



M&A IN THE SEMICONDUCTOR INDUSTRY

VIDEO TRANSCRIPT

Patrick Moorhead: It's great to have you on the Moor Insights and Strategy podcast again. The first edition went great. We were talking semiconductors are going all over the office. How are you?

Syed Alam: I'm doing great. Thank you for coming back.

Patrick Moorhead: Yeah, No, absolutely. I had a great experience. Audience loved it. Sounds like you did too, so thank you so much. This week we are going to talk about mergers and acquisitions, small caps. But before we jump into that, for those who didn't catch the first episode, can you talk about what you do for Accenture?

Syed Alam: Yes. Thank you. So, I lead the semiconductor practice fabless equipment manufacturing companies. So, and IP companies also covers end-to-end spectrum of semiconductor business.

Patrick Moorhead: Sounds like a great business. You were doing it for a long time and it's really been great to know you off-camera as well. And one of our conversations that we had and a body of research that Accenture has done is on this trend of semiconductor companies, larger ones buying smaller semiconductor companies or technology companies. What's really driving that?

Syed Alam: That's a great question. And as you know, the semiconductor industry has been growing quite rapidly. And a lot of that growth has come through mergers and acquisitions.

And what we're recently noticing, that there has been a trend of smaller deals happening. For the last five years the average deal value is less than a billion dollars. And we believe is due to a couple of reasons. One, there are not that many mid-to-large sized companies remaining. There are few large size companies, and then some mid-size companies and large number of smaller companies. So that's number one reason. Second reason we have seen increased regulatory scrutiny on the larger deals. There's also resulting in companies dipping into more smaller deals. And we're seeing this trend continue for the last few years.

Patrick Moorhead: Yeah, so it's a different kind of ball game when you're buying these smaller semiconductor companies. What are some top-line observations or top things that companies need to be thinking about to maximize the value or the ROI of the transaction, and not just a transaction, but when the reality hits a few years down the line?

Syed Alam: Yes, that's a great question. First of all, the smaller deals tend to take pretty much almost the same number of same amount of time and energy to get the deal across also. So, we want to go in with that mindset that just because the dealer is small, it's not gonna be easy. Sometimes there could be complexities in a smaller deal also. So that's number one. We need to be mindful of. Other thing we need to be mindful of is this. The smaller deals, the room for error is pretty small in terms of the synergy value realization.



For the larger deals, you have more room to account for "oh, in this area, I did not achieve the synergy targets, maybe I can cover in other areas also", smaller deals tend to have less room for error for synergy estimation and synergy realization. The other thing we need to be mindful of is the transaction cost. You wanted to make sure the transaction costs are proportional to the deal size also. And these points are very important for the companies who have traditionally been doing larger deals. Don't need to shift mindset to make sure they are mindful of these points as they do more smaller deals.

Patrick Moorhead: So, I totally agree. I don't I'm not as much in the M&A game as you are. But philosophically, I totally agree with your point. It's not a question I have though is, what gives Accenture permission to product? What do you know about buying small companies and even integrating them?

Syed Alam: Yeah, I wanted to answer this question from two angles. One, Accenture itself is a very acquisitive company. Last year. We did 37 deals. This year already we have done 13 deals. So, we have a lot of experience and doing deals of various sizes. And the second angle is we've experienced advising our clients for M&A in the semiconductor industry. And it goes from target identification to looking at the strategic fit, looking at what's the deal. Synergy could be, then how you can integrate this deal into your company culture or into the company business also. And helping integrate the companies into the company that you're acquiring into your business also. So, I think from both because of those two things, our own experience and then experienced advising clients in the semi industry gives us lot of experience and confidence to help clients in this space.

Patrick Moorhead: No, I like that and I'm glad you had that answer because quite frankly, a lot of companies that I ran across, not the bankers, but some of the consulting firms. They don't actually do this at the acceleration and the velocity and the mass that you do it in. By the way, I might have to put Moor Insights & Strategy on the potential for '23. But no, I'm just kidding. So, let's drill down with a fine point on efficiency, effectiveness, and an ROI for these types of transactions, what are some of the top line must dos?

Syed Alam: Yeah, I think we need to look at it from the perspective of what is the deal rationale? Because to your question, these things could change based on the rationale.

Patrick Moorhead: Or the thesis. Is that what you mean?

Syed Alam: Yes, exactly. I mean, you're doing these smaller deals from different perspectives. One is you're acquiring a company because of a technology. You don't have a certain technology for your product portfolio and you want to acquire that technology. So, you may do a deal, and the deal could be a smaller size because you're acquiring the technology and the technology or the rated IP in the x prime. The second could be you are going into certain product portfolio or certain services. You may be acquiring a company based on a certain products they have that you want to offer to the marketplace? Or do you want to integrate into your product portfolio or the type of business you want to get into, or the channel, or the processes you want to use. So, for example, if you are direct to customer, you have never worked with distributors. And now your product portfolio requires you to work with distributors. So, you want to acquire a company that has experienced working through distributors. That's just one example. So, the second category that I just spoke about was more related to product or services that you want. And the third one is, you're basically acquiring talent.



You have a product or a technology or business in mind. But you don't have the talent or the skill set for it. And you want to acquire that skill set and scale quickly. So, you acquire a company mainly for the talent also. So, these are the three main reasons why companies tend to do smaller M&A. And considering all of these three factors, you account for the synergy realization or the synergy estimation. Some cases there may not be any synergy because your mindset is a little bit different, right? As I talked about it. Or how are you going to integrate it? Are you going integrated completely? You can leave it alone, kind of a thing. So, these kind of factors come into play based on this type of deals.

Patrick Moorhead: Do you ever, you did a lot of research on this. In fact, the research paper will be in our show notes. But did you do anything around people or culture fit or when you're a big company is making an acquisition and the smaller company, and almost, it almost doesn't matter?

Syed Alam: Actually, for tech companies and semiconductors specifically, the cultural integration is very important because most of the deals, especially if you're doing the deal for talent, it's very important to make sure the integration is there. And even if you're doing it for other reasons also, the talent is a key component of this. So, the culture integration is the most important aspect. Actually, we have a thesis that most of the deals, they failed because of the cultural integration. They don't fail because you did not achieve the synergy target or something like that. But the cultural integration is a very important one. Because you acquire a company, you don't want the talent to leave a few months after the deal has closed. So, this is a very important aspect for you to realize the value from the deal.

Patrick Moorhead: Yeah, it's funny you were going through the three rationales and I was going through my head. Okay, I know who this could be. I know who this could be. This could be. And it is interesting. Also, because I watch in particular the North American anti-trust or the US anti-trust. And it's interesting, even the largest companies or sometimes under scrutiny over for the smaller companies. When I'm looking at some social media acquisitions that were done, even post type of scrutiny. So, it's not something that can be taken lightly. And so, it's very complex. But what if our audience, Chief Strategy Officer and Head of M&A, you wanted them to leave with just a few points? Sure. They can go in and read your paper, but what do you want them to know? Net-net.

Syed Alam: Yeah, actually, you raise a very good point for the Chief Strategy Officer or CEO. One of the first question is, is this deal for a horizontal expansion or for a vertical integration? Because sometimes companies are trying to be vertically integrated end-to-end. So, they are buying companies, keeping in mind that strategy. Or sometimes it's more of a horizontal expansion as you're getting into new products and services. And the three examples I gave you are subcategories of those horizontal expansion. So, it's important to know why you're doing the deal, right? And based on that, we can help from a different perspective. As I said earlier, whether it's identifying the target companies, looking at a strategic fit to the main organization, and then also looking at it, what would it take to get the finalized deal integrated and then control integration and then making it successful and valuable for the company in the long term.

Patrick Moorhead: Okay, so you will actually come aside the company the whole time as opposed to making the recommendation, buy this company and then you kind of go away and do your thing, or maybe customers wants you to do that. But if they want to, you'll stay aside all the way down the integration path?



Syed Alam: Yeah, I mean, that's our value proposition and I think key differentiator that we helped with the deal thesis, target identification, synergy estimation. It's not, oh, we estimate the synergy's gonna be this many billions of dollars.

Patrick Moorhead: And then, leave

Syed Alam: That's how we help with the synergy realization, will establish the value capture office, make sure the synergies realized. And then we come up with integration planning, how to get the deal closed, how to make it part of your normal business. And we see it through complete integration activities, also.

Patrick Moorhead: You know I love that and listen, I was very integral in a large semiconductor company strategy group. And I worked with some different firms that they stopped at, at that first step. And sometimes it was, wait a second. What happened again? What would a nice too have had accompany at least where I could say, Okay, this is what we all agreed with down the line. Now we're in year 2.5. Is this going is we all thought it would go either to pat each other on the back and say yes or maybe readjust. So, it's a fascinating topic and it is definitely one of the biggest trends in the semiconductor industry today, you'd like to think that all growth comes organically. But the fact is it doesn't, and these awesome smaller firms are really going against the grain, quite frankly, doing something that a big semiconductor company might not even be funded to do exactly, right. Sometimes they're other way. More times if not what I've seen is these are big companies, semiconductor companies. He has this great idea. They couldn't get funding internal, So they went outside.

Syed Alam: Exactly what a good way to get a confirmation of their strategy. Then getting acquired by the same parent company or some other large company.

Patrick Moorhead: I've seen it many, many times. So, it's fun. So, Syed, thanks for coming on again and for everybody out there. Check out the show notes. The Accenture research paper is out there. And if you like what you heard, hit that subscribe button. But thanks so much for tuning in.