

Tech companies find it difficult to crack deals in US, Europe

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BANGALORE: For India's top tech firms seeking to take an inorganic growth route for expanding in the US and European markets, successful acquisitions are becoming harder to come by, as potential targets demand high valuations and cultural barriers in several countries act as a bottleneck.

Over the past two years, tech firms including Wipro, Infosys, Patni and several others have had discussions with potential targets such as Globant of Argentina, Ciber in the US and IDS Scheer of Germany. While IDS Scheer was acquired by Software AG earlier this year, both Globant and Ciber decided to discontinue their dialogues with potential acquirers.

"It is not a surprise to me that we are an acquisition target as we do have a very unique model which makes us attractive, but also it is very difficult to acquire," said Tony Hadzi, executive vice-president & president (custom solutions division) of Ciber. "However, we do not want to be acquired and not aiming to be acquired. We have solicitations, but we just turned them down."

With around \$1.2 billion in revenues, and customers such as American Express, AT&T, General Motors and Abbott Laboratories, Ciber makes a very lucrative acquisition target for an Indian company seeking to establish a stronger US footprint.

"We did explore Ciber, but valuations apart from other issues did not help our efforts," said an executive at an Indian tech firm involved with M&A initiatives. He requested anonymity because he is not authorised to discuss such transactions with media.

Meanwhile, smaller service providers in countries of Brazil, Argentina and Mexico, such as Globant, which counts Adidas, LinkedIn and Citi among its top customer, have also been approached by several Indian tech firms, including Patni. But, the dialogues could not conclude.

Globant, with around \$100 million in revenues, can help an Indian tech firm gain near shore advantage and serve top US customers better. "We wanted to explore M&A opportunities with Globant, but the valuation being demanded was almost \$400-500 million at \$4,100 million revenues. We were not ready for a transaction at such premium," said a senior executive at one of the tech firms, which had evaluated Globant for a potential acquisition.

In Germany, where Infosys, Wipro and several other Indian tech firms are pursuing acquisition targets, the companies are wary about offshoring of jobs. **Experts such as Peter Schumacher of European strategy consulting firm Value Leadership say acquisitions are an emotional issue in Europe, which many Indian tech firm are not realising.**

"European companies and employees are concerned that Indian companies will fire employees in Europe and shift work offshore," he said. Citing an example he said NIIT's acquisition of German services firm AD Solutions in 2002 provides some learning for Indian tech firms. "While they started with much enthusiasm, they failed to acquire any offshoring business during the following 12 months period. They also ran into significant integration problems, which they had completely underestimated," Mr. Schumacher added.

Within just 15 months the German unit saw its headcount drop 26% at significant cost. "With proper preparation, NIIT should have anticipated most of these problems prior to the acquisition," he added.