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THERESE POLETTI'S TECH TALES

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Technology giants poised for more M&A

Commentary: Buying innovation is easier than inventing

By Therese Poletti, MarketWatch

SAN FRANCISCO (MarketWatch) -- It was as if an investment banker slipped some deal-making potion to technology executives last week, making them all crazy for M&A.

The chief executives of long-time rivals IBM Corp. (NYSE:IBM) and Oracle Corp. (NASDAQ:ORCL) both predicted last week that they will do more acquisitions. IBM Chief Executive Sam Palmisano told analysts at the company's big investor meeting in New York that the tech behemoth plans to spend $20 billion over the next five years or so on deals, mostly on software. See Wall Street Journal story on IBM here.

Oracle CEO Larry Ellison told Reuters in a lengthy interview that the business software giant -- which just swallowed its first hardware company, Sun Microsystems Inc. -- will keep on buying in the hardware business. From chip makers, storage and server technologies, Ellison said, "we'll buy in all areas of our business." See Reuters interview.

As cash piles are growing at many tech companies, the hefty balances in the coffers are probably acting more as a nudge than any potion from investment bankers. Still, it's unlikely bankers are sitting idle watching the cash grow in Silicon Valley and beyond.

MarketWatch reported last week that the companies with the biggest cash piles in the S&P 500 (MARKET:SPX) are now technology firms. Apple Inc. (NASDAQ:AAPL), Google Inc. (NASDAQ:GOOG) , Microsoft Corp. (NASDAQ:MSFT) and Cisco Systems Inc. (NASDAQ:CSCO) are now sitting on the biggest hordes of cash, surpassing even the heft of oil giants like Exxon Mobile Corp. (NYSE:XOM) , but excluding financial services. Apple, Google, Microsoft and Cisco's combined cash hoard of nearly $147 billion could bail out debt-ridden Greece. See MarketWatch report on cash here.

Even SAP AG (NYSE:SAP) , which once derided Oracle's pursuit of deals as a growth strategy, has changed its tune. Last week, it surprised almost everyone (except for a few who were trading the shares of its target) with a deal to buy Sybase Inc. (NYSE:SY) for $5.8 billion. Some have even speculated a bidding war could ensue, even though SAP will pay a premium of around 56% for Sybase, a developer of database software and mobile applications software. See SAP news to buy Sybase.

Bruce Richardson, a former Wall Street analyst and now chief strategy officer at SAP rival Infor, a private applications developer, said SAP's move could set off a chain of other events, even possibly putting SAP itself into play. He noted IBM cannot be happy with SAP's bid. The deal gets SAP a database product, where IBM is No. 2 to Oracle.

"Or, does H-P offer a counter to SAP and make a bid for Sybase?" Richardson asked in an email last week. "Hurd loves the Teradata business," he said, referring to Hewlett-Packard Co. CEO Mark Hurd who turned around the data warehouse firm, Teradata Corp. (NYSE:TDC) when it was a business unit at NCR Corp. (NYSE:NCR) during his tenure there. "Does he go for Sybase or reach out to his old employer?"

H-P (NYSE:HPQ) , though, just announced a deal last month to buy beleaguered smart phone developer Palm Inc., (NASDAQ:PALM) for $1.2 billion. It may have its hands full trying to turn around Palm, but buying Teradata might be one way H-P could also respond to Oracle, which has entered the hardware space with Sun. Oracle and H-P previously worked together offering a dedicated database server, but since the Sun deal, Oracle's Exadata machine is now powered by Sun servers.

Most of the deals that investors may see in the upcoming months could occur in business software and hardware, where the fight to control the data center is going to get more fierce, and corporate customers want just one throat to choke, analysts and executives said.

"We are experiencing this huge data center crisis where a shift is taking place," said **Unni Narayanan, CEO of Primary Global Research.** "It's becoming an intersection of hardware, a software stack and a kind of IT management component. You have to have all of those different pieces of the puzzle."

Oracle's rivals are also seeing how it managed to make software acquisitions work, as well as fuel growth. Until Oracle started its acquisition binge with its initially hostile offer for PeopleSoft in 2003, software deals were few and far between in the tech industry.

Among some of the other possible players, however, Microsoft seems a little gun shy after its failed bid for Yahoo Inc. (NASDAQ:YHOO). Peter Klein, Microsoft's chief financial officer, told Reuters last week that the software giant makes dozens of smaller deals each year, mostly under $250 million and that it was unlikely to do a "mega-acquisition." But its growing cash and short term investments, which grew to nearly $40 billion in its fiscal third quarter, has got to be burning a hole in its pocket.

Granted, some companies may just buy back their shares or slightly boost their dividends with some of this cash. But as the maturing tech business looks for growth, many are finding it's easier to buy innovation and growth, rather than develop new ideas themselves. And you can bet the investment bankers can smell the cash all the way from Wall Street, as they circle the tech business like vultures, crowing "fees, fees, fees."