Flurry of billion-dollar deals signals coming changes in tech industry

September 8 2010, By Steve Johnson and Brandon Bailey

From Hewlett-Packard and Cisco Systems to Intel and Oracle, some of Silicon Valley's largest companies charged out of the recession with fat bankrolls and a determination to spend whatever it takes this year to reshape their businesses around emerging technologies.

If the buying binge continues, 2010 could rank among the biggest for billion-dollar deals in a decade. Tech companies already have announced six purchases worth at least $1 billion so far this year, according to The 451 Group, which has compiled such data since 2002. The previous record -- last set in 2009 -- was 7.

More and more, workers and consumers are using smart phones and other mobile devices instead of desktop computers. At the same time, growing numbers of businesses and others are housing their information in data centers that can be accessed over the Internet, a trend known as "cloud computing."

To cash in on those trends, tech giants are racing to snap up established corporations and catapult themselves into new markets without having to spend years trying to develop the technology themselves. In some cases, the deals have intensified competition in the industry.

"Computing has shifted," said R. "Ray" Wang, a veteran tech consultant with the Altimeter Group. Noting that for many computer hardware firms, such as HP and Intel, "the future means they have to do more in software," he added, "I think we're going to continue seeing this kind of consolidation."

During the depths of the recession two years ago, many firms' boards balked at buying anything. "If you were a CEO or a CFO and said, 'I've got a great deal lined up,' they said, 'Now's not the time,' " said 451 analyst Brenon Daly.

Instead, companies cut costs and stockpiled cash. They're more free-spending now, experts say, in part because the sagging stock market has made it cheaper to buy public companies and because the interest rates paid on savings are so low.

"Nobody's making any money on cash these days," said Shannon Cross, an investment analyst with Cross Research. "But if you buy something that's making money, that contributes to your business."

HP reported $14.7 billion in cash and short-term investments as of last month, while Intel said it had $12.2 billion as of July.

Another major motivation for buying other businesses is to expand into new markets.

"They want to have a full-service offering to be able to serve the really big customers" who tend to dislike dealing with multiple suppliers, said Richard Hanley, a transactions expert with KPMG.

Moreover, many tech companies remain nervous about how their products will fare in the future. So they are hedging their bets by buying other companies to acquire different products, according to Crawford Del Prete of the research firm IDC. "It's very much a symptom of the uncertain times," Del Prete said.

One example of companies desperate to branch out is Palo Alto, Calif.-based HP and its rival Dell, which sparred earlier this month over data-storage provider 3Par. HP eventually won the bidding war with a $2.4 billion offer, more than three times the price of 3Par's stock before takeover talks began.

Both computer makers coveted 3Par because they wanted to improve their data-storage product lines, said analyst Unni Narayanan of Primary Global Research. In addition, 3Par's products help data center operators boost their storage capacity and quickly reassign workloads across multiple devices, as users' needs change -- important features for increasingly popular cloud computing. The IDC research firm predicts global sales of cloud-computing products will grow from $16.5 billion in 2009 to $55.5 billion in 2014.

Mobile Internet-ready gadgets are another fast-growing market. More than 450 million people worldwide were using such devices in 2009 and that figure is expected to double by 2013, according to IDC. That is a big lure for some Silicon Valley corporations, including Intel of Santa Clara, Calif. The company's microprocessors serve as the brains of the vast majority of personal computers. But it fears being left out of smart phones, which predominately use chips from other firms.

Last month, Intel announced plans to pay $7.68 billion for software security company McAfee of Santa Clara and $1.4 billion for the wireless chip unit of Infineon Technologies of Germany. By building both companies' technology into its chips, Intel hopes to win more sales from mobile-device makers.

The desire to gain software has prompted other deals.

Cisco of San Jose, Calif., which has been expanding beyond its core networking business for several years, said this month that it would buy ExtendMedia, a start-up that makes software for managing and delivering video over the Internet. Mountain View, Calif.-based Google also has scooped up several small social-gaming companies.

And then there is Oracle of Redwood City, Calif. Already a software giant, it paid $7.4 billion for Sun Microsystems, partly to obtain its Java software programming tools. But Oracle also wanted Sun as a way of selling integrated systems that combine Sun's server and data-storage hardware with Oracle's business and database software.

Because of these corporate tectonic shifts, several Silicon Valley companies that once occupied separate business turfs are now vying for the same territory.

In deciding last year to begin selling server computers, Cisco went head to head with HP's server division, for example, while HP's $2.7 billion purchase of 3Com gave it networking products to compete with those of Cisco.

Another example is HP's $1.2 billion purchase of Palm, mainly to obtain that company's phone operating system. HP plans to use it in a variety of smart phones, tablets and other mobile devices, potentially pitting it against Apple's mobile gadgets and Google's Android operating system.

Competing has its risks. But because it's often hard to keep growing fast internally, big companies frequently can't resist the temptation to bolster their bottom lines by gobbling up other businesses, said Kaufman Brothers tech analyst Shaw Wu.

"When a company reaches that stage, there's a need to do something about it," he said, "and that's typically done through an acquisition."

Citation: Flurry of billion-dollar deals signals coming changes in tech industry (2010, September 8) retrieved 3 May 2024 from
https://phys.org/news/2010-09-flurry-billion-dollar-tech-industry.html