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The Three Musketeers

France's powerful tech trio form a rare bright spot in gloomy European tech M&A market

by Joshua Jaffe

If the first six weeks of the year are indicative, it looks as though deal-hungry investment bankers, corporate attorneys and venture capital investors will displace the aspiring artists and authors in Paris.

By all accounts, the high-tech mergers and acquisitions market in Europe is dead, except in France, where the country's three largest technology companies—communications equipment manufacturer Alcatel SA, semiconductor giant STMicroelectronics NV and consumer electronics maker Thomson Multimedia SA—have been responsible for three of the four largest purchases of high-tech startups by European acquirers expected to close in 2002 so far.

Even smaller French tech companies are getting in on the act. Early this year, Paris-

whilst their competitors are loath to repeat their mistakes of the recent past," he said.

"Success is based on 'buy low—sell high' and the first rule of this is 'buy low,'" added Pascal Mercier, an associate director at Chausson Finance SA, a Paris-based advisory firm that helps raise capital for startups. "These acquirers are definitely following this first rule."

At the same time, many entrepreneurs and venture capitalists running privately held startups only now realize their company valuations will never return to the highs of 2000. "Six months ago, startups

ple, at TMM's results announcement earlier this month French Minister for Economics and Finance Laurent Fabius said that "Thomson Multimedia must be able to finance its development and, in particular potential acquisitions." TMM, of which the government owns 38%, seeks to diversify its business; 65% of its revenue comes from the sale of consumer products such as TVs, VCRs and DVD players.

In particular, TMM plans to build on its \$2.1 billion acquisition of Technicolor in 2000 by bulking up its so-called digital media solutions division. Created in 2001, the DMS division was set up to offer products and services to corporate customers such as broadcasters, network operators and content developers and providers.

"Technicolor, through the distribution of content creation and post-production solutions for studios (such as Warner and Disney) represents the entry point for TMM in this video chain," said Robert Misselbrook, an analyst at Lehman Brothers

Inc. in London. "TMM management believes that the DMS division can capitalize on the anticipated consolidation of the market and expect smaller players that cannot supply global, time critical content creation and distribution solutions to cede business to larger solutions providers such as Technicolor, that have the capacity to deliver."

TMM is closing a \$172 million acquisition of Nevada City, Calif.-based Grass Valley Group Inc., a maker of hardware and software to manage video content. Grass Valley Group was the first step in this push into the corporate market, but not the last.

Thierry Breto, chairman of TMM, the world's fourth-largest maker of consumer electronics goods, said the company is considering 10 more acquisitions this year that will resemble Grass Valley's size and scope. The company has since announced plans to acquire Matsushita Electrical Industrial Co.'s CD and DVD disk replication business, and Glendale, Calif.-based Vidfilm International Digital, a privately held provider of digital post-production services. Terms for neither transaction were disclosed.

Future acquisition candidates could include Netia SA, a Claret, France-based maker of software for digital audio and video applications, Advanced Rendering Technology Ltd., a Cambridge, U.K.-based maker of three dimensional rendering acceleration processors, or NxN Software AG, a Munich-based maker of digital production management software products for the film industry.

Alcatel's recent activity should also

hearten European technology dealmakers.

Despite carrying about \$3.5 billion in debt and investing since its bid for Lucent Technologies Inc. collapsed last May, Alcatel has still made acquisitions. The carrier-class equipment maker purchased opto-electronic startup Kymata Ltd. of Livingston, Scotland, on the cheap last July for \$118 million. In January, Alcatel announced plans to acquire Astral Point Communications Inc., a Chelmsford, Mass. metropolitan optical transport system maker, for \$135 million in stock.

Analysts expect more buys. "Alcatel needs access to new technologies," said Bernard Malhamé, a research analyst at SG Cowen in Paris. Optical networking targets could include Tellium Inc., an Oceanport, N.J.-based optical switch maker. UBS Warburg suggested Alcatel might scout the market for network management software companies such as Orchestream plc or RiverSoft Technologies Ltd., both of Britain, for its next deal.

Armed with \$1.8 billion in cash, STMicroelectronics, a maker of semiconductors for the computer, consumer, automotive and telecommunications markets, is in the best financial position of the three large Gallic technology companies. Earlier this month, it announced plans to acquire the intellectual property and product range of Tioga Technologies Inc.'s digital subscriber line chipsets for \$10 million.

As part of that agreement, it acquired an option to purchase Tioga outright no later than next Jan. 15 for \$12 million. Already a supplier of DSL chips, STMicro was particularly attracted to Tioga's asymmetric DSL multichannel processors for central office applications.

Days earlier, the Geneva-based company, which has most of its corporate operations in France and is listed on the Paris bourse, acquired Alcatel's semiconductor design team and the associated intellectual property. Says Credit Suisse First Boston analyst Jean Danjou: "For STMicro, this is a noticeable reinforcement in the handset business where the company will be more and more perceived as a solution and design supplier instead of a silicon manufacturer."

STMicro could target more deals in the communications and handset chip areas, such as broadband communications chip designer Ikanos Communications Inc. and Campbell, Calif.-based wireless systems chip designer Morphics Technology Inc. STMicro is also targeting startups developing microelectronics for the digital consumer segment for set-top boxes and DVD and digital television applications. Chances are the company will target a number of startups in this arena based in Silicon Valley

Says Karam: "STMicro hasn't done a lot of acquisitions. But they're certainly capable of doing them." **D**

Gallic ambitions France's three largest technology companies so far have accounted for three quarters of the four largest high-tech startup acquisitions by European companies expected to close in 2002

ACQUIRER	TARGET	STATUS	ANNOUNCEMENT DATE	VALUE (\$mill.)
Thomson Multimedia SA	Grass Valley Group Inc.	Pending	12/14/01	\$172
Alcatel	Astral Point Communications	Pending	1/22/02	135
Royal Philips Electronics NV	Ishoni Networks Inc.	Closed	2/12/02	25*
STMicroelectronics NV	Tioga Technologies Inc.'s product licenses	Closed	2/14/02	10**
Egg plc	Zehank SA	Pending	1/29/02	7
Business Objects SA	Blue Edge Software Ltd.	Closed	1/4/02	6

*Philips is purchasing 51% of Ishoni for \$25 million.

**STMicro acquired an option to acquire all of Tioga for an additional \$12 million some time prior to Jan. 15, 2003.

Source: The Daily Deal

based analytics application software maker Business Objects SA closed the sixth-largest European acquisition of a startup with its \$6 million deal for Blue Edge Software Ltd. of Leeds, U.K.

With scores of other technology giants on the Continent, including Germany's Siemens AG and Finland's Nokia Oy as well as mid-sized companies such as Switzerland's Kudelski SA and Italy's Tiscali SpA in strong positions to make opportunistic deals, France's domination of the M&A charts is staggering.

"With some of their North American and European competitors such as Nortel, Marconi and Lucent in the doldrums, French companies are arguably on a better financial footing and would therefore appear to be relatively unchallenged in the M&A game these days," said Anthony Sehnaoui, an executive at investment bank Downer & Co. in Paris.

Sehnaoui said that management decisions at STMicroelectronics and TMM to avoid numerous acquisitions in the past means they aren't trying to cope today with restructuring sprawling operations like many of their peers. "This frees them to pursue more strategic opportunities

had a lot of cash," observed Jean-Michel Karam, president and CEO of Memscap SA of Grenoble, France, a micro-electromechanical systems designer and manufacturer. "But since then, they haven't made much revenue, their business plans have changed, they've burned cash and are looking for more venture capital that most aren't getting."

Karam, whose company closed its €10 million (\$8.7 million) acquisition of Capto AS from Horten, Norway-based Sensoror AS on Tuesday, added that smaller tech companies in general are "much more open to acquisition talks than they were six months ago."

So with more buying opportunities available, will France's three musketeers continue acquiring? Will its corporate tech community continue to follow their cue?

The answer to both questions: a qualified yes. Karam, who said he was considering the purchase of two privately held companies in the near future, attributed part of France's early-stage tech M&A dominance this year (see chart) to the country's strong economic performance relative to many of its neighbors.

But there are other factors. For exam-

Group Inc., a maker of hardware and software to manage video content. Grass Valley Group was the first step in this push into the corporate market, but not the last.

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