

Cisco to Buy Wireless Gear-maker Starent

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NEW YORK (Reuters) - Cisco Systems Inc (CSCO.O) plans to buy advanced wireless equipment maker Starent Networks Corp (STAR.O) for \$2.9 billion to boost its product offerings as phone carriers build out next-generation networks.

In its second major acquisition this month, Cisco said it would pay \$35 a share in cash for Starent, a nearly 21 percent premium on its Monday closing price. Shares in Starent -- a nine-year old telecommunications gear firm founded by Indian-born entrepreneur Ashraf Dahod -- jumped 16.8 percent on Tuesday.

Analysts said the deal was negative for Cisco's smaller competitor, Juniper Networks Inc (JNPR.O), which sells network equipment mainly to telecommunications companies. Juniper shares fell 2.1 percent while Cisco rose 0.5 percent.

"Snatching Starent out from under Juniper is an indication of how far Cisco will go to maintain its market share within core networking products," said Avian Securities analyst Catharine Trebnick.

While Juniper and others like Alcatel-Lucent SA (ALUA.PA) could put in a competing offer, most analysts said they did not expect this as Cisco's deal is in cash and appeared fair.

Cisco, the top U.S. network equipment maker, said Starent's gear -- which helps operators handle traffic from smartphones and other Internet devices -- will help it offer a near- complete product set for mobile carriers.

UBS analyst Nikos Theodosopoulos said the price is almost 40 times Starent's 2010 earnings estimates, a multiple that Cisco has not paid since it bought WebEx in 2007.

Starent makes network equipment that connects mobile phone service providers' core networks to 3G and 4G radio access networks, the newer wireless technology that supports mobile TV and multimedia messaging.

"The growth of smart mobile devices and netbooks has fundamentally changed consumer behavior with regards to how they use the Internet," said Ned Hooper, Cisco's chief strategy officer who also oversees the consumer business.

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Hooper said Cisco will continue to be aggressive on acquisitions and it had the flexibility for more deals even after Starent and the \$3 billion purchase of video conferencing company Tandberg, which was announced on Oct 1. Cisco ended its last quarter with \$33.6 billion in cash, cash equivalents and investments.

"We feel very confident in our ability, if we were to choose, to tap into lines of credit and the debt markets as well," Hooper said.

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Roughly half of Starent's 1,000 employees are based in India, where the company has two research centers, said VP of Global Marketing and Business Development Thierry Maupile.

Founder Dahod created three other start-ups prior to Starent, including Netcore, which was acquired by Tellabs Inc (TLAB.O) for \$575 million in 1999.

"Ash is one of the great entrepreneurs that few people have heard of because he's a very low-profile guy," said Jon Auerbach, a partner at Charles River Ventures, who co-led a funding round in Starent at his previous firm.

Starent generated \$254 million revenue in 2008, up 74 percent from a year ago, although its business is concentrated in a handful of customers. In the second quarter, 73 percent of revenue came from Verizon Wireless, a joint venture of Verizon Communications Inc (VZ.N) and Vodafone Group Plc (VOD.L), according to Brigantine Advisors analyst Joanna Makris.

"The big knock on Starent has been that it's kind of a one trick pony with Verizon," said Makris.

But she said the company is diversifying via a recent deal with Vodaphone and a strong product line-up that could help the company win business from AT&T as the carrier builds its next- generation network.

But some antitrust experts said regulators may take a careful look, given overlap between Cisco and Starent products: a merger would create a dominant player in CDMA network gear.

But Cantor Fitzgerald analyst Edward Jackson said he did not expect such issues to kill the deal.

"We believe that Starent already dominates this market and that its combination with Cisco will do little to change this dynamic," he said.

Granted regulatory and shareholder approval, Cisco expects the deal to close in the first half of 2010. It said it would probably hurt earnings, excluding items, in fiscal 2010 and 2011, but add to profit in fiscal 2012.

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After the deal closes, Starent will become part of Cisco's service provider business, but as a new Mobile Internet Technology Group led by Dahod.

"Cisco is likely to remain aggressive in M&A and would not rule out another acquisition by year end in addition to Starent and Tandberg, in our view," said UBS's Theodosopoulos.

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