

Private Equity Firm Sees More Tech Targets

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After the good times, enter the clean-up crew.

As tech stocks take a beating, private equity firm Vector Capital is seeing a host of new targets among small and mid-sized technology companies for its brand of investment and restructuring, founder Alex Slusky said in an interview.

"There were about 50 companies on our screens three or four months ago, now there are 150," said Slusky, who started Vector in San Francisco a decade ago. "It's a great time for us to acquire."

Vector is a "value investor," opportunistically buying tech companies that are undervalued relative to their growth potential -- either due to poor management, market conditions or because they have been "orphaned" by a previous acquirer.

The technology-focused firm is best known for its buyout of Canadian software company Corel in 2003. Other down-on-their-luck technology brands Vector has acquired include Register.com, SafeNet, WatchGuard Technologies and WinZip.

Although the tech sector has remained relatively insulated from the subprime and credit market crises, mounting fears of a recession are hitting tech stocks now, shaving as much as a third off the market value of a growing number of small or micro-cap companies in the past six months, Slusky said.

Tech companies whose market values have been slashed to a range of \$100 million and \$500 million are ideal targets, Slusky said.

Profitable software and IT services companies may also see revenue dip in coming quarters.

Businesses, especially financial services companies that are among the tech industry's largest customers and hardest hit by the credit and equity market crises, may cut back on capital expenditures like IT spending, further depressing tech company stock prices and making them attractive buys, Slusky said.

Vector is already looking closely at such companies, said Slusky, who declined to give further details.

"You can expect us to get much more active in the next 12 months," he said.

The firm plans to use money from its \$1.2 billion fourth fund, which closed in July of last year, to do around 10 to 12 deals, Slusky said. Its previous fund, that closed in 2005, was about 30% that size at \$350 million.

Vector has built its reputation on taking struggling tech companies off the market and turning them around, or acquiring non-core divisions of large tech companies like Intel (NSDQ: INTC) and Symantec (NSDQ: SYMC) and spinning them into independent businesses.

In 2003, Vector took Corel private, retooled it and took it public again in 2006. It also acquired WinZip, which makes software that compresses large files for mailing or storage, and has taken software companies like SafeNet and BroadVision private.

Vector has been spared the recent woes of many large buyout shops whose deals are at risk as debt becomes more expensive and difficult to obtain.

Slusky said his firm had been very conservative in the past two years. "By being defensive up until now, we've marshaled our resources," he said.

"Cheap debt helps get deals done, but it won't at the end of the day get outcomes."