesa's Emulex Corp. and Aliso Viejo's Smith Micro Software Inc. had multimillions.

Cash is king for making buys—it keeps companies out of debt and doesn't dilute shares like deals that use stock to help fund an acquisition. Most companies use a mix of cash and stock for deals.

"The way that most companies look at cash is to provide the best return to shareholders," said Mike Rockenbach, chief financial officer at Emulex. "Cash in the bank isn't necessarily the best return. Having said that, it's always nice to have it."

Investors want to see constant innovation from tech companies, whether it's developed internally or bought through an acquisition, according to Rockenbach.

Using cash is a way to accelerate opportunities that companies currently have or help them get into new markets, he said.

"Our No. 1 goal with the cash we have is to expand our business over the long haul," Rockenbach said.

Emulex, like other tech companies, weighs its options carefully.

"You can't just go buy companies for the sake of buying even if you have the cash," he said. "It has to fit in strategically."

Strategic Buys

Strategic buys mean different things to different companies.

For some it means buying companies with complementary technologies. For others, it's nabbing the nearest competitor to gain market share and more customers.

Some tech companies need to buy to compete, according to Kaushik Roy, an analyst at Pacific Growth Equities LLC based in San Francisco.

"They can't hold off on buying—either you build the technologies you need or buy it," he said. "It's a matter of life and death for some companies." ■

MONEY TO BURN

A look at the cash holdings of some of OC's tech companies, as of Dec. 31

■ Broadcom Corp.	\$2.2 billion
■ Western Digital Corp.	\$967 million
■ Quest Software Inc.	\$236 million
■ QLogic Corp.	\$141 million
■ Emulex Corp.	\$125 million
■ Smith Micro Software Inc.	\$88 million

It's not so dramatic for Emulex, according to Rockenbach.

"When we look at potential acquisitions, what we look for is opportunities to diversify into markets that are growing faster than our core business," he said. "In some respects, that's independent of whether or not we have a recession this year. You have to go for a longer view and cash gives you the ability to do that regardless of the stock price on any given day."

Finding the right acquisition takes a lot of time and effort before a deal can be inked.

"If there's going to be a recession that lasts for the next six to nine months, you might not be able to identify and get a transaction done," Rockenbach said.

Often, relationships with potential acquisition targets go back years, as was the case with Emulex's 2006 buy of Roseville-based Sierra Logic Inc. for \$180 million.

"We knew the guys at Sierra Logic for a number of years," Rockenbach said. "That helps because you've got a higher probability of success."

Smaller deals are likely to be the norm in the coming months, according to RSM EquiCo's Bodet.

"Large acquisitions are going to be more opportunistic in nature," he said. "In order to make a more substantive impact on the market, large companies need to make large acquisitions. Investors are going to expect strategic reasons behind those buys. They still need to make sense." ■