SV 150 companies nearly double profits

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SETTING THE RECORD STRAIGHT (publ. 4/21/2010)

A story on the SV150 mischaracterized the number of mergers and acquisitions in Silicon Valley. There were 12 by the 10 companies that made the most deals, not 12 for the entire region.

Silicon Valley's top 150 companies snapped back from a grueling recession last year, nearly doubling their profits by slashing costs and laying off workers.

Now many of the companies have accumulated large amounts of cash and are in position to hire and acquire other companies, observers say.

Even with sales dropping 5.8 percent, last year was the second most profitable year since the Mercury News began tracking the SV150's performance 25 years ago. The SV150's collective profit was $47.4 billion, up 88 percent and nearly bouncing back to the prerecession level of 2007.

The SV150 list ranks companies on the basis of worldwide revenue, and the year covers the most recent four quarters.

In a sign that the valley has begun to climb back from the bottom of the recession, sales have increased in the last two quarters and were higher on a yearly basis for the first time since 2008.

But the surge in black ink was uneven. Profits soared at some companies like Apple and Google, and one sector, biomedical, saw sales climb 26 percent. But six out of 10 companies had sales declines last year, and they responded by sharply cutting costs. They shed 62,800 employees globally. Spending on plants and equipment declined 21 percent. Even spending on research and development — the valley's lifeblood — dropped by 3.9 percent.

Many companies also reduced debt. Short-term borrowings by the SV150 dropped 31 percent in 2009.

"Companies did the basics," said Kevin Walsh, a venture capitalist who is also a management professor at Santa Clara University. "They got their costs under control, and made sure they were cash flow positive."

The cost-cutting was deep because valley companies feared the worst from the national recession, said Ron Conway, special partner in SV Angel, a venture firm. "Now these companies have even more cash to do very strategic acquisitions with," he said.

Even companies with yearly sales declines ended the year with plenty of cash. For example, Intel, hit by a 7 percent drop in sales, ended the year...
with 18 percent more cash on hand. That's because it cut costs, reducing its workforce 5 percent and slashing capital expenditures by 13 percent. Even Intel's research and development took a hit, reduced by 1 percent.

The valley's top companies have accumulated $213.5 billion in cash and other near-liquid investments — up 25 percent from 2008 — that they could use to acquire smaller companies, observers say. Six large companies — Cisco Systems, Apple, Intel, Hewlett-Packard, Oracle and Google — are sitting on a combined $134 billion in cash or near-cash assets.

"It's amazing how much money these companies have," said Matt Murphy, a partner at venture firm Kleiner Perkins Caufield & Byers. "They can dividend it to shareholders, hoard it or be strategic with it, and this feels like the year they want to be the latter."

Mergers and acquisitions in Silicon Valley shot up in the first quarter of 2010. There were 12 deals compared with four a year earlier. The value of the deals was $875 million, up 48 percent from the first quarter of 2009, according to the 451 Group, a technology industry analysis firm.

Cisco has announced five acquisitions since October. HP announced a major acquisition in November of 3Com, which wasn't finalized until last week.

Investors have reacted favorably to the valley's performance, sending the combined value of all its stock up 63.8 percent as of March 31 from the year before. That reversed a 32 percent decline from the prior year. The value of their shares reached $1.4 trillion, up from $849.9 billion in 2008. At their lowest point in March 2009, they had sunk to $699 billion.

But the year also brought another slide in the number of publicly traded companies, which fell for the ninth consecutive year to 242 from 261 in 2008.

So far, 2010 has gotten off to the best start since 2007 for new initial public offerings, with three valley companies going public in the first quarter of this year. That was as many as in the last two years combined.

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