FINANCE & COMMERCE

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M&A Report: Acquiring tech assets drives some deals

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By Gina Gallucci-White

With a slogan of "Turning plant floor data into actionable information," Julie Lenzer founded the software company Applied Creative Technologies Inc. in 1995. Focused on data collection, data mining and analytics in the food manufacturing sector, Lenzer's company started with one key client — a Fortune 100 company.

"I had one of my advisers tell me, 'You don't have a company. You have a contract.' I was like 'Ouch!' but she was right," Lenzer said. The multinational company paid her to develop software but Lenzer retained the rights to sell to other companies. She recalled the moment with her adviser an 'aha moment'. "We had a great contract, but if something happened to the contract, I had no business — that was my siren call to diversify," she said.

There are multiple reasons companies chose to acquire assets. Some want to broaden their customer base while others chose to expand their product/service line. But increasingly, the need to acquire technology assets is driving many mergers and acquisitions.

"A lot of (companies) realize that if they don't make moves, they will find themselves at a discreet disadvantage in the marketplace, mainly because the technology-driven companies can be more nimble," said David Shohet, MergerTech Advisors's managing director. "Either they are the competitive threat or they can address the competitive threat that otherwise faces non-technology focused companies.

"I would say a lot of it is defensive in nature in that they are protecting themselves from missing a trend that may otherwise cause them harm as an organization," he continued. "But a lot of times organizations realize that the standard teams they have in play, the product that they have developed in the marketplace, it often takes a paradigm shift to get them thinking about a new way to approach the same market they have been serving but in a better technology-delivered means."

Eliminating risks

Because technology changes so quickly, it is hard for any company, especially larger ones, to keep up with new trends, which is why many start looking for mergers and acquisitions, Lenzer said.

"It's basically letting other people do your research and development for you and take the risks of that," she said. "Starting up and working with a new technology is often risky and if someone has already de-risked that for you, they have already proven the technology works, that is a good deal. Companies are cutting back in their internal research and development so acquiring startups or technologies out of universities is a great way to compensate for that."

Since most companies can't stand still and almost every industry is becoming more technological, buying a smaller company that has expertise and skilled employees can ramp up a business faster than trying to build it yourself, said Karyl Leggio, a professor of finance at the Sellinger School of Business at Loyola University Maryland.

"The mergers that are least successful, in general, are those that are doing it just for the sake of diversifying or those that way overpay and those where the companies are of similar size because those tend to have the most difficulty with cultural integration and getting the two firms to work well together," Leggio said.

Shohet believes the current tech assets trend started after the 2008 recession, when technology was seen as a consumable asset that could be transferred from one company to another without the huge risk of it becoming shelfware.

Many large companies now have hired tech-savvy employees in corporate development roles who understand the strategic plan from the board of directors and can discuss what is better for the company — buy or build organically. "That has worked very well, I think, for a lot of companies in the last couple years," he said.

Jim Moore, of Fidenti Global Partners, said artificial intelligence, where software makes decisions usually performed by people, is getting lots of buzz.

"I think that adoption will be dependent upon an organization's ability to absorb this technology," he said. "I think the biggest barrier to adoption is this institutional paranoia about turning over decision-making to software versus people. The opportunity for AI to move into some of these functions in the business world is tremendous."

Academic research

Lenzer ultimately sold her business to an international company out of Iowa in 2005. Today, she serves as University of Maryland's associate vice president of innovation and economic development and co-director of UM Ventures — a position designed to foster and support development at UMD Research Park and Greater College Park.

"I think a lot of people don't realize there is an incredible treasure trove of research and development that is being done in our research institutions at both public and private universities," she said.

These technologies often are in their infancy, but there is a huge benefit to companies who partner with colleges and universities — they get a first look and the opportunity to do collaborative research to solve problems relevant to their markets.

That, in turn, might be the next frontier for technology-driven acquisitions.

"As that partnership evolves, then you actually have preferred access into these technologies and these discoveries that are coming out," Lenzer said. "I think it is a really well-kept secret which shouldn't be a secret."

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