

Avago looks to grow with \$37B deal for chipmaker Broadcom (Update)

28 May 2015, byBree Fowler

Avago Technologies is buying rival chipmaker Broadcom in a cash and stock deal worth about \$37 billion, vastly expanding its lineup of products for the rapidly growing wireless device market at a time when sales growth has otherwise been tough to come by for smaller chipmakers.

Hock Tan, Avago's president and chief executive, says that the deal will make his company the third largest semiconductor maker in terms of revenue and give it the most diversified communications platform in the industry, adding that there is very little overlap between Avago and Broadcom's products.

Tan said that the proliferation of high-speed data services for wireless devices around the world has resulted in a jump in chip content per wireless device, as well as a surge in the amount of data traffic running through data centers.

"We believe we are in the beginning stages of enhanced networking in the home as people use their wireless devices to connect to various entertainment, security and comfort functions that are all driven by pervasive broadband access," Tan said Thursday.

"This acquisition will allow us to access this trend more deeply."

The combined company will be worth \$77 billion and is expected to post annual revenue of \$15 billion. The acquisition also is expected to immediately boost Avago's adjusted profits and save it \$750 million in costs on an annual run rate basis 18 months after the deal closes.

Under the terms of the agreement, Avago will pay \$17 billion in cash, along with the equivalent of about 140 million Avago shares, which were worth about \$20 billion when the markets closed Wednesday.

Broadcom shareholders will be able to trade each of their current shares for either a cash payment of \$54.50, or 0.4378 shares of the new company's stock. When the deal closes, Broadcom shareholders will own about 32 percent of the combined company.

Broadcom Corp.'s chips are used in smartphones, tablets and other devices. In July the company said it would shut down its baseband unit, which made chips that control communication functions in mobile devices. The Irvine, California-based company eliminated about 2,500 jobs in the process, saying it wanted to focus on the broadband, connectivity and infrastructure markets.

Thursday's deal is the latest and largest in a series of deals for Avago Technologies Ltd. A year ago Avago brought LSI Corp. for \$6.6 billion. The move was intended to strengthen Avago's position in the enterprise storage market and broaden its offerings. It later sold LSI's networking business to Intel Corp. for \$650 million. Earlier this month, Avago bought data and networking equipment maker Emulex for \$606 million.

Avago, which is based in both Singapore and San Jose, California, reported \$4.27 billion in revenue in its latest fiscal year, which ended in November. Broadcom had \$8.43 billion in revenue in 2014.

Avago's shares had more than doubled over the last 12 months and they reached an all-time high of \$144.82 on Wednesday. Broadcom shares are up 89 percent in the last year.

Avago says it plans to fund the cash portion of the deal with a combination of cash and \$9 billion in new debt. The deal, which has been approved by the boards of both companies, is expected to close in the first calendar quarter of 2016.

In morning trading, Avago shares slipped 24 cents to \$141.25 in morning trading, while Broadcom

shares fell \$1.19, or 2.1 percent, to \$55.96.

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