

## Sell-off puts cash-poor tech upstarts in play

The recent market sell-off is pummelling the business technology sector, but it may come with a silver lining for its top players: an opportunity to buy cash-poor upstarts that have been eating away at their business.

Enterprise technology giants like IBM, Cisco Systems, Hewlett Packard have all seen their market value shrink by at least 9 per cent in the past month — underperforming the S&P 500 index, which fell 7 per cent over the same period.

Some younger firms have fared much worse. Box, a seller of internet-based data storage, has dropped by 26 per cent. Workday, which sells online access to accounting and human resources software, lost 13 per cent.

The market capitalisation of Hortonworks, which makes data-analytics software, has plummeted by half.

Enterprise technology companies provide the infrastructure that powers the global digital economy. They make the computing hardware that stores and processes business information. And they supply the software that can unite tens of thousands of internet-based servers into a corporate supercomputer, crunching terabytes of data to find hidden patterns and insights.

The business technology industry's biggest players have been struggling to adjust to broader changes like the shift from on-premises data centres to cloud computing delivered over the internet.

Buying smaller, cash-poor public companies — which the

recent sell-off has made much cheaper — could help them deliver new-breed products and services. Shares of privately held ventures are being discounted too, creating manifold opportunity for cash-rich incumbents.

With nearly \$US60 billion (\$85bn) on hand, Cisco is in an especially strong position to make acquisitions. IBM and HP have \$US7.7bn and \$US10.1bn in cash respectively, but they are also already carrying much higher debt loads, which reduces their flexibility.

"We now expect to see a period where some of the bigger IT players are more aggressive in acquiring," said Chris Bulger, the managing partner of Bulger Partners, a Boston-based firm that provides strategic advice for acquisitions.

Dell touched off a thirst for mergers late last year with its \$US67bn bid for EMC, the biggest tech deal in history. Now other companies are shopping around. HP Enterprise chief executive Meg Whitman has made it clear that acquisitions are key to her company's growth.

"Even before this correction, we've already been seeing the large-cap incumbent technology companies buy small fast-growing cloud companies because they need that kind of DNA, they need that kind of growth," said Aaron Levie, the chief executive of Box — which helped champion the shift to cloud computing — in an interview.

"If it gets a little bit more pronounced because of that climate, I would totally not be surprised."

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