Strong ready to buy in tech sector

Slow economy sets stage for M&A surge

BY ANDREW DIETDERICH
CRAIN'S DETROIT BUSINESS

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Chart of mergers and acquisitions, **Page 37.**

A slow economy coupled with trickling investments have divided owners of tech companies into two groups: those looking to strengthen their already-strong businesses and those just trying to survive.

The result will be a surge in technology-company merger and acquisition activity during the next 12-18 months, analysts said.

The reasons?

Buyers are being smarter about where they spend their money, and sellers have realized they may be living on borrowed time.


Chaturvedi

"Reality has hit a lot of these folks, leaving them wondering if they'll even have a future," said Seema Chaturvedi, a merger and acquisition consultant at **Amherst Capital Partners L.L.C.**

"Earlier in the economic downtown, they may have said: 'Why should I sell? Things will turn around.' But now they're realizing they might be without clients if they don't do something fast."

Larry Mehren, director of **Plante & Moran L.L.P.**'s corporate-finance unit in Southfield, said buyers are being smarter and doing their homework and have waited for an improved economy.

"What's happening in the market now is that buyers have fallen back on methods of valuation that are very tried, tested and true," Mehren said. "Valuation of newer tech companies in the past few years has been based on slightly esoteric numbers, such as how many eyeballs see something or the number of potential customers.

"Now, buyers are wondering how their investment is actually going to generate revenue for them or how the technology they're acquiring is going to help them strategically."

Problems may arise, though, said Douglas Camitta, a partner at the Detroit office of the law firm **Pepper Hamilton L.L.P.** Camitta works in commercial practice and often helps companies through mergers and acquisitions.

"One serious potential negative is whether or not the culture of the two companies can mesh," Camitta said. "Sometimes one of the companies involved in the merger or acquisition can be destroyed because crucial employees don't like the direction of things."

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Taubman Centers profits up despite bad retail year

BY BRENT SNAVELY
CRAIN'S DETROIT BUSINESS

Last year mall developer **Taubman Centers Inc.** overcame the daunting task of opening four malls during the worst retail climate in 10 years and still managed to increase earnings and boost its stock price.

Taubman Centers (NYSE: TCI) last year opened a mall in Plano, Texas, and three malls in Florida — a total of 5.5 million square feet of space.

On the surface, Taubman Centers' financial results look solid, and the outlook for this year is promising. But the company went over budget and lost a dozen tenants at **Dolphin Mall**, which opened last March in Miami. The company also faces a difficult leasing environment this year.


CEO Robert Taubman succeeded his father as chairman in December.

In fact, New York-based **Fitch Ratings** said late Friday that it has placed Taubman Centers' BB preferred stock rating on watch.

Fitch is watching Taubman Centers primarily because it is concerned about the company's exposure to interest rates. The credit watch applies to about $300 million in preferred stock.

The job of opening malls was difficult last year because of a weak economy, reluctance by retailers to open stores and complications caused by the events of Sept. 11.

For example, Taubman Centers still opened **International Plaza** in Tampa, Fla., on schedule just three days after the terrorist attacks but canceled many of the opening fanfare for fear of looking tacky.

Plus, International Plaza and Dolphin Mall rely on tourism for a greater percentage of sales than most malls, and the depressed tourism business cut into mall traffic last year.

Finally, the **Sotheby's Holdings Inc.** price-fixing scandal put Taubman Centers' founder and former Chairman A. Alfred Taubman in the news for several weeks. The scandal and the guilty verdict had the potential of being a major distraction, but the com-

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Quicken ready to rock

New leaders set $10 billion goal

BY KATIE MERX
CRAIN'S DETROIT BUSINESS

Livonia-based **Quicken Loans Inc.** says a change in leadership won't slow its aggressive run to double its business to $10 billion in mortgage closings in four years.

The national leader in online mortgages announced in December that its founder, 40-year-old Dan Gilbert, would turn in his day-to-day management responsibilities Feb. 1 so he could foment new business ideas for Quicken Loans and himself. He will remain the company's nonexecutive chairman.

> *"The best days are yet to come with this company."*
>
> **Dan Gilbert, founder, Quicken Loans Inc.**

Pat McInnis took over as president and Bill Emerson as CEO. Both are company veterans.

Gilbert, who founded the company as **Rock Financial Corp.** in 1985 with a $5,000 loan, said he had an itch to take on a new challenge. And it seemed like a good time.

When Gilbert started the company that is now Quicken Loans, he was selling real estate part time and had just entered his first year of law school. The goal that first year was to make enough to keep the lights on, Gilbert said.

Now, the company has been a subsidiary of Mountain View, Calif.-based **Intuit Inc.** for two years. It collected revenue of $170 million in 2001 and became the largest online mortgage lender, closing $4.6 billion in loans.

McInnis said he'd like to surpass $10 billion in four years. Emerson said he hopes to close $10 billion in loans in 2004.

"The best days are yet to come with this company," Gilbert said.

And while that may make it seem like an odd time to leave, it makes perfect sense for a born entrepreneur like Gilbert, said Rajesh Kothari, managing director of **Accelero Capital Partners L.L.C.**

At age 12, Gilbert started a pizza-delivery business from his mother's kitchen. He had 9-year-olds delivering the pies on their bicycles until the health department called to inform him about the regulatory requirements that accompanied food-preparation ventures.

And at **Southfield-Lathrup High School**, his entrepreneurial ventures, selling everything from candy to trendy toys, often landed him in the principal's office.

Entrepreneurs such as Gilbert are always trying to figure out what they want to be when they grow up, Kothari said. That doesn't end at age 12 or 18.

"Frankly, usually when an entrepreneur sells the business, they

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THE PLAYERS


Dan Gilbert: On to new projects


Bill Emerson: New CEO


Pat McInnis: New president

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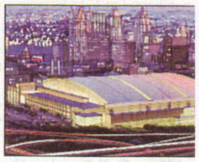

These organizations appear in this week's *Crain's Detroit Business*:

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Another potential stumbling block is a lack of necessary staffing or financial capability to run a larger company with an expanded vision.

Since Oct. 1, there have been 14 technology mergers or acquisitions in Southeast Michigan valued at more than $1 million each, compared with 29 for the same period in 2000, according to **Merger-Stat.com**, a Los Angeles-based company that tracks deals. The mergers were in the Internet, telecommunications, semiconductor, software, hardware and networking categories.

The numbers were down largely because of Sept. 11, analysts said, but the number of expected deals is much higher now than at the same time last year.

Technology companies in the information-technology services and biomechanical sectors should see the most activity during the next year, Mehren said.

Other areas also should fare well, Chaturvedi said, including companies that provide products and services in customer-relationship management, enterprise resource processes and management of supply chains. Enterprise resource processes link back-office computer systems in various departments within a business, such as finance and human resources. Supply-chain management involves the use of technology to connect business processes and hardware such as cash registers, delivery vehicles, distribution centers, factories and suppliers of raw material.

For example, Ann Arbor-based **ExImWare Inc.** announced Wednesday that it has acquired New York-based **InterCommercial Markets Corp.** for an undisclosed amount.

BUYING AND SELLING

Mergers and acquisitions in the Detroit area during the fourth quarter of 2001 and part of the first quarter of 2002. The companies are either in the Internet, telecommunications, seminconductor, software, hardware or networking segments. Every deal is estimated to be worth at least $1 million.

Buyer	Target
National TechTeam Inc., Southfield	**Cyntergy Corp.**, Rockville, Md.
Private group led by management of Proteomic Contract Services unit of Genomic Solutions Inc., Ann Arbor	**Proteomic Contract Services unit** of Genomic Solutions Inc., Ann Arbor
Dixie-Net, Ripley, Miss.	**Ayrix Technologies Inc.**, Jackson, Miss., a division of Big Net Holdings Inc., Sterling Heights
EPIQ Systems Inc., Kansas City, Kan.	**Bankruptcy Management** Software Operations of Imperial Bank, a subsidiary of Comerica Bank, Detroit
ProQuest Co., Ann Arbor	**SoftLine Information**,Stamford, Conn.
Household Direct.com Inc., Southbury, Conn.	**Eqtima Corp.**, Battle Creek
R.L. Polk & Co., Southfield	**Marketing Systems Group**, Essen, Denmark
EyeOnX Solutions L.L.C., Ferndale	**Eccompli Systems L.L.C.**, Ann Arbor
SearchHound.com Inc., Kansas City, Mo.	**SpeakGlobally L.L.C.**, Kalamazoo
Gedas USA Inc., Auburn Hills	**CrossTier**, Fairfax, Va.
Provider HealthNet Services Inc., Dallas	**Health Information Management Operations** of The Detroit Medical Center, Troy
ProQuest Co., Ann Arbor	**Micromedia Ltd.**, Toronto
MSX International Inc., Auburn Hills	**Draupner Associates AB**, Gothenburg, Sweden
Fullscope Inc., Ann Arbor	**RedKlay Inc.**, Atlanta

Source: www.mergerstat.com

Munish Minocha, COO of ExImWare, said his company bought InterCommercial to bolster ExImWare's strength.

ExImWare, founded in 2000, provides software and services to the cocoa, coffee and sugar industries that helps manage the flow of inventory, from farm to consumer.

InterCommercial, founded in 1999, is a Web-based commodity exchange.

"We have complementary offerings," Minocha said. "A merger will help keep costs down for us and our clients."

Without a merger, one of the companies likely would not have survived the year, he said, although he wouldn't disclose which.

Jeff Burton, president and CEO of Farmington Hills-based **Custom Business Solutions Inc.**, said his company bought **Field Technology Partners Inc.** in Novi to strengthen his company's offerings. Terms of the deal, which closed Feb. 11, were not disclosed.

Custom Business limited itself as a company that mostly provided contracted information-technology services. Field Technology had been a Web developer.

"This gives us the ability to offer more refined service in Web development," he said.

Michael Cody, chief technology officer at **Eccompli Systems L.L.C.** in Ann Arbor, said his company announced a merger with **EyeOnX Solutions L.L.C.** in Ferndale in December. Under the agreement, Eccompli shareholders received shares of EyeOnX. Exact figures were not disclosed.

Eccompli was a consulting business primarily in e-business and Web development for payables departments at various companies. EyeOnX had software for payables departments but lacked the sales force and marketing, Cody said.

"We were able to go to some of our clients looking for some of the products EyeOnX already had in place and cut our development time of similar products by 18 months," Cody said.

Without the merger, Cody said, Eccompli would have had to pin its future on an improved economy, and EyeOnX probably would have sold out to a bigger company.

Now, he says, he expects Eccompli to be profitable by the middle of 2003.

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Quicken: New leaders make ambitious plans

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leave right away," Kothari said. "They've done all that hard work; there's a lot of sweat, blood and tears that goes into a business. You get tired and want to relax, and if it's no longer your company, the motivation and strategy become different."

It's about making ideas work, not making money, Gilbert said. Money follows hard work and good ideas, he said.

And he's not completely cut out of Quicken. He'll still be involved in long-term strategic planning and still will draw compensation.

But his departure doesn't leave Quicken Loans lacking for that kind of workaholic leadership, Gilbert said.

"People there love their jobs. They love what they do," he said. "When you have an environment like that, people will run through walls for you."

And because Emerson and McInnis played college football, it may make them especially suited to lead the charge.

Emerson, 39, was a member of the 1982 **Penn State University** national championship football team; and McInnis, 36, played for **Eastern Michigan University**.

> *"They've certainly got a big leg up on the Internet lending market."*
>
> **Bruce Carr, Michigan Mortgage Lenders Association**

Since Emerson, formerly vice president of mortgage operations, joined Rock Financial, the company has doubled its ability to process and close loans.

And since McInnis, formerly vice president of the Rock Financial branch business, joined the company, Rock has increased sales by more than 700 percent and tripled the number of employees to nearly 1,000.

But any change in leadership always raises questions about what is next, said Bruce Carr, past president of the **Michigan Mortgage Lenders Association**.

"Dan Gilbert was the creator of that company. He drove their growth," Carr said. "Their success now really depends on what the new guys do."

Still, Carr said, he doesn't expect the management change itself to result in an immediate increase or drop in market share.

"They've certainly got a big leg up on the Internet lending market," which sets them apart from most lenders, Carr said.

And the mortgage market is so splintered, with about 40,000 lenders nationwide, that it's unlikely the change in management would put Quicken Loans at risk for any attacks from competitors.Emerson and McInnis don't plan to compete on price. Instead, Emerson said, the plan is to grow by providing hassle-free, helpful customer service, with a simple process and convenient access to human help.

That's what a company needs for good word-of-mouth, Emerson said. And that, he believes, is the key to gaining more market share.

Quicken Loans is the 26th-largest mortgage lender nationwide, with 1 percent of the market, McInnis said. But the No. 1 lender only has about 6 percent, he said, so a relatively small change in business could move the company forward.

Dave Green, first vice president heading the mortgage-lending division for **Comerica Bank**, said he couldn't comment about specific competitors but said Internet lending is changing mortgage competition.

Internet-generated mortgages are expected to account for between 5 percent and 20 percent of the market within five years, Green said.

With the Internet advantage Quicken Loans has, Emerson said, his hope is to be No. 1 within five years.

Emerson and McInnis expect new partnerships with Internet service providers **Yahoo Inc.** and **AOL Time Warner Inc.** to supply healthy sources of new customers, McInnis said.

And they expect their competition to do the same.

J.D. Power and Associates reported in December that only 37 percent of mortgage customers said they would use their lender again. Quicken Loans hopes to lure in the 63 percent who wouldn't return to their current lenders, Emerson said, then win them over.

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