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# Connecting to the middle market

## Radio frequency industry leading uptick in tech mergers and acquisitions

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Mergers and acquisitions are on the rise nationwide and the radio frequency market is capitalizing on what Loren Lancaster refers to as a wireless revolution.

From January through September, mergers and acquisitions in the RF industry, including wireless, totaled more than \$3 billion, said Lancaster, a managing director of Core Capital Group.

The International Network of Mergers and Acquisitions Partners completed 190 deals in 2004 worth more than \$5.8 billion, with an average transaction of \$30.5 million.

IMAP President Mark Esbeck predicted that 2005 would "surpass 2004 in almost every aspect ... with conditions representative of a vibrant M&A market ... around the globe."

The red-hot radio frequency market, which means alternating current (non-connected), has contributed to the realization of Esbeck's prediction.

"The wireless revolution is fueling an unusually high interest in RF company acquisitions," Lancaster wrote in a September summary of M&A markets. "Without a doubt, wireless broadband access will be a principal driver of commercial RF equipment revenue in the next four years. RF companies are actively repositioning their market strategies and product lines through acquisitions."

Lancaster said demand for wireless technology and a convergence of the cell phone, television and Internet markets has sparked acquisitions. The driving force has been commercial and government activity, he said.

However, in the RF industry, traditional buyers (larger corporations) are not making it easy for the sellers, Lancaster said.

"It's a highly multi-fractured industry," he said. "It's complex because the range of frequencies (from FM to cellular) is broad."

According to Lancaster's summary, "The RF industry ... the entire range is structurally divided



Loren Lancaster, managing director of Core Capital Group, said mergers and acquisitions in the radio frequency industry totaled more than \$3 billion during the first nine months of 2005.

into hundreds of frequency bands used for thousands of applications." The partitioning of the RF industry "makes it inherently difficult to find the best fit among ... buyers and sellers."

Traditional buyers want to "piecemeal (the selling company); they don't want the whole thing," he said. "It's like selling a house in a hardware store."

Companies have individual value elements, including engineering, accounting, and research and development.

"It's difficult to find one buyer who would value all those elements," Lancaster said.

Lancaster likened the process to a small fudge company being purchased by a large fudge producer.

"The big company will say 'all we need is your recipe' because they have everything else in place," he said. That's when it's important to go off center. "Instead you go to a candy shop, and they say 'we have a market for fudge so we'll buy your machines and your whole operation.'"

Lancaster said the trend in RF mergers and

acquisitions is to look for middle-market companies that have included growth as part of their strategic plan. Many of the middle-market buyers don't have an RF component in their business, so they'll take everything - technology, management, contracts, etc.

"All of it reinforces their value as a company," he said. "It's not the big boys ... it's the companies that need to grow through acquisition."

Lancaster said four attributes constitute a middle-market buyer: good health and growth; being situated in a market adjacent to the seller (avoiding redundant resources or relationships), maintaining initiatives to grow through acquisitions and product development and harboring knowledge about the technology of the seller and its market.

It's also important to find more than one interested buyer to get the best price for the seller - "orchestrate a campaign, schedule certain types of activities and create competition," Lancaster said.

However, middle-market companies are difficult to find because they "don't tell the world they have a new strategic plan, so you have to try and engage with their road map," he said.

One California company that does have a road map is Natel Engineering a microelectronics company which is based in Chatsworth. In June, Natel acquired Nevada-based Hyteck Microsystems.

It was the fourth company that Natel has acquired in the last three years as part of a plan designed by owner Sudesh Arora, a former employee who bought Natel in 1975.

"About four or five years ago, we did look into selling the company, but with the dotcom crash, the financiers said 'don't sell now - build your revenue stream,'" said Prakash Bhartia, vice president.

Revenue has almost doubled because of acquisitions. Natel's goal is to reach the \$100 million mark. Current revenue is about \$50 or \$60 million, Bhartia said.

Bhartia said growing through acquisitions is working for Natel. The majority of Natel's work is military related, and the war in Iraq and an increasing global market have stifled organic growth, he said.

Whether it's the RF industry or any other, there is a significant uptick in technology mergers and acquisitions, Lancaster said.

"The companies that weathered the crash are now ready to sell," he said. "It's a natural process."

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