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Going private starts to make sense

INCREASE IN BUYOUTS ANOTHER SIGN THAT VALLEY IS MATURING

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In 2000, investors led by Silver Lake Partners stunned Wall Street and Silicon Valley with an unusual deal for the technology industry: They spent \$2 billion to buy Seagate Technology and took the disk drive company private.

Tech companies traditionally hadn't been candidates to go private in a buyout. That's because such deals typically involve taking an undervalued company private with borrowed money and selling off assets to repay the debt. But tech companies, often relatively young, were seen as too risky for deals that depend upon reliable revenue streams to pay down a lot of debt.

That's no longer true.

In another sign of Silicon Valley's maturation, more tech companies than ever are now going private through buyouts led by private equity firms.

The Seagate deal was the first by Silver Lake Partners of Menlo Park, which was formed in 1999 and has become one of the biggest private equity firms focusing on tech deals.

"The reason Silver Lake exists is that as the technology industry matured, we saw there would be a role for private equity in technology, just as there is in other fields," said Jim Davidson, co-founder and managing director. "When we started Silver Lake, we challenged the notion that tech was too volatile, too young, too unstable, to support private equity investment."



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The Menlo Park buyout firm run by Terry Garnett, left, and David Helfrich has done three deals, including the February purchase of Nortel's Blade Network Technologies business and last year's purchase of Ingres, an open source database software developer.

At least seven Bay Area tech companies and divisions went private or were spun off to private equity investors in 2005, according to the 451 Group, a technology mergers analysis firm in New York. The value of the local deals surged to more than \$4 billion, up from about \$432 million in 2004. Last year featured two mega-deals locally: the buyout of Agilent's chip business for \$2.7 billion and of Serena Software for \$1.1 billion.

There are other factors at work as well. Younger tech companies are finding it tougher and more expensive to go public because of a chillier stock market as well as more rigorous accounting requirements on public companies.

Going private can also take a struggling company out of the Wall Street spotlight so it can refocus or restructure its business.

That's what happened with Seagate. The Silver Lake deal in 2000 was designed to realize the value of

Seagate's massive \$19 billion stake in Veritas stock, which it sold back to Veritas in the buyout. As a private company shielded from Wall Street scrutiny, Seagate consolidated its many worldwide manufacturing sites and did major layoffs. The Scotts Valley company went public again in 2002, raising \$870 million in an IPO. It's now the world's leading storage company, with lower costs and faster product development.

Since then, both big and small deals have followed.

The biggest one last year was a joint effort by Kohlberg Kravis Roberts and Silver Lake to buy Agilent Technologies' chip business for \$2.7 billion. The company, now called Avago Technologies, in turn sold its storage chip business to PMC-Sierra for \$425 million last month, to help pay down debt.

The tech buyout wave is being fueled by a host of private equity firms that have started up over the

past few years. Francisco Partners was formed in 1999. Golden Gate Capital introduced its private equity fund in 2001. Garnett & Helfrich Capital created its \$250 million fund in 2004. And Inflection Equity Partners of Palo Alto is now raising a fund to do smaller tech deals.

"There is an emergence of a West Coast mentality that is different from the East Coast firms" among the new wave of private equity firms, said David Fann, a general partner of Inflection. "My colleagues are all former tech executives and some are former VCs, so we have a great affinity for tech."

Many of these firms have investors with a long-term view. Garnett & Helfrich, for instance, said its venture buyout fund includes the Stanford Management Co., which manages Stanford University's endowment, the Harvard Management Co., Silicon Valley Bank and few other institutional and private investors.

Because they have patient investors willing to put up a lot of money, private equity firms today typically don't need to issue as much debt for their deals compared to the big leveraged buyouts of the 1980s.

"The 'L' part of the LBO story has changed somewhat or disappeared entirely in some cases," said Tim Miller, vice president and general manager, financial markets, at 451 Group.

Some buyout firms, like Garnett & Helfrich, are even playing an active role in running the tech business that's taken private.

Last year, the Menlo Park firm bought Ingres, an open source database software developer, from software giant Computer Associates of Islandia, N.Y. Terry Garnett, co-founder of Garnett & Helfrich, saw potential in Ingres' database that he felt wasn't being marketed aggressively by Computer Associates' sales force.

Now Garnett, a former executive at database giant Oracle, is acting interim CEO of Ingres until he finds someone to run the Redwood City company. Instead of cutting costs, as is typical in big leveraged buyouts, Garnett has hired a slew of software executives from Oracle and elsewhere. He expects to have 200 staffers by this summer.

Garnett wouldn't reveal how much it cost to buy Ingres but said his firm's deals typically average about \$50 million. His firm has done three deals, including the February purchase of Nortel's Blade Network Technologies business.

"We are bringing a single-minded focus that is hard to achieve inside a large corporation," said Vikram Mehta, the CEO of Blade Network in Santa Clara.

He said spinning out of a big company and going it alone was a bit like leaving home.

"You have to be fiscally prudent and do all the things you need to do to run the company the right way," Mehta said. "You can't write back home for a check."

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GOING PRIVATE

Tech Private Equity Deals in Bay Area, 2005:

Total value: \$4.12 billion

- Agilent Technologies of Palo Alto sells chip business to private equity firms Kohlberg Kravis Roberts and Silver Lake Partners for \$2.7 billion.
- Serena Software of San Mateo goes private in deal led by Silver Lake Partners for \$1.1 billion.
- FrontRange Solutions of Dublin goes private in deal with Francisco Partners for \$200 million.
- NetIQ of San Jose sells its Web Trends business to Francisco Partners for \$94 million.
- Computer Associates of Islandia, N.Y., sells majority stake in its Ingres unit of Redwood City to Garnett & Helfrich Capital for undisclosed amount.
- Wyse Technology of San Jose sells controlling stake to Garnett & Helfrich Capital for \$35 million.
- National Semiconductor of Santa Clara sells cordless chip unit to private equity investor HgCapital for an undisclosed sum.

Tech Private Equity Deals in Bay Area, 2004:

Total value: \$432.5 million

- Network Associates (now McAfee) sells Sniffer Technologies to Silver Lake Partners and Texas Pacific Group for \$275 million. Sniffer becomes Network General in San Jose.
- Solectron sells Smart Modular of Fremont to Texas Pacific Group and Francisco Partners for \$100 million.
- SGI of Mountain View sells its Alias software business to Accel-KKR for \$57.5 million.

Source: The 451 Group, Mercury News research