

Siemens to Acquire Mentor Graphics

CIMdata Commentary

Key takeaways:

- *Smart, connected products have become the norm in a wide range of industries, requiring product companies to evolve their product development strategies and tools to respond*
- *Leading product lifecycle management (PLM) software and services providers have been evolving their offerings to respond, often through acquisitions*
- *Siemens AG continued this trend by announcing their intent to acquire Mentor Graphics, a leading provider of electronic design automation (EDA) solutions, which will further bolster the PLM offerings of Siemens PLM Software*

Music players, smart phones, autonomous vehicles, and all manner of smart, connected products are driving changes in product development processes and tools in a wide range of industries. Increasingly, the value consumers derive from the products they buy is coming from the software content in those products. Product companies must respond and are adopting PLM enabling solutions as part of that response. Just a few years ago, the focus was on mechatronics, a word coined in Japan to describe the melding of mechanical and electrical components to deliver a new customer experience. Today, it is the electronics, and the software that drives those experiences, that are essential to competing in the global economy.

In response to this trend, over the last few years, Siemens PLM Software has expanded their offerings through a series of strategic acquisitions. In 2012, they greatly expanded their already strong simulation and analysis (S&A) portfolio by acquiring LMS, an independent leader in S&A and product testing. Earlier this year, they plugged a hole in their S&A portfolio by spending nearly \$1 billion to acquire CD-adapco, a leading provider of computational fluid dynamics (CFD) software. In 2015, they doubled down on their investment in Polarion Software, an independent provider of software development tools.

On November 14, 2016 Siemens AG announced their intent to acquire Mentor Graphics Corporation, a US-based leader in EDA solutions, for \$4.5-4.6 billion, a 21% premium over the market price at the time of announcement. Statements by Siemens executives in the announcements signal their belief that software will be a driving force for the company's strategy going forward. Siemens also recently announced their intent to spin out their \$15 billion healthcare business as part of this change of strategic direction.

CIMdata applauds this acquisition and believes that it provides Siemens with a number of strategic advantages. Most importantly, it gives Siemens a strong position in the EDA space, a critical strength in the smart, connected product era. It could cause some issues for some customers using other EDA tools, but Siemens has proven successful at navigating "openness" issues for their software customers over the years and this will help them with this new acquisition. Combining Mentor Graphics with the rest of the Siemens PLM Software portfolio, especially the software development assets of Polarion, is a huge step forward and gives them unprecedented breadth in their portfolio to answer product development challenges today and in the future. The acquisition also builds on two other Siemens strengths. They are the leader in the digital manufacturing market, and adding the Valor portfolio from Mentor Graphics builds on their existing offerings supporting electronic product

development. With this purchase, they also get Mentor's simulation business, expanding their CFD capabilities with a focus on electronics.

Of course, the devil is in the details but activist investors have been pushing Mentor to make some big moves, and now they have—by being acquired. Siemens has shown the ability to bring acquisitions into the fold and to convince the acquired leadership to stay on board, essential to making such moves pay off sooner rather than later. CIMdata looks forward to learning more about this acquisition in the coming weeks, and to understand just how Siemens broad Industrie 4.0 vision will be complimented by this stunning move.

About CIMdata

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