

I.B.M. Acquires Cognos, Maker of Business Software, for \$4.9 Billion

By Ian Austen

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OTTAWA, Nov. 12 — Cognos, the last major independent producer of software that companies use to analyze mountains of data, agreed on Monday to be acquired by I.B.M. for \$4.9 billion in cash.

The takeover of Cognos, which is based in Ottawa, followed last month's acquisition of the French company Business Objects, another maker of business intelligence software, by SAP of Germany for \$6.8 billion. In March, Oracle bought Hyperion, another competitor of Cognos.

Software that sifts through data to tease out things like a customer's buying habits or a corporation's inefficiencies is hardly new. Cognos itself was founded in 1969. But several factors have prompted the recent interest in this market segment from larger software companies and led to Cognos's relatively high price tag.

If the deal is approved by Cognos's shareholders, I.B.M. will pay about 5 times the company's annual revenue and 39 times its annual net earnings of about \$126 million. Takeover speculation has driven the value of Cognos shares up in recent weeks. The I.B.M. bid of \$58 a share represents a 9.5 percent premium to its Friday closing price.

But many analysts anticipate that the business intelligence software market is about to enter a period of significant demand from companies and government agencies.

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“I.B.M. had nothing in this area,” said Colleen Graham, research director at Gartner, a technology consulting firm. “I.B.M. had to do something. But because it didn’t move fast enough, it paid a premium.”

The acquisition of Cognos will present I.B.M. with some unusual integration issues. Business intelligence software has traditionally been intended to be compatible with a variety of computer applications from a wide number of software companies.



Rob Ashe, chief executive of Cognos. The company has a following among retailers like Home Depot and Amazon.com.
Chris Mikula/The Ottawa Citizen

Doing that requires cooperation from those other companies on technical issues. But Sanju K. Bansal, the chief operating officer of MicroStrategy, a relatively small maker of business intelligence software, anticipates Cognos may find those companies less helpful after it becomes part of I.B.M.

“Those vendors don’t want to cooperate with I.B.M. because they compete with I.B.M. every day,” he said.

There may also be conflicts with companies like Accenture that include Cognos software when they sell large data systems to corporations. Those firms are also direct competitors to I.B.M. in many areas.

But Bob Djurdjevic, president of Annex Research, a consulting firm, said Cognos would find it relatively easy to recover any lost business once it is part of I.B.M.

“Cognos will have a distribution system it could only have dreamed of,” Mr. Djurdjevic said.

In a conference call with reporters, Rob Ashe, the president and chief executive of Cognos, said he would continue to run the company from Ottawa. While I.B.M. intends to maintain the Cognos brand name, the company will be an I.B.M. unit rather than a stand-alone entity.

Like most business intelligence companies, Cognos software has a following among many retailers including Home Depot, Amazon.com, American Eagle Outfitters and 7-Eleven. Harrah's, the casino operator, similarly uses loyalty programs and Cognos software to tailor incentives for gamblers.

Ms. Graham at Gartner said that the stricter financial reporting requirements imposed by the Sarbanes-Oxley Act were having the unintended side effect of increasing interest in business intelligence software.

Meeting the new regulatory requirements has forced many companies to clean up their computer systems and databases, a process that often involves purchasing large packages of programs from companies like SAP, Oracle and I.B.M.

“When they go through all that effort, many of them consider adding B.I. software to see if they can get some additional cost benefits from the process,” Ms. Graham said.