

The apple, authentec merger

[Business](#), [Company](#)



Abstract

This paper critically evaluates the merger between Apple Inc and AuthenTec that took place on the 26th July 2012. The paper analyses the process of the negotiations and with a keen interest on the motivation behind the deal. This is Apple's biggest deal ever and there are many questions pointing at the reason and the speed of this merger. This paper delves into the timing of the negotiations examining indicators that could reveal any hidden motives that Apple could have had that led to the signing of the final agreement. The paper uses a theoretical lens to explain the occurrences, the nature of negotiations and who actually exerted pressure on the process and the reason why. The paper investigates the relationship between Apple's aggressiveness and the pending release of its new product.

Introduction

Fingerprint sensor technology company AuthenTec Inc announced its acquisition by Apple on July 27. The agreement was at \$356 million and was to be the biggest acquisition in Apple's 36 year period, in operation. A year after Apple Inc (AAPL. O) acquired AuthenTec Inc AUTH; a patent application was made public by the US Patent & Trademark Office (Purcher, 2012). This application from Apple pointed at a new technology for the iPhone and its other devices, a security feature that would incorporate fingerprint scanner. Interesting was the fact that this technology was acquired from AuthenTec. Purcher (2013) explains that Apple had made such applications earlier in 2009, an indicator that it was interested in fingerprint scanners for its future devices. It appears that this research was at an advanced stage in 2012 with

the revelation that this technology would be used together with face or Retina recognition as a sophisticated security measure on its iPhone and MAC. The Q-Theory of Mergers explains that mergers can be used as means for technology transfer and capital reallocation (Jovanovic et al., 2002). This paper focuses on the former in regard to the merger and acquisition in question. It is the light of this argument that this investigation delves into the background of this deal, Apples agenda and maneuvers and the eventual take over to bring to light its real purpose.

The Process

According to Brian (2012), the negotiations between AuthenTec and Apple started towards the end of 2011 with a simple approach by AuthenTec whether Apple would be interested in implementing its latest technology. Brian's (2012), revelation extends to the fact that Apple was not the only company that Authentic approached and despite its wealthy customer base that included " Alcatel-Lucent, Cisco, Fujitsu, HBO, HP, Lenovo, LG, Motorola, Nokia, Orange, Samsung, Sky, and Texas Instruments" (Brian, 2012), its only Apple that responded to AuthenTec's approach and by showing interest in developing the technology. At this moment, it appeared as though the main reason Apple was interested in commercially pursuing this technology was cost. Nonetheless, the negotiations began with the focus turning to the extent to which Authentic would grant intellectual property (IP) to Apple for the latest technology (Bell, 2012). At this point, it seemed there was a lack of agreement on such terms and this completely shifted the nature of the agreement. This was the beginning of these negotiations in late February 2012 and Davidoff (2012), in his article revealed the nature of these

negotiation as Apple would direct. According to Ogg (2012), the deal took a different turn with many consultations between the two parties over licencing, exclusivity, cost as well as issues over the new product and, as a result, Apple was unsatisfied with the proposed commercial agreement. On May 1, it made a counter proposal to AuthenTec's negotiation team to acquire the company instead (Brian, 2012). In its proposal, Apple gave a price of \$7.00 for each share, and valued the firm at a 115 percent of its previous day common stock ending price (Ogg, 2012). Apple knew that no other potential buyer would make such an incredible offer to AuthenTec and as such it began to intensify the negotiations. It also believed that AuthenTec technology would not benefit Apples rivals, who utilized different smart phone platforms (Brian, 2012). Apple's products are known to have a narrow platform that is compatible with component parts of universal unit volumes. Nonetheless, Apple wanted this negotiations as quite as possible it appeared to value its privacy on this one, it did nothing as far as news releases on this deal were concern. AuthenTec on the other hand did not mention the acquisition, despite its penchant to news release on every issue (Davidoff, 2012). Ross et al. (2007) rightly express that acquisition process is the most dramatic and controversial undertaking in corporatefinance(Ross et al., 2007). Apple did not want controversy surrounding the revelation of its true intention in the merger. Apple has long been known for its innovation, an asset that it has struggled to maintain since its last release. Apples innovation has put it at the top of the market with pundits valuing it at \$1 trillion US dollar market cap (Wohlsen, 2013). The secrecy surrounding this deal was not only an indication of Apples reduced innovation, but protection

of its reputation and market share, Apple was buying technology at a cost of \$356 million. Acquisitions of this nature make headlines in the financial press, which could be scandalous (Ross et al., 2007). Subsequently, Apple proposed a transaction structure and timeline for the acquisition an indication that it needed something more than just AuthenTec, it needed its technology and it needed it fast.

The Technology Integration Strategy

At the pre-merger negotiation phase, the Apple negotiation team expressed their company's desire for the process to move quickly as a result of its product plans as well as what it referred to as engineering efforts (Cheng, 2012). Apple was in a hurry and wanted the pre-merger negotiation rushed, due to its focus on timing. In addition, the company was against the auction process and threatened to rescind its proposal if AuthenTec further proposed alternative proposals (Cheng, 2012). It is important to note that since the beginning of these negotiations, at no point did AuthenTec filing indicate Apples intention to include neither hardware nor a soft ware feature.

However, in Apple's acquisition proposal to AutheTec, there was an inclusion of a \$20 million IP agreement that gave it a free hand on the patents (Brian, 2012). These patents, AuthenTec, earlier in the strategic planning could have costed Apple as much as \$115 million.

The filing incorporated an agreement allowing Apple the right to have non-exclusive license as well as other rights that included hardware and software technology, as well as patents for the commercial use of 2D fingerprint security sensors intended for use in or with their products (Bell, 2012). Based

on this, it is reasonable to assume that Apple's intention was to acquire AuthenTec fingerprint technology that it planned on incorporating in its new eWallet also called " Passbook" (Bell, 2012).

The Passbook was the long awaited application running on iOS 6 and was meant to serve as storage for tickets, loyaltycards and other packages; this device was to be a digital wallet that could also offer digital payments (Brian, 2012). It is also safe to assume that Apple's idea was to incorporate a security feature that could verify payments and ensure that was not accessible to an authorized user in case it fell on wrong hands.

On the other hand, prior to the acquisition deal, on May 8th 2012, AuthenTec had announced the introduction of the smart sensor; a security feature designed specifically NFC mobile. This was a 192 pixel by 8 pixel sensor that comprised of identifying finger prints alongside other sophisticated features such as the One Time Password (OTP) generator (Bell, 2012). In other words, this product was ideal in securing the Apple's eWallet Passbook an innovation that came in time and they had to seize the opportunity. In addition, this sensor that was 1.3 mm could be assimilated in more than one application including a Home button.

Apple was tactful in its negotiations as it had to meet specific deadlines. If it could finalize the deal fast enough, then it could have used the new technology in one of it's yet to be released products. In fact there were secret reports of Apple launching it next generation iPhone later in September of 2012 and thereafter, the a 7.85-inch iPad. It makes sense to assume that this would give Apple a little under 90 days to embed this new

technology in its products. Moreover, it is important to note that this could also have been relevant in the Apple's computer line-up since there had been numerous fingerprint sensors given by AuthenTec for desktop computers for a long time (Neurotechnology, 2013). There was a possibility of this technology could make its debut in Apple's Mac lineup. Nonetheless, the question was, it was this technology was developed for Apple, why was there the rush to settle the deal? And is this not an indication that the technology was to be used before the end of the year 2012? Well, if Apple needed a product, then it could have put out such technology from the iOS6 operating system which was to hit the market later on the same year. It is only possible and true that Apple had a perfect timing for the technology for use in one of its products due for release sooner.

After consultations with its board alongside its investors, and following exploration of its ability to pursue acquisition deals with other electronic firms, AuthenTec put an offer of \$9 for every share to Apple for continuity of the negotiations. However, Apple made a final bid of no more than \$8.00 for each share, and consequently, in less than a month the two parties resolved to finalize the deal (Bell, 2012). This was not to be the end of this transaction as once again AuthenTec put a halt to it claiming that it had undertaken its due diligence and pending this resolution, it was not willing to proceed with the deal (Brian, 2012). This was not because it wanted to drop the deal, but rather the company had shifted its focus to licensure issue in regard to the new technology. Starting June 1 to 3rd of July 2012, the two firms embarked on developing the technology as needed by Apple and went on to thin out their differences in regard to acceptable commercial agreement terms

(Cheng, 2012). This was revelation of how aggressively Apple was pursuing the technology for integration in its products. This was further strengthened by AuthenTec's announcement that it had successfully completed and resolved its due diligence issues and that it had brought back the deal on the negotiation table (Ogg, 2012). July of 2012 saw the two companies iron out the issues that allowed AuthenTec to make the technology available to Apple while at the same time maintain an open bid for other interested companies (Brian, 2012). However, Apple insisted that development of the technology was to be on schedule regardless of the status of the deal and on the 19th of July both companies agreed on the contentious issues on the IP agreement and made an agreement (Brian, 2012).

The Deal

From the beginning, Apple had the intention of licensing the new technology from AuthenTec and utilize it in one of its yet to be released products. It was said that Apple was to officially release a new iPhone and talk of the 7.85-inch iPad were gaining pace (Slivka, 2012). As Ross et al.(2007) explain, one of the main disadvantages of a merger especially of such a nature, must be approved by AuthenTec stockholders, this has to be a two thirds approval. Having mentioned that, the fact that AuthenTec had submitted its proxy papers, its shareholder were yet to vote on the deal in question. This was certain to proceed regardless and in case AuthenTec wanted out for a bigger offer, it probably needed to have paid Apple \$ 10 million. It did not matter whether the deal was complete or not, the new finger print technology was sure to end up in one of Apple's products. In addition, in all the negotiations, Apple maintained that the development of the new technology was to

continue no matter whether it agreed with AuthenTec or not or even acquired the company. There were many negotiations between these companies, one that also involved other parties including Alston & Bird and Piper Jaffray, and by the 26th of the same month, a deal was brokered and Apple agreed on \$8 on each share alongside 20 million for the technology as well as \$115 million for licensure of the technology (Brian, 2012). The following day on the 27th of July, announced a deal after it filed an 8-K with the Securities and Exchange Commission (SEC). Apple is did not waste time to incorporate the finger print sensor feature in its devices (Apple Inc, 2013). AuthenTec has been known to specialize in development of security hardware and software and it is possible that these could have found their way into the Apple's devices including the desktop computers. However, these details are not easily available, but Apple's aggressiveness in using such technology is a point of speculation that this is possible.

Conclusion

Apple Inc acquired AuthenTec in July of 2012 after intense negotiations. The deal that was worth \$ 356 million dollars is said to be the biggest Apple has ever made. This paper has delved into the issue surrounding this merger. The paper asserts that the motivation behind this merger was the AuthenTec's finger print sensor that Apple aggressively wanted to acquire. The sensor had a chip that could be incorporated in computers and more so a perfect fit for Apples products that run on a narrow platform that is compatible with component parts of universal unit volumes. However, the company wanted this negotiations as quiete as possible it appeared to value

its privacy on this one, the tech firm did nothing as far as press releases on the deal. In addition, the new technology was useful to Apple as it could be relevant in the Apple's computer line-up since there had been numerous fingerprint sensors provided by AuthenTec for PC computers for a long time. It makes sense to assume that Apple had the intention of licensing the fingerprint sensor from AuthenTec and utilize it in one of its products most likely the the 7.85-inch iPad, a talk that has gained pace. A close examination of the merger between these two companies reveal the fact that it was fuelled by Apples desire to utilize the new technology.

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