



**Massachusetts Alliance for
Economic Development**

Corporate Takeovers, Mergers and Acquisitions: Gain or Drain for the Massachusetts Economy?

Executive Summary

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Executive Summary

“Corporate Takeovers, Mergers, and Acquisitions: Gain or Drain for the Massachusetts Economy?”

Newton Marriott Hotel, June 24, 2005

Panelists: **Ben Howe**, *Co-Founder and Managing Partner*
America’s Growth Capital
Paul Maier, *Senior Vice President*
Siemens
Michael Cody, *Vice President of Corporate Development*
EMC
Peter Wirth, *Executive Vice President*
Genzyme

Moderator: **Jonathan Moulton**, *Corporate and Securities Partner*
DLA Piper Rudnick Gray Cary – Boston

Remarks by Ben Howe, Co-Founder and Managing Partner, America’s Growth Capital

Ben Howe stresses how acquisitions can be both positive and negative for the Massachusetts economy. On the positive side, mergers and acquisitions provide liquidity to investors, the number of employees and operations often grows, and activity fosters competition among growing companies. On the negative side, Howe reasons that acquisitions may stifle entrepreneurial activity and innovation, and they may lead to downsizing.

According to Howe, in the state’s recent history, sixty-seven percent of the state’s merger and acquisition activity over \$1,000,000 consisted of Massachusetts companies as “prey”—the company to be purchased. But recently, Massachusetts companies have been acquiring more than they are being acquired. Regardless of imbalances between “predator” and “prey”, however, Howe insists that M&A activity of any kind is beneficial.

Howe also remarked that nationally, a decline in the level of M&A activity has not had an effect on the gross domestic product—GDP continues to rise despite the M&A slowdown. For Massachusetts, this seems to hold true; despite the slowdown in M&A activity, Massachusetts has experienced a three-year upturn in GDP.

Ben Howe explains that M&A deals are often misjudged because of the infamous deals during the bubble (TimeWarner/AOL), because of valuation disputes, because sought-after companies are often declining in profitability and growth, and because of the intense regulatory environment due to the Sabanes-Oxley act. Please refer to Ben Howe’s presentation for further information.

Remarks by Paul Maier, Senior Vice President, Siemens

“When Siemens acquires, they become a part of the fabric of the environment. They don’t tend to acquire and move out and pull people out of the environment,” Paul Maier comments about how Siemens molds to the Bay State economy. By investing in the local communities, by donating to local causes, and by taking a part in community service and in the education system, Siemens proves itself to be a valuable Massachusetts resident. The company hopes to enhance the growth of the communities where its employees live and work.

Siemens has invested about \$146 million in Commonwealth-based companies throughout its history. The company invests mostly in research and development at the university level, early-stage adoption level and organic level. Siemens also invests in local wireline, wireless communication, healthcare solution and medical solution companies.

Maier says that Siemens’ integration into Massachusetts provides many benefits for both the state and for the company. By hiring locally, Siemens gains an area-knowledgeable workforce that is useful for customer research, engineering, distribution, marketing and sales. Maier also mentions the importance of being part of the state’s infrastructure and establishing a client base. The company’s partnerships with top-tier universities fuels innovation, and according to Maier, that is why Siemens is so attracted to Massachusetts.

According to Maier, Massachusetts remains one of Siemens key areas for growth and expansion. He states that any growth through acquisitions can have positive effects on local economies, but that companies involved must work together for success and sustainable growth. Paul Maier gives his opinion on mergers and acquisitions: “There’s a lot of good in them, there are some downsides. It’s like personal life, don’t be the victim.” Maier believes that there is comparable value in being the acquirer and the acquired. When it comes to M&A decisions, the goal of a company should be to maximize the value for investors. Please refer to Paul Maier’s presentation for further information.

Remarks by Michael Cody, Vice President of Corporate Development, EMC

As one of the largest enterprises in the state, EMC has contributed greatly to the Bay State economy, and the company’s large M&A activity has spurred its growth in Massachusetts. EMC is the largest IT Company and employer in Massachusetts. It employs nearly one third of its twenty-four thousand employees in the state. Nearly one third of the company’s acquisitions happen within Massachusetts.

EMC is attracted to the innovation in Massachusetts and the company plans to stay in the state. To show its support for innovation and technology education, EMC has supported various academic projects including: the Massachusetts Education Reform Law, the MCAS test and the new Science MCAS. EMC has even contributed to the infrastructure of some Bay State schools. In describing EMC’s support for academics, Michael Cody comments that: “Fewer high school students are taking math and science. That’s the life bud of innovation, plain and simple. That’s what makes it happen. It’s the engineers, it’s the entrepreneurs that go to the schools and take

the engineering courses that enable us to be competitive internationally.” EMC does its part to encourage the pursuit of education in the sciences and mathematics.

The company chooses to hire intrastate staff, often taking graduates from the area’s colleges and universities. The innovation and technology advancements which the company commercializes are often adapted from local universities. Even the company’s Cambridge acquisition was strategically planned in order to attract engineers from neighboring MIT. EMC also contributes to research and development enterprises to further support innovation.

EMC has done its part to help with the improvement of the quality of life: they have supported initiatives to lower health care costs; they have supported reform to the state’s costly medical malpractice systems, and supported technology to create healthcare systems that are cost-effective, accessible and higher quality. As a respected company, EMC does not simply blow hot air when they speak of improving the Massachusetts economy—they respond with action.

As a Massachusetts business man and also a Nantucket native, Michael Cody can see both the domestic as well as the business side of the Massachusetts economy. On both ends, Cody believes Massachusetts has room to improve. He warns that Massachusetts has certain setbacks that could be detrimental to the state if they are not reformed. Among these setbacks are the high cost of living, high labor costs, a shrinking work force and soaring business tax rates. Please refer to Michael Cody’s presentation for further information.

Remarks by Peter Wirth, Executive Vice President, Genzyme

While approximately half of Genzyme’s revenue comes from internal developments, the rest has been developed externally through a series of mergers and acquisitions. Genzyme, during its twenty-four years of operation, has succeeded in integrating technologies from the various companies it has acquired, keeping original production facilities open and expanding on the strengths of their existing operations to build even stronger resources. A theme in the biomedical industry is the merging of diagnostics and therapeutics, and this strategy of incorporating the strengths of the various companies that Genzyme acquires has helped the company become an international leader in its field.

Genzyme maintains a straightforward view of Mergers and Acquisitions – “it happens,” and embracing it is a good thing. Genzyme believes that being a buyer is better than being a seller, in the sense that buyers have the opportunity to continue building and accessing new technologies to fuel further innovation. What makes a buyer versus a seller is somewhat cultural, and buyers need to be able to feel comfortable taking risks – a willingness that is essential for innovation.

One of the things that make the U.S. economy one of the strongest ones in the world is the high level of liquidity and ease with which companies can move capital and people to places of the greatest opportunity, and when companies take advantage of this in their business transactions, they become stronger. The government’s role in helping this culture should be to create a “buyer-

friendly” environment. This takes place by enhancing catalysts to innovation, such as the world-class scientific community that Massachusetts boasts, the culture of entrepreneurship, and the general wealth and availability of venture capital that give local areas a strong competitive advantage. At the same time, it is important for governments to break down the barriers that challenge the abilities of companies to function successfully, including making housing more affordable, reducing the complexity of building and operating manufacturing facilities, softening what has become somewhat of a hostile work environment with so many restrictions on various areas of research (ie. stem cell) and lowering some of the inflated pricing situations in the pharmaceutical industry.

Additionally, there needs to be more focus on strengthening math and science education in secondary schools. Not only does this strengthen a long-term labor pool for the science industries, but it also creates public support over time, since a more knowledgeable population will be more comfortable with pioneering in scientific research. When these barriers are removed, the United States, and specifically Massachusetts, will be able to secure its lead in becoming a world-wide center for biotechnology.

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Questions

Moderated by Jonathan Moulton, Corporate and Securities Partner, DLA Piper Rudnick Gray Cary – Boston

Given the size and scope of each of your operations, what factors are considered when you’re looking at an acquisition and deciding whether to consolidate the operations into another region of the country or into existing operations, and how do you factor in things like taxes, regional incentives, business climate, and regional climate into that decision-making process?

Michael Cody

Acquisitions only make sense if they’re related to your strategy. We are headquartered in Massachusetts and most of our innovation and product developments start in Massachusetts. Most often we look to move talent to Massachusetts if we can. Sometimes this is difficult because engineers who work on the West Coast don’t want to go to the East Coast. Generally, a business goes into an acquisition because they see a product or technology or a market they need in order to be competitive. Once you choose a location and it is part of your strategy you have to decide the most efficient place within your operations to have it work, run, etc.

On taxes, taxes affect economics. A lot of the time people think that taxes are something separate and apart from economics. But if I have a dollar of earnings and I have to give 40% to one taxing authority or another taxing authority that only leaves 60 cents of that dollar for me to redeploy into my business. So it’s the cost of doing business, and you want to minimize that cost. Now there are benefits to taxes: the roads, the infrastructure, the schools...so we understand that, but they are a real factor in any acquisition. If you’re looking at a firm that has a margin of 15% and you have a 20% tax rate, you’re paying more to the government than you are getting

from the business. So that's how it comes into the equation. It's pure economics; it's a levy that comes off the top.

Paul Maier

I think the word that I would use around that is sustainability. The worst thing that can happen is that you make the acquisition (whether it is for IP or for a product) and because of a need to either consolidate or move you can't sustain the main reason, the driver. So, we look at really trying to make sure that we can maximize the acquisition and we try not to lose the culture of the firm that we acquire. We tend to, at Siemens, acquire companies that are really on the innovation curve, not in the mature phase of the life cycle (albeit there are a couple here or there), and really that whole piece of the culture around that, the energy, the growth—and then how we can infuse that into our portfolio is really important for us. I would say that the sustainability of the acquisition is important.

Peter Wirth

For us it really depends on whether the acquisition is being driven by a product or a capability that we find necessary for our continued growth. I think things like taxes are less relevant in acquisitions because acquisitions in their nature are somewhat opportunistic. But certainly our strategy growth as a competitor, while it isn't driven by taxes, is certainly tax sensitive. We've chosen to build significant manufacturing capacities in Europe; we've chosen to do a fill finish operation in Ireland in part because of the tax structure that has grown up in the international market. Taxes are a factor, but probably not the dominant factor.

Would anyone like to comment further on the Commonwealth's competitiveness in schools and in math and science?

Michael Cody

I can't comment on our competitiveness related to other areas, but in general students need to have knowledge of math and science. It's not just at the engineering level; it's also at the blue collar level. Our manufacturing facilities are not the kinds of facilities you see in Gary, Indiana—they're sophisticated assembly factories with clean rooms and biotech labs. We need an educated workforce, even at the blue collar level, to participate in those factories, and that's where I get concerned. The top ten percent coming out of Harvard or out of MIT or out of Stanford are going to get jobs wherever they want—we're concerned about the labor pool and the education of that labor pool and in high schools in particular. There has been a tendency and a trend away from math away from science, and that's a negative trend in terms of the labor pool that we must draw on for our manufacturing and assembly operations.

Peter Wirth

It's so important not only to create the workforce, but to get people comfortable and knowledgeable about what we're doing. The worse situation that we could find ourselves in is to be this mysterious business that is tinkering with the messages of life. You don't want that, you want people to feel comfortable with the kinds of research and the kinds of controls. And the more they know about that I think the more comfortable they will feel.

Ben Howe

If you look at the makeup of the employee base that is focused on the R&D side, at least half of those employees are from outside of Massachusetts. So a lot of talent is being drawn from outside of the state to supplement where we don't have enough here.

M&A has been one of the main if not the only liquidity option for private companies, and some attribute part of that to Sarbanes-Oxley Act. Do you see the potential for Sarbanes-Oxley reform or other factors that might drive the IPO market in the coming years?

Ben Howe

If you look back you see a lot of emphasis is put on the bubble, but if you look back over the entire 1990s we were averaging 500 IPOs a year, a huge amount of IPO activity. Liquidity and new capital formation was phenomenal. You look over the last 5 years and we're averaging 150 IPOs per year—a huge drop. On the M&A side you're going from relative numbers 2000 on average in the nineties down to maybe 1500 M&A transactions on an annual basis so it's not nearly as much of a drop. The major cause of the drop was obviously the change in the economic environment and the bubble. Yet the M&A activity has picked up, it didn't fall as far and has picked up and is picking up now. The IPO activity has picked up some but has fallen off again. These companies are so much healthier, there's so much more growth operating profits once again. So it's not the economics, it's not the financial health anymore that's holding us back—it's Sarbanes-Oxley. It's not just the CEOs, it's the private equity players. Looking across the key decision makers, they don't want to jump into that IPO world. There are plenty of buyers for IPOs, there's more money than there ever has been for IPOs and there are great companies. But these parties are being separated by excessive regulation. The intent of the regulation was right on but the results of the regulation are very negative and that's a big anchor to our IPO activity and our new initiative activity period.

Should we be looking over our shoulder toward the West or toward China?

Paul Maier

Siemens has been involved in China for over one hundred years, so it has a little bit of a different perspective about China and the opportunities it presents. I think you can look around and see that from the competitiveness of manufacturing China is definitely making its presence known. I think that it warrants really detailed inspection as to when you move to China; I think there's still some concern about your IP when you move to China. I think the bottom line is that China is emerging, it is going to be like India was ten years ago, it's going to change the face of the economics of our business. You can't put your head in the sand, it's going to happen and we have to take advantage of it, but I think you really have to be careful about it.

Peter Wirth

I guess we're newer to the game, but have a similar perception. We will open two offices in China next year and we're looking seriously at India as a competitive factor in our industry. I think they will be big players—they have the resources and they have the desire to make a big

difference in our world. If you don't have a strategy that takes that into account I think you are in denial.

Ben Howe

On the technology landscape where products are global, India was and is a force. China is far more aggressive, it has far more capital and far more people and it is a much more significant force that we're going to be seeing. China will be a player with all the capital that is flowing into the country in the M&A business. It may not be rapid, but it will be here over the next ten years.

California made quite a splash with the announcement of \$1 billion to be spent on stem cell research, and the *Wall Street Journal* ran an article on how California is using that to drive away top research talent. Despite the fact that Arnold has not made it clear how the state will pay for it, is that smoke and mirrors? Is that really a risk to drawing away top research talent from the Commonwealth?

Peter Wirth

I don't think it is smoke and mirrors; I think it sends a very important message and in some ways the funding that's attached to the message is less significant than the message itself. What innovation abhors is uncertainty. So it's one thing to provide capital to do research, it is quite another thing to ask people to make long term investments in this.

Wrap-up:

Mergers & Acquisitions are part of the economic landscape, not only in Massachusetts but nationally and globally. M &As can be both positive (providing liquidity to investors, fostering employee and operational growth, and encouraging healthy competition) and negative (depending on the acquirer, they may stifle entrepreneurial activity and innovation or lead to downsizing). Siemens is an example of one acquirer that has invested in the local environment and sees a long-term future in the Commonwealth. Massachusetts companies are not only being acquired, as the popular headlines report, but increasingly Massachusetts companies are acquirers, as panelists from EMC and Genzyme discussed. From an investment banking perspective, the Sarbanes-Oxley Act is an impediment to M&A activity, although from the standpoint of EMC, it is not a factor. Regarding the overall competitiveness of Massachusetts, all panelists noted the trained workforce, excellent academic institutions, culture of innovation, and access to capital. As one panelist remarked, "This is probably the best place in the world to build a biotechnology company, and that's because we have world class science, we have a lot of people who are very experienced in this industry, and we have a lot of money to do it." Yet there is room for improvement. Massachusetts' high cost of living, high labor costs, shrinking work force, and business tax rates, according to another panelist, could threaten business growth here. All agreed that attention to math and science education from the earliest stages must become a top priority in order for the state to maintain economic leadership.

About the Speakers

Ben Howe is Co-Founder and Managing Partner of *America's Growth Capital*, a national research, trading, and investment banking partnership based in Boston and San Francisco. Serving primarily small to mid-cap public and mid to late-stage private companies, AGC bankers facilitate mergers and acquisitions, provide strategic advisory services, and supply private and public financings. Over the course of their careers, bankers at America's Growth Capital have implemented more than \$26 billion in business transactions and more than \$16 billion in financings.

Paul Maier is Senior Vice President at *Siemens*, one of the world's foremost electrical engineering and electronics companies. With more than 434,000 employees around the globe and 70,000 in the US, Siemens develops and manufactures a wide range of innovative technologies, products, and systems. The company specializes in information and communications, automation and control, energy, transportation, medicine, and lighting. Through its operating companies in Massachusetts, including OSRAM Sylvania, Siemens Business Services, Siemens Venture Capital, and others, Siemens employs 3,700 people in the Commonwealth.

Michael Cody is Vice President of Corporate Development at *EMC*, the world leader in information storage and management. With more than \$8.23 billion in revenues in 2004 and over 7,500 employees in Massachusetts, EMC is the Commonwealth's largest information technology company. EMC was established in 1979 and is headquartered in Hopkinton, with additional manufacturing and R&D operations in Cambridge, Franklin, Marlborough, Milford, Newton, Southborough, and Westborough. In addition to its Massachusetts-based facilities, EMC is represented by more than 100 sales offices and distribution partners in more than 50 countries worldwide.

Peter Wirth is Executive Vice President at *Genzyme*, one of the leading biotechnology companies in the world, with annual revenues exceeding \$2 billion. With more than 7,000 employees worldwide, the majority of Genzyme's employees are stationed in Cambridge, Fall River, Westborough, Framingham, Allston, and Waltham. Genzyme remains committed to innovation with products and services designed to address significant unmet medical needs and through a substantial research and development program which focuses on genetic diseases, immune system disorders, heart disease, and cancer.

Jonathan Moulton is a corporate and securities partner in the Boston office of *DLA Piper Rudnick Gray Cary*. DLA Piper is the world's third largest law firm, with 2,800 attorneys in 50 offices in 20 countries. In the US, the firm has 1,400 lawyers located in 20 offices, including each of the country's major technology centers, and provides an extensive range of legal services to companies around the globe. Mr. Moulton has represented software, telecom, biotechnology and medical device companies, from Fortune 100 companies to early-stage ventures, in connection with public and private financings, mergers, and license transactions, as well as collaboration, joint venture, and technology transfer agreements.