

Head of Microsoft M&A: "This year, even when we do acquisitions, these transactions will not be huge"

Marc Brown, in charge of acquisitions at Microsoft, provides an exclusive interview with "Globes", he relates to future mergers and acquisitions for the software giant: "It's not that we wake up one morning and say, 'Today we'll buy a company in Brazil.'"

29/06/2010, 07:

In Herzliya and Silicon Valley, entrepreneurs and managers are waiting for venture capital corporations to open their wallets and purchase companies. Since the crisis broke, corporations settled on their billions and kept them. Meanwhile, the funds and venture capital, which should return money to investors, dried up. Entrepreneurs who dreamed of early retirement and millions in the bank, continue to dream.

Marc Brown, General Manager and Head of the Mergers and Acquisitions division at Microsoft, one of the most significant companies in the global technology mergers and acquisitions market.



Private Equity is Back

In an exclusive interview with "Globes," Brown reveals optimism and promises that, with a little more patience, we will see mergers and acquisitions activity. "I am aware of the expectations and hopes, but also see the reality of the situation. We have a real global crisis," he qualifies, and adds: "Expectations were unrealistic. It seems we are now beyond the worst of the financial crisis, but it will take time until we see a real strong awakening of mergers and acquisitions. It will take time before we get to levels we saw in 2006-2007."

* So it's frustrating?

"Not necessarily. The process is healthy. Companies focus on core efficiency. Venture capital funds continue to fund only those portfolio companies with a high chance of success. Corporate streamlining processes have not been easy for anyone, including Microsoft, who is also continuously increasing productivity. Meanwhile, while the financial markets are still running through this cycle, private equity players were not available to be buyers, even at low prices, as they could not get access to sufficient capital. All this created uncertainty and deadlock, especially in Europe."

Still, Brown is optimistic. He said, "I'm sure about the future of the economy. We see private equity funds start to get back into the market. I think the Board of Directors of big corporations are beginning to feel more secure and they are more than willing to make purchases."

Corporate Capital is a Rainy Day Reserve

The situation is strange - the big corporations are sitting on billions of dollars, and the lack of purchases, is not due to cash shortage.

"Corporations, and I'm not referring to Microsoft, maintain capital for rainy days. Cash balance provides security to these large corporations, especially when the financial markets are fluctuating and uncertain. But money is only one component of the mergers and acquisitions picture. To make a purchase, you have to feel safe knowing that your own business works well and that the acquisition will contribute to the business. On the other hand, acquired companies need to feel comfortable and know they received a fair price. A crisis makes it more difficult to produce such confidence."

In general, Brown did not refer to Microsoft, but says they did not make many acquisitions lately. He said: "We bought mostly small, very early-stage companies. These acquisitions have provided us with unique features and new functionalities."

"Most business mergers and acquisitions are not easy, but in this atmosphere, it was very difficult to make large purchases. While we start to see mergers and acquisitions, these transactions will not be huge."

* What do corporations seek when they start to buy?

"They buy companies that allow them to accelerate growth. This is true in all areas. It is important for companies of any size to show growth in revenue. It's the right formula when the purchase of a company allows the acquirer to lower costs and show revenue growth and profitability."

* Microsoft has acquired seven companies in the last decade in Israel. What can you tell us about what your company is looking for?

"Mergers and acquisitions are not a strategy for Microsoft, but a way to realize it. We do not have a list of geographical targets. The corporation strategically decides whether it will develop its own capabilities or look for it outside of the organization. In such cases, purchasing is not the only option; we can invest, we can do a strategic partnership, we can sign a distribution license, etc. Each case on its own. It's not that we wake up one morning and say, 'Today we'll buy a company in Brazil.'"

* Describe the purchase process.

"The starting point is the strategy - what do we want to market or which software do we want to develop. We think a few years ahead and start working. This is how we invested in Facebook. We buy licenses, enter into partnerships, or form other commercial relationships. Such partnerships and relationships with companies like HP, Novell, Intel and others."

* What areas of interest does Microsoft have today?

"Some of these areas are unified communications, infrastructure management, high performance computing, cloud computing, search and advertising. Microsoft also has a games unit, we bought a number of companies under that unit in recent years, including in Israel."

* Is there hope in Israeli funds for entrepreneurs? Would you come to shop here?

"As a global corporation, we look at opportunities around the world. We buy when it's the right thing to do, when there's a spectrum of businesses and interest. Israel is certainly a market we examine closely."

The Check Man at Microsoft

Marc Brown is responsible for search, evaluation and negotiations for acquisitions of companies and technology for Microsoft. This includes strategic partnerships, and early and late stage investments in a very wide range of products. Until now, Marc handled some 70 purchases on a scale of 5 billion dollars.

He is responsible for various strategic investments, such as the planning and execution of investments in China for 160 million dollars. Before Microsoft, he was a partner in the law firm, Goodwin, Procter & Hoar specializing in private equity. He represented venture capital funds and private equity firms in various multi-stage investments and acquisitions.

Brown was Keynote Speaker at the Media Technology Summit hosted by Landmark Ventures in New York. Landmark Ventures specializes in mergers, acquisitions, fundraising and private capital. It helps start-ups accelerate sales in the American market. It recently established an office in Israel managed by Doron Birger, the former CEO of Elron.