

+-----+
-----+
Dell Likely to Seek New Data-Storage Targets After 3Par Loss
2010-09-04 04:01:00.7 GMT

By Aaron Ricadela

Sept. 4 (Bloomberg) -- Dell Inc., beaten by Hewlett-Packard Co. in an 18-day bidding war for data-storage provider 3Par Inc., is likely to pursue other targets that would help it vie with market leaders including EMC Corp.

"We do plan to continue to look to grow organically, but also take a look at strategic acquisitions," David Frink, a Dell spokesman, said. He declined to discuss possible targets.

HP clinched its purchase Sept. 2 with an agreement to pay \$33 a share, or \$2.35 billion. Dell, with \$12 billion in cash on its balance sheet and a \$72 million breakup fee from 3Par, is scouting for companies that will help it move into higher-margin products, including storage, technology services, networking and software, the company has said.

3Par would have helped Dell compete more effectively with EMC, International Business Machines Corp. and Hitachi Ltd. in the \$19 billion market for external disk drives, said Roger Cox, an analyst at Gartner Inc. in San Jose, California. Runners-up include Pillar Data Systems Ltd., Xiotech Corp. and Compellent Technologies Inc., Cox said.

Closely held Pillar, which makes storage systems for databases and files, has revenue of more than \$50 million a year and is about 85 percent-owned by Larry Ellison, Oracle Corp.'s chief executive officer, said Pillar CEO Mike Workman.

'All Capitalists'

"We're not looking for a deal, but we're all capitalists, and if the right deal came along we'd listen," Workman said. He declined to comment on whether the San Jose, California-based company has spoken with Dell.

Dell gained 23 cents, or 1.9 percent, to \$12.59 yesterday in Nasdaq Stock Market trading. The shares have fallen 12 percent this year. HP advanced 66 cents, or 1.7 percent, to \$40.34 in New York Stock Exchange composite trading. The stock has dropped 22 percent this year.

Xiotech, based in Eden Prairie, Minnesota, sells storage "blades" that pack together high-capacity disk drives and help customers make better use of storage capacity, said Brian Reagan, chief marketing officer at the closely held company. He said there haven't been discussions with Dell.

Other possible targets are Compellent Technologies, whose software can route data to different types of drives; Isilon Systems Inc., which makes file-storage systems that may be clustered for better performance, and CommVault Systems Inc., a maker of data-management software, said analysts at firms including Stifel Nicolaus & Co., Kaufman Bros. and ISI Group.

Runners-up

Shares of Seattle-based Isilon rose 25 cents, or 1.1 percent, to \$22.17 yesterday, reaching their highest closing price since February 2007. Compellent, based in Eden Prairie, Minnesota, gained 76 cents, or 4.3 percent, to \$18.56 yesterday after recording its largest gain in more than 20 months on Sept.

2. CommVault, based in Oceanport, New Jersey, lost 25 cents, or almost 1 percent, to \$25.86, after closing on Sept. 2 at a record high.

"It's not like it's the end of the world for Dell" to lose 3Par, said Kaushik Roy, an analyst at Wedbush Securities Inc. in San Francisco who has a "neutral" rating on HP and 3Par shares and doesn't own them. "Dell has other storage companies they can go after."

Adding to its own range of storage products may help Dell, based in Round Rock, Texas, improve its gross profit margin, the percentage of sales that remain after production costs, which was 16.7 percent in the second quarter, Roy said.

'Desperate for Margins'

"They're desperate for margins," he said. "When you're selling your own product, your margins are so much better."

Dell resells storage equipment from market leader EMC, and bought data-storage company EqualLogic Inc. for \$1.4 billion in 2008.

Many independent storage suppliers lack 3Par's ability to secure sales of both mid-range storage systems that cost tens or hundreds of thousands of dollars, and high-end systems that may cost \$1 million or more.

"That was the attractiveness of 3Par," said Cox, the Gartner analyst.

Dell and HP will likely continue to buy smaller companies to gain share in data centers and enter new markets, Abhey Lamba, an analyst at ISI Group in New York who recommends buying HP shares and holding Dell, said in a Sept. 2 research note.

Dell must also show it can successfully integrate its recent acquisitions, expand its business product lineup and improve a weak consumer-PC business, Lamba said.

"We wait to see how the company delivers," he said.

For Related News and Information:

Dell earnings: DELL US <Equity> CH2 Q<GO> Dell earnings stories: DELL US <Equity> TCNI ERN <GO> Dell revenue segments: DELL US <Equity> PGEO <GO> Top technology stories: TTOP <GO>

-- With assistance from Katie Hoffman in New York. Editors: Margot Slade, Romaine Bostick.

To contact the reporter on this story:

Aaron Ricadela in San Francisco at +1-415-617-7034 or aricadela@bloomberg.net

To contact the editor responsible for this story:

Tom Giles at +1-415-617-7223 or tgiles5@bloomberg.net