

## Siemens A&D to Acquire UGS

### CIMdata Commentary

As CIMdata announced in yesterday's edition of its CIMdata PLM Late Breaking News, Siemens AG has announced their intent to acquire the UGS Corporation for US \$3.515 billion, pending all necessary governmental reviews and approvals. After this acquisition, UGS will become a unit within Siemens' Automation and Drives (A&D) Group, a €12.8 billion business unit headquartered in Nürnberg, Germany. Siemens and UGS stated that the long-term strategic views of the two firms are quite consistent and that the acquisition will allow them to blend Siemens' and UGS' complementary programs to deliver "Totally Integrated Automation" solutions to the market. They report that they plan to finalize the acquisition by the end of the first quarter of this year. CIMdata is positive on this acquisition and believes that it has the potential to be an excellent move for Siemens, UGS, and the industry, but there are some significant challenges that must be addressed for this success to be achieved.

PLM is a mission-critical, extended enterprise business platform that helps companies innovate and grow by enabling them to digitally create, build, support, and manage their products across their lifecycles. Reporting more than 46,000 customers in 62 countries, UGS, headquartered in Plano, Texas, U.S., is one of the worldwide leaders in PLM software and services. UGS is a supplier to customers in a variety of industries around the world, primarily including automotive, aerospace and defense, consumer goods, high-tech electronics, and machinery industries. According to published reports, UGS and Siemens A&D began their business relationship in 2003 with joint projects addressing digital manufacturing-related technologies.

UGS' software portfolio covers the entire array of collaborative Product Definition management (cPDm), computer-aided design/computer-aided manufacturing/computer-aided engineering (CAD/CAM/CAE), and digital manufacturing solutions. UGS holds strong revenue and market share positions globally in all three of these major segments of the PLM market. In fiscal 2005, the company reported revenues of US\$1.15 billion and in the third quarter of 2006 the company reported its 13th consecutive quarter of year-over-year revenue growth (every quarter of its existence as an independent company).

Siemens' A&D Group handles all of Siemens' factory automation technologies, and a major intent of this move is to integrate their technologies with UGS' full suite of PLM technologies. According to UGS, they plan to "create the world's first supplier of software and hardware across the complete product and production lifecycle." The initial integrations will heavily leverage UGS' Digital Manufacturing and Teamcenter technologies, an integral part of the overall UGS PLM portfolio of offerings.

In describing Siemens' perspective on this move, Klaus Kleinfeld, President and CEO of Siemens AG said, "With the acquisition of UGS, we combine its competence in the sector of digital factories with our leading know-how in industrial automation. This combination makes our customers' processes faster, better, and more cost-efficient. With the unique combination, we underscore our position as a trendsetter in automation systems and bring this business into a new dimension." Additional clarification of Siemens' perspective was provided by Helmut Gierse, President of Siemens A&D, who stated "Seamless flow of

information and data enable collaboration across the whole value chain. This is becoming crucial to increase productivity in the manufacturing industries where the competitive pressure is constantly rising. By combining expertise in the physical world of automation and the virtual world of PLM software, Siemens will be the only company able to offer integrated software and hardware solutions to its customers throughout their whole production process. All our future industrial software and hardware products will support today's and future leading interfaces and standards. We aim to be the first to market with innovative digital factory solutions, which truly unify the engineering and automation domain."

CIMdata believes that this acquisition, if properly executed, is a bold move by Siemens. One of Siemens' stated business objectives is to move into higher-growth businesses. The overall PLM market is forecasted by CIMdata to grow at a CAGR of 8.3 percent to approximately \$27 billion by 2010 (CIMdata 2006 Market Analysis Report) with cPDM growing at a 14 percent CAGR during that period and the digital manufacturing sector forecasted to grow at an even higher rate of 23 percent. The acquisition of UGS should enable Siemens A&D to expand its product suite significantly and accelerate its overall business growth.

The concept of "Totally Integrated Automation" is intended to provide expanded levels of efficiency and productivity for manufacturing companies. Siemens and UGS claim to have built their solutions on compatible technology, which should reduce the time and complexity of integration. The combination of UGS' design and management solutions with Siemens' production automation solutions can be used to create a more all-inclusive environment for both design and manufacturing engineers, enabling manufacturing information and features to be incorporated seamlessly into the design process and earlier in the overall product development process. Further, Siemens can augment and complement UGS' research and development resources and accelerate bringing new PLM solutions to market.

CIMdata has been a strong proponent of digital manufacturing as a critical component of PLM strategies and has been highly supportive of industry programs that have expanded the scope of PLM to incorporate manufacturing automation technologies. This acquisition creates an organization that should be able to leverage both PLM and automation expertise to provide a truly integrated PLM environment that embraces manufacturing automation. We are very positive about this aspect of the acquisition and the impact that this can have in furthering development of expanded solutions that can benefit industry. These competitive pressures will encourage developments from other suppliers.

However, Siemens' acquisition of UGS faces some significant challenges as well. The foremost challenge will be to define and execute on a technology and business integration plan that will enable them to fully achieve the potential benefits from the acquisition. On the business side of the equation, Siemens will need to demonstrate the fact that it has acquired knowledgeable people along with the solutions offered by UGS. This means that keeping and not minimizing the UGS team and its members will be a critical task and one that must be visible, especially between now and the conclusion of any transition period. When considering the technology side of the equation, Siemens A&D has been primarily focused on manufacturing automation products and technologies. For the acquisition to be successful for UGS, the PLM market and Siemens, Siemens must demonstrate an appreciation of all of the major phases of the overall product lifecycle, including those that are outside of production, in particular product planning and product design, as well as phases after production such as maintenance/support, and product retirement. The

breadth of UGS' product lifecycle vision has been a strength for them. Siemens will need to demonstrate that they share this broad vision, and are intent on enhancing UGS' (and now Siemens') focus and solutions in these areas.

UGS' position in the PLM market has been firmly built upon a program of developing PLM "solutions" comprised of a combination of software- and process-based knowledge and support, not just software products. They have demonstrated a clear understanding that PLM is a business process-focused strategy, with technology enabling these processes. In order to continue to be successful in the PLM market, UGS must continue to enhance their solutions to fit this strategy. Siemens must demonstrate their commitment to do so as well.

As stated earlier in this commentary, CIMdata is positive about this announcement, and believe that it has the potential to be an excellent move for Siemens, UGS, and the industry—creating a PLM supplier that can deliver integrated solutions that address a much larger "footprint" across the product lifecycle. The challenges are substantial, but can be successfully addressed with the right focus and dedication of Siemens and UGS. If successful, this acquisition can put additional competitive pressure on the other major competitors who will need to respond. We look forward to seeing this acquisition proceed over the coming months and hope that the potential benefits become reality for the industry.

#### **About CIMdata**

CIMdata, an independent worldwide firm, provides strategic consulting to maximize an enterprise's ability to design and deliver innovative products and services through the application of Product Lifecycle Management (PLM). CIMdata provides world-class knowledge, expertise, and best-practice methods on PLM. CIMdata also offers research, subscription services, publications, and education through international conferences. Visit <http://www.CIMdata.com> for more information.