Snapshots: the SV150 sectors

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Trends in six of the 11 sectors: software, hardware, semiconductors, biotech, Internet and networking.

Software: a bumpy year

Silicon Valley's software industry had a bumpy year in 2009: About half the sector's companies reported significant growth despite the recession, while others struggled with sagging sales.

Combined revenue fell 2 percent for the valley's 23 biggest software companies, which make products ranging from consumer video games and anti-virus programs to specialized design software and highly lucrative business applications. But software remained one of the most profitable sectors.

Oracle, by far the valley's biggest software maker, managed to increase sales by 2 percent. That's less growth than it's seen in previous years, but the Redwood City company continued to build recurring revenue from clients who pay maintenance and renewal fees to keep using Oracle products.

"What they have is a significant cushion," said R. "Ray" Wang, an industry analyst at Altimeter Group. He said Oracle's large base of existing customers, coupled with strong management and aggressive acquisition strategy, helped the company get through the recession.

CEO Larry Ellison also made a move that could transform the company in years to come, striking a deal to buy struggling computer maker Sun Microsystems. Ellison wants to build high-end, integrated hardware and software systems.

Meanwhile, video game maker Electronic Arts cut more than 2,500 jobs as it struggled to catch up with shifting consumer habits, including the growing popularity of online social-networking games.

Adobe Systems also cut about 1,200 jobs, but the maker of design and publishing software reported that sales were improving as the year came to a close. CEO Shantanu Narayen said he expects that trend to continue.

The valley's second-biggest software company, Symantec, saw sales of its security and data-storage programs decline 5 percent, while smaller rivals including McAfee and ArcSight had double-digit growth.

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Software: 3rd in sales, 3rd in profit margin,
3rd in market value.

Hardware: HP stays versatile

There were big changes in Silicon Valley's hardware sector last year, as some companies thrived despite the recession, while others evolved and two bit the dust.

Hewlett-Packard, the world's biggest tech company as measured by sales, saw its revenue and profit decline when consumers and corporate customers slowed their spending last year. But CEO Mark Hurd made several moves to expand HP's business in the future.

While the Palo Alto company is the No. 1 seller of PCs on the planet, HP wants to play an even bigger role as a builder and supplier of corporate data centers. And after its 2008 purchase of tech-services provider Electronic Data Systems, services emerged as HP's biggest source of operating profit in 2009.

That's an important development for HP, said Aaron Rakers, a tech analyst at the Stifel Nicolaus investment firm, who said the growth of HP's services division helped diversify the company's balance sheet and gives HP "an even bigger seat at the table" in the commercial tech market.

It's all part of a broad trend in which big tech vendors are trying to grow bigger by selling a range of hardware, software and services. HP also moved to buy networking equipment maker 3Com, after networking company Cisco Systems began selling server computers in direct competition with HP.

Meanwhile, struggling Sun Microsystems struck a deal to be acquired by Oracle, the commercial software giant, which plans to begin selling integrated hardware and software systems.

Sun was the second prominent computer maker to meet its demise in 2009. The once high-flying Silicon Graphics was acquired by Rackable Systems, which in turn renamed itself Silicon Graphics.

In another dramatic twist, Apple rose to the No. 2 position on the SV150, passing Cisco and chipmaker Intel in sales. Apple's sales and profit soared as the Cupertino company entered new markets overseas and consumers flocked to buy stylish Macs and iPhones.

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Hardware: 1st in sales, 6th in profit margin, 1st in market value.

Semiconductors: slammed by recession

The recession sank most of Silicon Valley's major semiconductor firms into the red last year. And while massive Intel remained hugely profitable,
it also struggled. Having slid from second in sales to third on the SV150 in 2008, the Santa Clara chip giant fell to fourth last year.

Yet in recent months, the chip market has rebounded and upbeat investors have sent semiconductor stocks soaring.

The biggest semiconductor sector is made up of 38 chip-makers, 28 of which reported a drop in sales. Overall, the segment's revenue, which topped $62 billion, was nearly 12 percent lower than a year ago.

Moreover, 21 of the companies lost money and their employee ranks shriveled by nearly 9 percent to just under 160,000.

In the other semiconductor category, the five firms that sell equipment used to make chips did even worse.

They reported sales of about $8.8 billion — a plunge of about 33 percent from a year ago — and lost a combined $439 million. They also trimmed their ranks by nearly one-fourth, more than any other business category, to about 23,000 employees.

While chip-makers continued to sell some of their products during the recession, often tapping into their inventories, chip manufacturing ground to a halt, which especially hurt the semiconductor equipment group, said Dean Freeman of the research company Gartner. Nonetheless, both chip groups suffered, he said, adding, "this has been the worst two-year decline across the board for the industry."

Nonetheless, like many other segments of the economy, the semiconductor industry was buoyed by Wall Street's increasing optimism. Companies selling chip-making equipment experienced a 37 percent rise in stock market value and chipmakers increased 55 percent.

While Intel now ranks fourth in sales behind Hewlett-Packard, Apple and Cisco Systems, it remained the world's dominant chip-maker. Its revenue topped $35 billion, more than six times that of its closest Silicon Valley rival, Advanced Micro Devices. And Intel's nearly $4.4 billion in profit was more than 11 times as big as AMD's.

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**Semiconductors: 2nd in sales, 8th in profit margin, 4th in market value.**

**Biomedical: continued growth**

Silicon Valley's biomedical industry — which includes biotechnology and medical device companies — continued to bolster its economic clout over the past year, due largely to the performance of Gilead Sciences.

A total of 15 biomedical companies made it onto the SV150 this year, up from nine a year ago. Of the 11 industry sectors on the list, only three — semiconductors, software and networking-
telecommunications — were represented by more companies.

The biomedical firms also showed impressive financial strength, given the recession. The sector generated about $12 billion in revenue, 26 percent more than a year ago and the greatest increase among all industry types. In addition, its $3 billion in net income — mostly rung up by Foster City-based Gilead — ranked sixth on the SV150 and its 25 percent profit margin put it first in that category, an honor it has held for the past few years.

The biomedical sector also boasted $69 billion in combined stock market value, ranking it sixth in that measure. And while the 16,501 people it employed was the second smallest among industry groups, it increased its work force by nearly 18 percent. The software segment, which grew its work force by about 1 percent, was the only other industry to add employees.

One likely reason biomedical companies fared relatively well during the recession is that investors continued to pump money into the industry, knowing such firms take many years to develop drugs or other products, said Ellen Dadisman of the Biotechnology Industry Organization. Besides, she added, "if you are sick the economy isn't going to stop you from pursuing treatments."

Gilead, primarily known for its HIV treatments, posted $7 billion in revenue, making it the 10th-biggest company on the list, a sizable jump from a year ago when it ranked 18th. It has 13 treatments on the market. Besides its HIV therapies, Gilead sells medications for liver and eye ailments, fungal infections, cardiovascular disorders and respiratory conditions.

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**Biomedical: 9th in sales, 1st in profit margin, 6th in market value.**

**Internet: strong return**

Silicon Valley's Internet business — particularly that of search giant Google — came roaring back toward the end of 2009, as the Web cemented its place during a tough economy as one of the valley's most profitable economic neighborhoods.

Despite a punishing recession, six of the sector's eight companies saw their sales grow in 2009 over the previous year, with Netflix and several other companies booking sales more than 20 percent higher. Internet companies, however, kept a lid on spending. The sector's work force was slightly smaller in 2009 than in the previous year, with even Google slamming the brakes on hiring and paring its payroll slightly.

"Everybody cleaned up shop, and made sure that the cost side was under control," said Karsten Weide, an analyst who follows the Internet sector for research firm IDC.

One result of that thrift was a 23 percent profit
margin for the Internet sector, higher than any other segment of SV150 in 2009 with the exception of biomedical. The sector's companies either maintained their position or ranked higher on the SV150 in 2009 than the previous year, a reversal from the 2008 index when Yahoo, eBay and other Internet stocks were punished by investors.

Weide said the troubles of Yahoo, which saw its sales drop 10 percent from 2008, were not of its own making. "That is the fault of display advertising, which was depressed last year," he said.

Internet companies enjoyed the highest market value-to-sales ratio of any group on the SV150 — roughly double the ratio for the overall index, and one measure of investors' optimism about the sector's prospects. Total market capitalization for the sector reached $252 billion, nearly $100 billion higher than in 2008. Google, Netflix and Equinix each saw their market cap grow by more than 50 percent, while Shutterfly and eBay's more than doubled.

Google, which ranked 6th on the overall SV150 ranking, was the sector's Goliath, accounting for 71 percent of the sector's market capitalization, and 55 percent of its sales. Google's profit jumped by 64 percent, or $2.3 billion.

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**Internet: 5th in sales, 2nd in profit margin,**

**Networking: Hit hard by downturn**

The economic downturn weighed heavily on Silicon Valley's top networking companies, whose profits plunged nearly 16 percent last year.

The 22 companies in the category were battered by the pullback in enterprise tech spending as revenues dipped 8.7 percent, about 50 percent worse than the sales drop suffered by the entire SV150. That led to hiring freezes and layoffs.

"Hardware got decimated last year," Pacific Crest Securities analyst Brent Bracelin said. "That is consistent with what you'd expect in an environment where enterprises are cutting back. Whenever there is a budget cut, the hardware spending typically gets hurt more than software or services spending."

On the other hand, the computer and peripherals sector, fueled in large part by consumer spending, experienced a 1.4 percent jump in sales last year.

The networking-telecom segment's largest company, Cisco Systems, first felt the brakes being applied on equipment spending back in 2007 — long before the rest of the tech world saw the gathering economic storm. Last year, the San Jose company reported that its revenue dropped 10 percent to $35.5 billion, while profit fell 19 percent to $6 billion. Cisco launched a
$1.5 billion cost-cutting campaign, which included restricting travel and slashing about 2,500 jobs across its global empire.

Combined employment for the sector slipped 2.2 percent. That corresponded to an 8.7 percent drop in sales per employee. The SV150 as a group had an overall drop of 0.2 percent in revenue per worker.

Brocade Communications reported the largest spike in sales for the networking sector with a 33 percent increase in revenue to $2 billion.

Just as this sector was among the first clobbered by the recession, it is leading the charge back to growing revenue in the recovery.

"It works both ways," Bracelin said. "What you are seeing now this year is that as budgets come back, Cisco's business is coming back much more than that of software companies. Hardware tends to be much more sensitive to fluctuations in budgets."

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**Networking, telecom: 4th in sales, 4th in profit margin, 5th in market value.**