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Cisco on an acquisition binge

Stepping into services?



By Therese Poletti, MarketWatch

SAN FRANCISCO (MarketWatch) -- Not since Cisco Systems Inc. did a big debt offering earlier this year, has there been so much rampant speculation about what the networking giant will buy next.

Earlier this week, Cisco made its second multi-billion dollar buy in 14 days. With that, many believe it is safe to say Cisco is back on the prowl for deals as it continues to look for growth and enter new markets. See full story.

It's a good sign for the recovery of the tech business. You can also bet that Silicon Valley's bankers and venture capitalists are trying to line up appointments with Ned Hooper, CEO John Chambers' deal point man.

So as speculation runs rampant in the Valley, it's fun to try and guess what might be of interest to the world's largest networking company.

Cisco has not done many uber mergers. Its biggest deals to date remain its purchase of the privately held optical company Cerent Corp. at the height of the dot-com boom for nearly \$7 billion in August 1999 and Scientific Atlanta, the cable box company, for about \$6.9 billion in 2005. It has also bought many startups and done lots of "sub-one billion dollar" deals for miscellaneous software and hardware companies along the way.

But with its new growing rivalry with Hewlett-Packard Co., it might consider some bigger deals than it has done in the past.

One of the most off-the-wall ideas this week is that Cisco might step into the services business, just as IBM Corp. did over a decade ago, and where H-P, Dell Inc. and Xerox Corp. are all going now. Dell and Xerox both made sizeable acquisitions in the last few weeks to get there.

With Dell's deal to buy Perot Systems Corp. in place, and Xerox planning to buy Affiliated Computer Services Inc., there are not many candidates left.

"There is one company," said **Rajan Varadarajan, a vice president at Primary Global Research LLC, in Palo Alto, and a former Cisco executive.** "Accenture. Accenture is pretty big but they are partners already."

Big indeed. Accenture Plc has a nearly \$25 billion market cap and fiscal 2009 revenue of \$21.58 billion, down from \$23.38 billion in fiscal 2008.

"That would be a very highly speculative thing for me to say, but that's one thing that makes perfect sense," said **Varadarajan.**

On the face of it, this idea seems absurd based on Cisco's past deal experience. But as the grudge match develops between Cisco and H-P, now moving into each other's territories, it's not completely inconceivable. See related column here.

Cisco is cited as a strategic partner with EDS and visa versa on the respective Web sites for Cisco and H-P. But with EDS now under the H-P umbrella, Cisco might fear EDS isn't as eager to sell Cisco networking gear, since H-P now is making a big push of its own ProCurve line of networking products.

"When H-P bought EDS, that was a huge blow to Cisco," **Varadarajan** said.

Cisco had cash and securities valued at \$35 billion at the end of July. But the bulk is offshore. Cisco is using some of its roughly \$29 billion in offshore cash to buy Tandberg, the video conferencing system company in Norway. But to use any of its offshore cash, it could take a tax hit anywhere from 25% to 35% to bring it back to the U.S.

Aggressive acquisitions

Ideas for what Cisco might buy come from its continued focus to gain an even bigger footprint in the corporate data center and on other ways to get more traffic around the network. Which is one reason Cisco loves video, because it sends big fat data packets across networks, fueling the need for more switches and routers, its core business.

This week's deal to buy Starent Networks Corp. is aimed at building a presence in the next generation cellular network infrastructure. See full story.



Reuters
John Chambers, Chairman and
CEO of Cisco

Other candidates that have been speculated on in the past include Citrix Systems Inc., which now owns some virtualization software, among its other software products and competes with VMware Inc.

VMware, and EMC Corp., which owns a big stake in VMware, have both been tossed about as ideas, especially since Cisco owns a small stake in VMware. It could also use storage to fill out its offerings in the data center. NetApp Inc. also comes up in theorizing on whether Cisco needs more storage. Most analysts say Brocade Communications Systems Inc. would raise too many antitrust concerns, and have ruled that possibility out.

EMC would constitute a serious mega-deal. The storage and software giant has an even larger market cap than Accenture, currently at about \$36 billion.

"We will continue to be aggressive driving acquisitions," said Hooper, whose official title is senior vice president of corporate development and consumer group, in an analysts' call this week. "And I would just say that acquisitions by their nature have a tendency to be a bit lumpy about when things come together and when they don't." Hooper also pointed out Cisco's "great financial flexibility and ability to tap into lines of credit and the debt markets."

Until then, Wall Street and Silicon Valley will have to play a guessing game, which can also be a fool's game.