Case Study
Symantec Corporation: Acquiring Entrepreneurial Companies

These days many firms in the new economy have moved from an R&D (research and development) approach to generating new technologies and products to R&B (research and buy). In order to implement their business plan or speed up product development they often acquire companies with the requisite expertise, technology or product. This approach poses numerous challenges from an M&A and valuation perspective. In this true case, where business strategy meets financial strategy through M&A in the high tech sector, Symantec is considering the acquisition of Contact Software.

1. Describe the software market as it has evolved in the second half of the 1990s. Where does Symantec fit in? Where its acquisition targets?

2. Analyze Symantec’s market environment. When does it make more sense to buy than to develop?
   (a) Is R&B a feasible business model in the long run? Why or why not?
   (b) What factors make an acquisition target a perfect fit? How would you price (value) these factors?
   (c) Why would Symantec want to acquire entrepreneurial companies?

3. Why would a small, entrepreneurial firm such as Contact Software want to be acquired by a much larger one?

4. Analyze the problems that the companies need to be addressed in the process of implementing the acquisition so that the combined entity is actually able to deliver greater value than the two separate companies.
   (a) What do the protagonists bring to the table?
   (b) Where would the fabled but often illusive (or elusive?) synergies come from?

5. Discuss the acquisition and subsequent integration process. What challenges do big, established companies face when buying entrepreneurial ones?
   (a) Is harder or easier to integrate a small high tech company into a larger corporate entity than, say, a company in a more mature industry?
   (b) What issues need to be addressed to make the integration a success? How would you have to structure the acquisition process so that the subsequent integration becomes a success?

6. Analyze the Contact acquisition from a valuation perspective. What is special about M&A in the high tech area? What do you think about the availability of relevant information in this area?
(a) Run the numbers the Symantec way. Does the acquisition make sense?

(b) What do you think about Symantec’s valuation methods for acquiring entrepreneurial companies? Separate the economics from the accounting issues.

(c) Redo the analysis on the basis of valuation tools developed in the course, in particular the real options implicit in integrating Contact’s products into Symantec’s product line up and the new release of the software (second generation). You are free to make all necessary assumptions but you have to document them and provide an argument for your parameter choices.

(d) Did Symantec pay a fair price? Why or why not?

1 Groups 1, 3, 5, 7

You work at Contact Software in a senior management position (Pat Sullivan). Considering your strategic option you ask your self why you would want to sell. What are the alternatives? Your presentation to your colleagues addresses the M&A process and valuation issues. Particular attention needs to be paid to the firm’s assets. If you were an engineer at Contact you might have certain concerns when working for Symantec that senior management needs to address.

2 Groups 2, 4, 6, 8

You work at Symantec and are involved in M&A activity (Bob Dykes). Considering your strategic options you wonder whether R&B rather than R&D is viable in the long run. Your thoughts turn to Contact. What criteria make an acquisition successful? Synergies, price, fit, integration, etc.? You have to get final approval for the recently struck deal from the board and are preparing your presentation. Needless to say, the board is most interested in the additional shareholder value created by the deal (question 4 to 6).

Please note the following ground rules for the case write-ups:

• the maximal group size is 5; every group member gets the same grade
• at most 2 pages of analysis and 6 pages of technical appendices;
• show your work, staple the pages together and be professional;
• late write-ups will not be accepted for any reason; they are due at the beginning of class for which the discussion is scheduled;
• graded write-ups will be available a week later.