Mergers and Acquisitions: Lessons from Palm Inc. 1995-2008
Session 15

Tom Kosnik
Fenwick and West Consulting Professor
Stanford Technology Ventures Program
Last Month: Idea Versus Opportunity

This Month: Realities of Business Operations
Agenda

A. Announcements
B. Palm 1995 Discussion
C. Palm from 1995-2008 – Multiple M&A events (Tomk and Connie Chan)
D. Palm business and competitive position in 2008 – Sachin Kansal
E. Takeaways
Stanford Entrepreneurial Alumni who know Palm Inc.

Connie Chan
Stanford class of 2005
Elevation Partners
www.elevation.com/

Sachin Kansal
Class of 2001
Palm Inc.
www.palm.com/us/
Is now the right time for Palm to get married?
Is USR the right spouse?

Expected Length of the Relationship

<table>
<thead>
<tr>
<th>Depth of Commitment &amp; Exclusivity</th>
<th>Short</th>
<th>Unknown</th>
<th>Long</th>
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</thead>
<tbody>
<tr>
<td>Shallow/ Usually Polygamous</td>
<td><strong>Credit Lyonnaise Private Equity (Series C)</strong></td>
<td><strong>Newtek Ventures (Series B)</strong></td>
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<td>Deeper/Often Polygamous</td>
<td><strong>ABC Venture Capital at $9 MM Valuation (down round)</strong></td>
<td><strong>Alpha Computer Financing and OEM agreement</strong></td>
<td><strong>Merrill Pickard, Sutter Hill, and Tandy CEO (Series A and B)</strong></td>
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<tr>
<td>Deepest/Usually Monogamous</td>
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<td><strong>Merger/ Acquisition With U.S. Robotics</strong></td>
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TECHNOLOGY VENTURES
How to evaluate your sources of funding: One co-founder’s wish list...

1. Legally Qualified: They satisfy any legal requirements.
2. Fit: Their selection criteria fit our investment opportunity.
3. No conflicts: Their other investments do not compete with us.
4. Aligned: Their objectives are aligned with our objectives.
5. Connected: They can give us access to customers, other investors, government officials, etc.
6. Well funded: They have the capacity to invest now, and in the future if needed.
7. Smart: They have expertise and experience that will help us to succeed.
8. Trustworthy: They are honest. We trust them & vice versa.
9. Autonomy/Control: They will allow us to control our business
10. Good value: Their valuation, terms & conditions are fair.

Adapted from Kosnik (2000) guidelines on selecting investors for AVAcore Technologies.
## How to evaluate your sources of funding

<table>
<thead>
<tr>
<th>Criteria</th>
<th>ABC VC</th>
<th>Alpha CPU</th>
<th>USR</th>
<th>Other</th>
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<tr>
<td>Qualified</td>
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</tr>
<tr>
<td>Fit</td>
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<tr>
<td>No Conflicts</td>
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<td>Aligned</td>
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<td>Connected</td>
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<tr>
<td>Well Funded</td>
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<tr>
<td>Smart</td>
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<td>Autonomy/ control</td>
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<tr>
<td>Good Value</td>
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<tr>
<td>Total score</td>
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</table>
Epilogue: What happened to Palm’ PDA and Smartphone Categories: The Situation in 1995

The Category Maturity Life Cycle

PDA

Technology adoption life cycle

End of life

Fault line!
Epilogue: What happened to Palm’ PDA and Smartphone Categories: The Situation in 2000

The Category Maturity Life Cycle

PDA

Time

Revenue growth

Technology adoption life cycle

Early Main Street

C

Mature Main Street

D

Declining Main Street

Fault line!

End of life
Epilogue: What happened to Palm’ PDA and Smartphone Categories: The situation in 2008

The Category Maturity Life Cycle

Technology adoption life cycle

Time

Revenue growth

Smartphone

PDA

Early Main Street

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Declining Main Street

Fault line!

End of life

TECHNOLOGY VENTURES
1995-2008: Multiple M&A events for Palm
With insights from TomK and Connie Chan

<table>
<thead>
<tr>
<th>Year</th>
<th>Event Description</th>
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<tbody>
<tr>
<td>1995</td>
<td>USR buys Palm</td>
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<tr>
<td>1996</td>
<td>Palm Pilot Ships</td>
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<td>1997</td>
<td>Palm Pilot leads PDA Mkt.</td>
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<td></td>
<td>3Com buys USR</td>
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<td>1999</td>
<td>Donna, Jeff and Ed Leave 3COm to found Handspring</td>
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<td>2000</td>
<td>3Com spins off Palm Inc. for a high profile IPO</td>
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<td>2001</td>
<td>Palm Inc. sets up Palmsource as indep. Subsidiary</td>
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<td>2002</td>
<td>Palm Inc. Acquires Handspring</td>
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<td>2003</td>
<td>Palm Inc. Becomes PalmOne (HW) and Palmsource (SW)</td>
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<tr>
<td>2004</td>
<td>Access Acquires Palmsource</td>
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<td>2005</td>
<td>PalmOne buys back Palm name to become Palm Inc. Again.</td>
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<td>2006</td>
<td>Elevation Partners Acquires 25% stake in Palm Inc.</td>
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<td>2007</td>
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</table>
Palm Inc.’s stock price since IPO vs. 3Com (which spun it out in 2000)
Both Product families must deliver:
Delightful User Experience
High Value
Top of Mind Awareness
To very different segments
And now let’s hear from Sachin Kansal!

Sachin Kansal
Director of Product Management, Palm, Inc.
Takeaway 1: How to evaluate your sources of funding

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Adapted from Kosnik (2000) guidelines on selecting investors for AVAcore Technologies.
Takeaway 2: One way to think about picking Co-Founders

Do I trust them?  

\[ \begin{array}{c|c|c} 
\text{Do I enjoy them?} & \text{YES!} & \text{NO!} \\
\hline 
\text{Soul mates} & \text{Dream team mates} & \text{Class mates} \\
\text{Devils’ Advocates} & \text{Team mates} & \text{Bozoz} \\
\text{Play mates} & & \\
\end{array} \]

Takeaway 3: In alliances and M&A always ask: What can each partner give/get from the relationship? Do both sides see it the same way?

<table>
<thead>
<tr>
<th>Potential Stakes to bet on the Partnership – or Merger/Marriage</th>
<th>Palm can give USR:</th>
<th>Palm can get from USR:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technology (<em>product, platform, and process technologies</em>)</td>
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<tr>
<td>Resources (<em>money, time, talent, and knowledge</em>)</td>
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<tr>
<td>Relationships (<em>with customers, channels, investors, government</em>)</td>
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<tr>
<td>Reputation (<em>visibility, credibility, brand equity</em>)</td>
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<tr>
<td>Core Competencies (<em>critical capabilities for execution</em>)</td>
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<td>Chemistry of Key People (<em>culture, character, personalities, values</em>)</td>
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<tr>
<td>Company Vision (<em>purpose, mission, values</em>) and strategy</td>
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