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## Corel corrals InterVideo

by David Shabelman Posted 05:20 EST, 28, Aug 2006

Just four months after going public for the second time, **Corel Corp.** on Monday, Aug. 28, said it would buy **InterVideo Inc.** for \$196 million in cash in the software company's first foray into selling digital video technology.

Corel flourished in the 1980s with its WordPerfect word processing software and CorelDraw graphic design tool, only to weaken under competitive pressure from **Microsoft Corp.**'s Word and other software tools. In 2003 the Ottawa-based company was taken private by **Vector Capital Corp.** The San Francisco buyout firm slashed costs at Corel and focused the company on its graphic design compression software businesses before spinning it out as a public entity in April.

"We've really transformed this company from a relatively slow and declining growing business to a business that was highly focused and growing, and from an unprofitable business to a profitable business," said Corel CEO David Dobson, who has led the company since June 2005. "Very much a part of our plan was to make acquisitions. There aren't many firms of our size in the packaged software space that will be the size of the combined Corel-InterVideo."

InterVideo's software allows users to record, edit, distribute and play digital video content on PCs and other consumer electronic devices. For the first six months of 2006, the Fremont, Calif.-based company had net income of \$1.8 million on revenues of \$61 million, compared with net income of \$831,000 on revenues of \$49.5 million for the year-ago period.

Dobson said InterVideo's market footprint in Asia, where it teams with original equipment manufacturers such as **Sony Corp.**, **Toshiba Corp.** and **Fujitsu Ltd.** of Tokyo, will complement Corel's strength in North America. More than 40% of InterVideo's second-quarter revenue came from Asia.

"We look for companies where we can leverage our size and scale," he said. "InterVideo has partnerships with some of the major OEMs, and that was important when we looked at it from a distribution standpoint — it was highly synergistic. They have strength in the Asia-Pacific marketplace, specifically Japan, that we have targeted for organic growth."

Corel will pay \$13 a share for InterVideo, a robust 35% premium to the company's closing share price Friday of \$9.60. Counting InterVideo's cash balance of \$105 million. Corel's total cash outlay in the deal will amount to \$91 million. The buyer also will tap the money it raised in the initial public offering this year, which raised \$104 million, to fund the transaction.

Ed Lee, an analyst with Weymouth, Mass., market research firm **InfoTrends**, said the two companies are a good match. "There's very little overlap, and it gets Corel into the video, DVD editing and authoring space without having to develop the knowledge internally."

But Mark Harding, senior analyst with **Maxim Group LLC**, a New York brokerage firm, questioned if InterVideo is a good strategic fit for Corel. The deal will hurt the buyer's gross profits, he said, noting that InterVideo's margins of roughly 51% are eclipsed by Corel's margins of 77%.

In addition, Harding said he does not expect InterVideo's DVD software technology to contribute much to Corel's revenues in the short term because of slow consumer adoption of next-generation Blu-ray and HD DVD players. "I'm skeptical that either one of them will gain the same kinds of traction the existing DVD players have," he said.

But Harding said the deal is a good one for InterVideo investors, recommending in a research note on the acquisition that they "take the money and run."

In its fiscal 2005, Corel lost \$8.8 million on sales of \$164 million. For fiscal 2006 the company is forecasting net income of \$4.7 million to \$7.1 million on revenue of \$172 million to \$175 million.

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