

BUSINESS NEWS

Cisco buys Web conferencing firm WebEx

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Cisco Systems Inc., the leading maker of routers and switches that direct data over computer networks, said Thursday it will pay \$57 per share of WebEx Inc. That represents a 23 percent premium over WebEx's closing price of \$46.20 Wednesday on the Nasdaq Stock Market.

Shares of WebEx soared \$10.30, or more than 22 percent, to \$56.50 in afternoon trading on the Nasdaq Stock Market. Cisco shares gained 3 cents to \$25.88 on the same exchange.

The acquisition has been approved by both boards and is expected to close in the fourth quarter of fiscal 2007, Cisco said. Cisco said it expects the transaction to have a neutral effect on its fiscal year 2008 earnings after one-time charges are subtracted. The total purchase price will be about \$2.9 billion when factoring in WebEx's \$300 million in cash on hand.

San Jose-based Cisco has recently made a number of acquisitions branching out from its core business of supplying networking gear, namely in communications, social networking and other areas that help drive traffic over the network and increase demand for its core equipment.

The acquisition was Cisco's 119th since 1993 and follows several other major recent takeovers by the company. Cisco is in prime position to shop around, as a surge in demand from service providers snapping up sophisticated new networking gear has left the company sitting on a mountain of cash. Cisco is Silicon Valley's most richly valued company with a current market capitalization of about \$156 billion. Cisco finished the second quarter of the current fiscal year with nearly \$21 billion in cash.

In February of last year, Cisco completed its \$7.1 billion acquisition of Scientific-Atlanta Inc., the No. 2 seller of cable television boxes after Motorola Inc. The takeover was designed to bolster Cisco's ability to deliver content directly to consumers' homes. Cisco also said in January that it was paying \$830 million in cash and stock to acquire privately held IronPort Systems Inc., a maker of anti-spam and antivirus security products.

The company has since made several smaller acquisitions in the social networking and communications arenas, with company executives saying that more deals in those areas are in the works.

Santa Clara-based WebEx makes applications that enable online conferences and secure instant messaging. The company says it commands 64 percent of the online meeting market, with more than 3.5 million people using WebEx services every month for online communications.

Cisco said the acquisition will allow it to tap into the increasingly lucrative market for business communications over the Internet.

“As collaboration in the workplace becomes increasingly important, companies are looking for rich communications tools to help them work more effectively and efficiently,” Charles Giancarlo, Cisco’s chief development officer, said in a statement. “The combination of Cisco and WebEx will deliver compelling solutions accelerating this next wave of business communications.”

Some analysts expressed concern on a conference call about the price of the deal, considering WebEx had just \$380 million in revenue last year and just under \$49 million in net income. Some also suggested that Cisco could have snagged the company at a much cheaper price had it acted sooner. WebEx’s stock price has risen more than 43 percent since last year, based on the company’s closing price before the deal was announced.

But Giancarlo said one of the reasons the company’s acquisition strategy has worked well is that it focuses on buyout targets positioned for robust revenue growth in the future.

Some industry observers said the deal is a perfect fit for Cisco’s Linksys division, beefing up its offerings for small businesses. The deal also will also give WebEx access to larger business customers and the opportunity for expanded growth worldwide, said Roger Kay, president of Endpoint Technologies Associates Inc.

“From Cisco’s point of view, it makes some sense: You’re beefing up Linksys, you’re grabbing a player that can help increase the value of the Linksys franchise, and you’re a grabbing a player that’s already well established in markets you’ve assessed will have high growth rates,” Kay said.

WebEx Chief Executive Subrah Iyar said Cisco plans to preserve the company’s subscription-based business model that he said has been key to WebEx’s strategy in attracting new customers and driving sales. Iyar said the two companies “share a vision” of collaboration over the Internet as a crucial means to improving the efficiency of business communications and staying competitive in an increasingly networked world.

By tapping into Cisco’s “global reach and customer focus,” the takeover will allow WebEx to continue to broaden the company’s product portfolio and services, Iyar said in a statement.