



<http://www.smartmoney.com/onedaywonder/index.cfm?story=20060911>

## Freescal Weighs Bids

By [Will Swarts](#) Published: September 11, 2006  
Click [here](#) for more stories by [Will Swarts](#).

### The News

Competing buyout groups are vying to carve a chip off their huge blocks of capital and take **Freescal Semiconductor** ([FSL](#): 39.32, -0.05, -0.1%) private for about \$16 billion, the biggest technology deal of its kind ever. Shares of the chip maker closed up 21% Monday after the Austin, Texas, company confirmed that it was in talks with private-equity buyers.

A specialty semiconductor manufacturer spun out of **Motorola** ([MOT](#): 22.77, -0.29, -1.3%) two years ago, Freescal declined to identify the interested parties. The New York Times reported Monday that one buyout group included Texas Pacific Group, Blackstone Group and Permira, and added that Carlyle Group and Bain Capital might also join the consortium. A group led by Kohlberg Kravis Roberts and Silver Lake Partners, whose bid was described as possibly "too low and too late" by the newspaper, is thought to be preparing a rival offer, according to Reuters.

Investors jumped into Freescal, which earned \$2.09 a share last year, in hopes of catching the premium that can come with a bidding war. The sharp gain in shares drove the company's market capitalization up to \$14.8 billion midday Monday, an indication that bargain-hunting buyout firm may come up with bigger numbers, the principal hope of investors who embraced the risk that comes with M&A scuttlebutt. A Deutsche Bank report issued Monday pegged the buyout price at around \$39 a share, which by analyst Ross Seymore said was a valuation that "appears quite favorable for current investors in our opinion."

"There can be no assurances that any transaction will result from these discussions," Freescal cautioned in its confirmation of buyout talks.

If the deal goes through, it would tip the chip charts. Last year, a group of seven private-equity firms bought SunGard Data Systems for \$11.3 billion in what was the largest ever tech buyout; last month, KKR and Silver Lake struck a deal to buy **Royal Philips Electronics'** ([PHG](#): 34.56, -0.27, -0.8%) semiconductor unit for \$4.3 billion, making it the largest chip maker takeover to date.

### The Analysis

This year continues to show a marked increase in private buyouts of public companies, in deals that are getting bigger and splashier, and focusing more and more on technology companies. Dollar volumes are rising in both businesses, which almost inevitably pushes them closer.

The chip business is poised to see a 10% sales jump this year, hitting \$250.5 billion. It saw 6.8% growth in 2005, according a survey by World Semiconductor Trade Statistics. That's a full rebound from the 2001 global sales total of \$139 billion, the year it saw its sharpest annual decline.

At the same time, private-equity firms have raised huge funds that need to find investments. These groups have amassed record funds for deals in the past 18 months. Blackstone now has the world's largest private-equity fund, a \$15.6 billion behemoth it must put into buyout opportunities, and Permira is investing a \$12.7 billion fund that's among the largest in Europe.

As private capital grows, buyout shops are turning to each other to amass the firepower needed for bigger deals, and the group approach seems to be working. According to Steven Bernard, director of mergers and acquisitions market analysis at Milwaukee investment bank Robert W. Baird, the number of privatization transactions has soared this year. Though June 30, he recorded 57 take-private deals worth a total of \$100

billion. There were 29 in the same period last year and a total of 66 for all of 2005, with a combined value of \$62 billion.

"We've already exceeded the value of all take-private deals in 2004 and 2005: \$96 billion," he says. "It's being driven by the immense amount of capital that's being raised by private-equity firms."

The main consideration for companies buffeted by this frothy M&A market is whether these deals wind up adding actual value or end up being fancy pieces of financial engineering that eventually send a company back out to the public markets essentially unchanged and dependent on investors' hunger for an IPO.

## The Bottom Line

If a deal goes through, it could be quite good for Freescale.

Doug Freedman, senior analyst at American Technology Research, says the country's third-largest chip maker could benefit from access to its potential buyers' deep pockets not to mention a respite from meeting quarterly earnings expectations.

Freescale's three-part structure might be carved up, but he says it would do better as a single company that uses a bolt-on acquisition strategy to generate massive growth. Its high-margin automotive and standard equipment business accounts for about 44% of its revenues; its high-margin communications and networking unit adds another 24%; and its lower margin but higher-tech wireless unit provides the balance of its revenues. The latter also helps drive product development.

"I think the smart route is to let Freescale act as a consolidator in the industry," Freedman says. "They could continue to buy low-multiple companies and consolidate them. By being private they're in a better position to go on the acquisition trail, under a lot less scrutiny than quarter to quarter financials."

Revenues, which hit \$4.58 billion in 2005, could more than double under such a strategy. "You could wake up four to five years from now and have a company that has revenues of \$10 billion to \$12 billion," he says.

If the deal is successful, investors might stash their proceeds from the premium paid on Freescale shares and keep an eye on its subsequent acquisition targets. There could turn out to be quite a few of them if the chip business goes flat.

One outfit to watch closely is small chip technology company **NVE** ([NVEC](#): 39.96, -4.49, -10.1%), whose CEO told investors in July that it may be owed money by Freescale for potential patent infringements on its magnetoresistive random access memory, or [MRAM chips](#). Shares of the Minneapolis-area company shot up briefly on Freescale's news, but closed flat.

Morry Marshall, vice president of strategic technologies at Semico Research Corp., a Phoenix-based market research company, says his firm is early in calling a downturn for the semiconductor industry, and that his contrarian view is only reinforced by investor interest in the business.

"If I were an investor, I'd want to invest at the bottom of a cycle, not at the top, and we're pretty close to the top of a cycle right now," Marshall says.