

Foreword

The public market valuation of technology companies throughout the 1990s is probably one of the most interesting phenomena in recent financial history. No sector has generated more enthusiasm among investors, and no sector has created more millionaires, albeit mostly on paper. Once the bubble burst, the correction process was brutal. The price of technology companies dropped by over 70 percent on average, and a significant number of companies went out of business, while others were simply avoided by the investment community.¹

Tilman Pohlhausen asks a valid question: Did this downturn in valuation lead to some companies being unjustly undervalued, given their past and expected cash flows? If so, he continues, would such companies be suitable for a concept rarely heard of previously for technology companies: a buyout, possibly even financed to a high degree by debt?

The idea is not new. In contrast to Europe, a number of well-financed private equity funds in the United States exclusively target the technology sector for buyouts. What is new, however, is that many more technology companies, because of their lower valuation, could become targets of buyout investors in Europe, as well.

Ultimately, with his analysis of the buyout attractiveness of European technology companies, the author attempts to estimate the validity of this perception. Keeping in mind that the applied model clearly has both practical and theoretical limitations, its findings appear to support the view that buyout opportunities in the technology sector might now exist in Europe. As part of his analysis, the author also provides a Microsoft Excel-based tool to screen markets for companies with certain buyout attractiveness characteristics.

¹ The NASDAQ composite drop from its all-time high in March 2002 to July 2002 was over 70 percent, while its much smaller German equivalent, NEMAX, lost over 90 percent during the same period.

It is too early to tell whether we can confidently speak of technology buyouts as an established concept. What we can say, however, is that technology companies are increasingly valued in the same manner as companies in any other sector. Today we know that the same rules apply; why, then, should there be no buyouts in technology?

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