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Biz Break: Silicon Valley stock repurchases continue record run

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Today: Silicon Valley's legacy tech companies are being acquired as private equity sets its sights on the area, a trend expected to continue in 2015.

The Lead: Top half of the SV150 targeted for consolidation in 2014
Mergers and acquisitions hit record highs in 2014, and purchases of Silicon Valley tech companies moved up the food chain as larger and more established firms became targets, a trend that could continue into the new year and beyond.



OmniVision manufactures sensors, chips and other components for cameras used in smartphones and other devices. OmniVision has received a \$1.7 billion bid from a Chinese company. (OmniVision photo)

Nationwide, merger activity hit \$1.6 trillion with just days to go in 2014, according to a recent report from Dealogic, which said that it was the highest volume on record for the United States and a 43 percent gain from 2013. FactSet concurred that a big jump occurred, tracking more than 11,600 deals in the 12 months running through the end of November, an 18 percent gain from the previous 12 months.

In Silicon Valley, much of the focus has been on the purchase of young startups at high valuations, such as Facebook's \$16 billion purchase of WhatsApp and Google's \$3.2 billion purchase of Nest

Labs. Those deals follow a pattern familiar to the region -- established or growing tech powers buying up disruptive companies to supplement their own technology -- but they overshadowed a growing number of acquisitions targeting companies that sprouted in the Valley long before Google or Facebook were even seeds in the ground.

"I never thought that you'd hear Cisco or some of those types of names as (potential acquisition) targets, but they are," ClearPath Capital Partners Chief Investment Officer Brendan Connaughton said in a recent interview.

While Cisco is unlikely to agree to be acquired any time soon, the trend toward larger companies being purchased points toward the top of the SV150. Starting with the announcement of LSI's takeover by HP spinoff Avago in late 2013, four companies in the top half of the index tracking the largest tech companies in the Valley have agreed to be sold, after no such deals in the previous 12 months. In addition to the deals announced for LSI, Tibco Software, Riverbed Technology and Spansion, another company in the top 75, OmniVision, has received a \$1.7 billion bid from a Chinese company.

Consolidation for these established companies, which has mostly taken place in the chip and networking sectors, involved buying as well as selling: Applied Materials, already the largest chip-equipment supplier in the world, is still trying to close its huge merger with Japanese rival Tokyo Electron while San Jose chipmaker Synaptics is also working on a large acquisition in Japan.

Santa Clara University finance professor Robert Hendershott explains that consolidation is a natural reaction to the maturation of the tech sectors that helped turn Silicon Valley into the tech powerhouse it has become, with organic growth slowing due to market saturation, price commoditization or other factors.

"That kind of environment, where there isn't much organic growth, lends itself to consolidation where the industry evolves ... into a more static state, where there are a few leaders that consolidate so that they have large scale, the best management teams and the best products," Hendershott said.

Connaughton notes that many of the companies in this boat have established records for revenue production, and those easy sales are going to attract potential acquirers.

Colleague Paul Boyd, managing partner of San Francisco-based ClearPath, agreed that acquisitions of established companies could be hot in 2015, with private equity leading the trend.

"What's making the headlines is the Twitters of the world, but these mainstay companies are what the private equity guys are paying attention to," Boyd said.

Vista Equity Partners took Palo Alto's Tibco private in a \$4.3 billion deal, and Thoma Bravo has agreed to purchase San Francisco networking firm Riverbed for \$3.6 billion in 2014 deals involving private equity, and those types of acquisitions could easily continue in the upcoming year as firms look to add predictable revenues to their portfolios.

"You look at the cycle, that would be the appropriate next step," Connaughton said. "You have a great VC market, then a good IPO market, then you have a great private equity market where people say 'Wait a minute, this is trading for 80 cents on the dollar on the public market, I'll take it, make some changes, pick up that 20 percent discount and bring it back to the market.' "

2,500 corporate and private-equity executives surveyed by Deloitte agreed: 84 percent of corporate respondents expect M&A activity to increase or maintain its pace in the next 24 months, while 89 percent of private-equity respondents expect "average" to "high" deal activity in 2015.

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