Big Tech Companies Sitting on More Than $5B in Cash

TECHNOLOGY: Some deals seen, more dividends, buybacks

By Sarah Tolkoff

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Some local technology companies are sitting on mountains of cash.

“Some companies here have a nice war chest piled up,” said Erik Ekstrom, partner in the technology, media and telecommunications practice at Deloitte & Touche LLP in Costa Mesa. “OC companies are blessed with a lot of money on their balance sheets, but I don’t think investors will be patient with wanting it to sit there too long.”

At recent check, Irvine’s Broadcom Corp. had more than $2 billion on hand. Lake Forest’s Western Digital Corp. had $2 billion. Santa Ana’s Ingram Micro Inc. had $911 million. Aliso Viejo’s Quest Software Inc. had $425 million.

Western Digital, the top maker of disk drives, is loaded with cash after a profitable 2009 and strong March quarter.

In March, the company’s $2 billion cash pile was up 15% from the December quarter.

“Our strong cash position allows us to maintain an adequate buffer in times of continued global economic uncertainty and is still providing operational flexibility,” Timothy Leyden, Western Digital’s chief finance officer, said in a recent call with analysts.

Western Digital is putting some of its cash to use: In April, it said it was paying $235 million for some assets of Japanese glass maker Hoya Corp. for $235 million.

The company has other plans to spend. Like others, Western Digital has been buying back shares and has about $466 million left for repurchases.

“We continue to evaluate the merits of further repurchases against the internal and external investment alternatives,” Leyden said.

Communications chipmaker Broadcom barely made a dent in its cash after a recent acquisition, a dividend payout and a repurchasing of shares. The company ended the first quarter with some $2.4 billion.

And that’s after Broadcom bought Petaluma-based chipmaker Teknovus Inc. for about $123 million in February.

In March, Broadcom’s shareholders got about $400 million worth of dividends from the company’s cash pile.
“As a result of our strong cash flow from operations, Broadcom’s cash position remained roughly flat despite the acquisition of Teknovus, issuing our first dividend and repurchasing over $150 million in stock,” Chief Executive Scott McGregor said in a call with analysts. “This result demonstrates our ability to pursue our strategic opportunities while at the same time returning capital to shareholders.”

Stock Buybacks

Stock buybacks used to be rare among tech companies. Now they’ve become common for cash-rich companies that can’t otherwise spend cash fast enough.

Investors generally like stock buybacks because they prop up the company’s stock by reducing the pool of shares.

“One thing I have seen is a lot of stock buybacks,” Ekstrom said. “That seems to be a popular strategy to show investors the company is using some of that money.”

During the first quarter, Broadcom repurchased some 5 million shares at an average price of roughly $30 per share.

Costa Mesa’s Emulex Corp., which makes electronics for data storage networks, “is always looking around to see what the best use of our cash is,” Chief Executive Jim McCluney said. “But it’s nice having cash in the bank and no debt. We have a very healthy balance sheet.”

The company ended the March quarter with $287 million in cash.

Acquisitions

Acquisitions—perhaps the most common way of spending cash stockpiles—have been slow to return as tech companies bounce back from the recession.

“We haven’t seen the same level of acquisitions as in the past with OC tech companies in particular,” Deloitte’s Ekstrom said.

Companies that have been doing deals are snatching up others on the cheap.

“The valuations that people used to expect just went away when the recession hit,” Ekstrom said. “There was a lot of talk about the realignment of valuations. It hit the acquisition targets of public companies as well.”

Irvine’s Microsemi Corp., a maker of chips for military, aerospace, security and industrial uses, has been rolling up small competitors with a series of buys in the past year.

The small, frequent deals don’t eat into the balance sheet like larger ones do.

“There have been deals here, which was bargain shopping for some,” Ekstrom said.
Last year, Microsemi paid $20 million for La Mirada-based Babcock Inc., a maker of power controllers and sensors for the military.

In June, it bought Irvine-based startup Nexsem Inc., a maker of chips that manage power in consumer electronics, for undisclosed terms.

In March, the company shelled out $100 million for Phoenix-based White Electronic Designs Corp., which makes chips for the military.

During the March quarter, Microsemi saw a “new cash record” of $235 million in cash on its books.

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