

BNET Industries

BNET Technology

Industry news and insights by Erik Sherman

BNET Technology Insights

Erik Sherman

- **Bio**
- **RSS**
- **Suggest a Source**

Ready for the M&A Gold Rush, But Will It Be Fool's Gold?

By Erik Sherman | March 19th, 2009 @ 9:11 am



When the rumor that **IBM** would acquire **Sun** hit yesterday's Wall Street Journal, you just know that many tech execs got a glint in their eye. Either they were at a big company that would have to protect its interests in the market or they worked at a small company that might be desperate for a way out of the cash burn rate death spiral. Whether or not IBM and Sun actually hit the altar is immaterial. A new wave of M&A mania is likely to start. But most of it is going to be desperation and futility.

The importance of an IBM-Sun alliance cannot be overstated. "This would be an important transaction, and it would get a lot of notice and will be a discussion in every board room," says **Howard Lanser**, an investment banker at **Robert W. Baird**. His firm has been predicting that two industries, technology and healthcare, would see an uptick in M&A activity.

"Technology is always going to be in demand particularly in downtimes when gaining efficiencies while losing headcount will be critical," Lanser says. "Overall, the market has been looking for leaders. When you see large transactions, it's a very good sign to the market that there are corporations that believe in their long-term prospects." There are already companies like **Cisco** that are continuing their strategic acquisition activities.

As importantly, executives at other tech corporations that have been pulling in and not strategically investing get worried that they might find themselves competitive outsmarted. In that sort of situation, they tend to react by looking to acquire companies themselves as a rushed defensive move.

Unfortunately, that is just the atmosphere that drives hysteria, both in panicked moves on the part of buyers and desperate trolling for buyers by small or larger financially unstable companies. **Walter Zweifler** of **Zweifler Financial Research** has been getting call after call from small technology companies that are hungry to be bought. These companies often haven't built up the equity or cash position to continue in a troubled market.

"They're desperate," he says. "This will start the stampede of every Tom, Dick, and Harry start-up guy that wants to find somebody who's got the cash to pay for them. In addition, all the mezzanine finances for these companies are going to say, 'When I went into this, I was

told it would be a two, three, or four year thing.’ They all want to cash out: Give me my cash. I’m scared and don’t want to wait [for the bigger money], and besides which, you probably don’t need me right now.”

The rush of interest in buy-outs will do two things: drive down the valuation and prices of companies that *do* get bought, and disappoint many trying to cash out. In this economic climate, an acquisition requires plenty of cash on hand and a strong balance sheet. And those that are smart enough to have both, although interested in acquisitions, are in no hurry. They will strategically buy companies for cash at distressed prices, giving themselves additional properties to borrow against when a recovery finally comes about. So, although there will probably be increased acquisition activity, there will still be only a relatively small percentage of businesses that can take part, leaving the rest to find other ways out of their economic predicaments.

Prospector image via Flickr user ToOliver2, CC 2.0.

Tags: *Acquisition, M&A, Cash, Mergers & Acquisitions, Corporate Law...*

Erik Sherman is a freelance writer, author, and photographer. He's been in or written about the technology industry for longer than he'll admit.

Email Erik Sherman or follow him on Twitter.

- [« Previous Post](#)
- [Next Post »](#)

Trackbacks

The URI to TrackBack this entry is: <http://industry.bnet.com/technology/10001120/ready-for-the-ma-gold-rush-but-will-it-be-fools-gold/trackback/>

No trackbacks yet.