

INVESTOR'S BUSINESS DAILY

IBD

WEEKLY SPECIAL

S&P 500 INDEX

1248.29
-6.13 (-0.5%)Energy stocks among
day's biggest gainers

NASDAQ

2205.32
-12.84 (-0.6%)First trip to 50-day
average since Nov. 2

DOLLAR-YEN (M.Y.)

117.80
-0.03 (0.0%)Dollar weakens a bit,
but ends nearly flat

DOW JONES IND.

10,717.50
-67.32 (-0.6%)Blue chip index ends
year with a 0.6% loss

NASDAQ VOL. (MIL)

1,350
+128 (+10.5%)ELOS falls 11%, PMTI
6% on heavy volume

EURO

1.1845
+0.0002 (0.0%)Little change in buck
vs. euro; thin trading

NYSE VOL. (MIL)

1,110
+69 (+6.6%)Volume climbs, but
still below average

10-YEAR T-NOTE

4.39%
+0.02 (+0.5%)Treasury yields rise
in shortened session

REUTERS CRB FUT.

331.83
+2.51 (+0.8%)Crude gained 72 cents
to \$61.04 a barrel

INTERNET & TECHNOLOGY

More Private Equity Firms Eyeing Big Deals In Technology Industries

Mergers and acquisitions came often in busy '05, and new trends emerged

BY BRIAN DEAGON

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The value of technology acquisitions in 2005 — \$65 billion plus — more than doubled 2004's total and signaled a return to blockbuster deals as a key growth strategy.

Among the 2005 tech deals were Oracle's^{ORCL} acquisition of Siebel Systems^{SEBL} for \$5.6 billion and Cisco Systems'^{CSCO} purchase of Scientific Atlanta^{SFA} for \$6.9 billion, both of which are slated to close early in '06, and Adobe Systems'^{ADBE} purchase of Macromedia for \$3.4 billion, completed last month.

The biggest tech deal, the \$11.3 billion buyout of financial software firm SunGard Data by a group of private equity firms, was a clarion call that's expected to ripple through 2006. It signaled the arrival of private equity into tech mergers and acquisitions in a big way.

"The emergence of private equity buyers was the most interesting development in 2005" in the tech M&A arena, said John Meeks, a partner at private equity firm TA Associates, which manages more than \$6 billion in investments.

Private equity firms invested \$21 billion in just 11 tech acquisitions in 2005. Besides SunGard, private equity outfits also paid \$1.2 billion for Serena Software^{SRNA}, \$2.7 billion for

Acquiring Minds

Tech companies did the most mergers and acquisitions in '05, but ranked sixth in deal value

Top activity by industry

	Deals	Value, in bil
Communications	310	\$109.0
Oil & gas	134	107.0
Banking, finance	391	98.5
Drugs, supplies	382	86.8
Broadcasting	639	80.0
Technology, services	1,707	73.7
Household goods	68.0	66.6

Source: FactSet Mergerstat

Agilent Semiconductor, \$1.1 billion for DoubleClick and \$1 billion for Geac Computer^{GEAC}.

DoubleClick and Agilent Semi have been acquired, while Geac and Serena are nearly completed.

The investors involved include the Blackstone Group, Bain Capital, Texas Pacific Group, Silver Lake Partners and Kohlberg Kravis Roberts. These firms had largely ignored tech firms. They've focused on old-economy firms. In 2005, private equity firms announced acquisitions of Legoland, Hertz, Neiman Marcus, Dunkin' Donuts, Maytag and Toys "R" Us.

Under the usual game plan, the equity firms bring in new managers, make cuts, boost profitability and sell the company or perhaps even take it public once again.

Tech firms are seen as fertile territory for several reasons. One is that many sectors of tech have settled

into maturing-business mode and thus are more ripe for the cost-cutting and other changes often favored by private equity investors.

Another reason tech is more of a private equity target stems from the IPO frenzy of the 1990s. Companies came public at record rates. Then along came the dot-bomb that turned many of these firms into orphans — companies without analyst coverage and little investor interest.

"The output of public offerings was gargantuan," said Howard Ross, a partner at LLR Partners, a private equity firm that manages more than \$600 million. "But now many of these companies are totally without analyst coverage. They barely trade and are undervalued."

Private equity firms are searching for gems among these orphans.

"There's an awakening by private equity firms that some of these tech businesses have some of the same leveraged aspects that nontech business do," said Ross. "They have recurring revenue and predictability that give comfort to lenders."

Interest rates are at historical lows, key because private equity firms often borrow heavily to buy a company. And many private equity firms are flush with cash, raising money from big institutions.

Also, going public is tougher to do — thus less attractive — than it was even a few years ago. That's a result of stiffer rules by the SEC and the Sarbanes-Oxley law — passed after the Enron, WorldCom and other big accounting scandals surfaced.

"The threshold to be a public company has gone much higher," said TA's Meeks. "So midsize tech companies will look to sell rather than go the IPO route."

With all the new laws, 2005 "was a year when some of the guys who run tech businesses decided they wanted to be private instead of public," Meeks said.

In November alone, three large publicly traded tech companies announced they would be bought by private equity firms and cease being traded publicly: Aspect Communications, Geac and Serena.

"We believe that under private ownership we'll have far greater flexibility to execute our strategy," Mark Woodward, Serena's chief executive, said in a conference call after his deal was announced. And this from a company whose stock rocketed during the boom from 6 in August 1999 to 37 in March 2000.

Those kind of stock gains seem out of range nowadays for any tech company not named Google.

And no doubt publicly traded companies have a burden of communications that private companies don't. They have to release a quarterly financial results scorecard. And top executives and directors often must visit regularly with big investors.

"All of that is massively time consuming," said Meeks. "It can also be very hard to execute strategic decisions when there is so much pressure to meet quarterly hurdles."