

Nuance extends voice reach

by David Shabelman and Carolyn Murphy

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Nuance Communication Inc.'s purchase of Dictaphone Corp. highlights the accelerating consolidation among makers of speech-recognition software amid moves by technology titans such as Microsoft Corp. and IBM Corp. to enter the market.

Since 2001, Burlington, Mass.-based Nuance, which also makes digital imaging tools, has made at least nine acquisitions focused on the kind of software used in call centers to automate telephone menus and in financial institutions and other companies to verify a customer's identity.

Continuing its aggressive expansion, Nuance on Wednesday, Feb. 8, agreed to buy healthcare dictation firm Dictaphone for \$357 million cash. The acquisition comes nearly four months after Nuance itself was acquired by rival ScanSoft Inc. for \$221 million. Once the deal closed, ScanSoft adopted the Nuance name.

Nuance's previous deals include its \$181 million acquisition of SpeechWorks International Inc. in 2003, its \$35.3 million purchase of the speech-processing telephony and voice control business of Dutch giant Royal Philips Electronics NV in 2002 and its \$39.5 million play for bankrupt speech recognition company Lernout & Hauspie NV in 2001.

As ScanSoft, the company spent \$98.2 million in November 2004 to acquire three companies with related speech technology businesses. ScanSoft took Phonetic Systems Inc. for \$35 million in cash, ART Advanced Recognition Technologies Inc. for \$21.5 million and Rhetorical Systems Ltd. for \$6.7 million.

"They've definitely repositioned their company through a very strong acquisition strategy that complemented their digital imaging software with voice recognition," said Allen Cinzori, vice president with software advisory investment bank Software Equity Group LLC in San Diego. "When you look at them today, the market is valuing them at a very rich valuation."

In a research note, Needham & Co. LLC analyst Richard Davis said Wednesday it expects Nuance to show the third-fastest organic revenue growth of any enterprise software firm. "The company has demonstrated an ability to acquire and leverage acquisitions in the past, and we have no reason to believe this time will be different," Davis said.

Stratford, Conn.-based Dictaphone's transcription units are used by doctors to dictate patient findings that can be transcribed automatically. Though Nuance approached Dictaphone a year ago to discuss an acquisition, the companies did not enter serious discussions until Dictaphone hired UBS Investment Bank to shop it in June. Before the acquisition, the two established a partnership under which Dictaphone used Nuance's software in its dictation units.

"Clearly, the company is seeking growth markets, and we identified the healthcare market as very attractive for our speech technologies," said Nuance spokesman Richard Mack. "Based on the early success we saw through our products, we felt that Dictaphone was the ideal partner in this space to give us the greater presence we needed."

Both companies' boards have approved the transaction, which requires regulatory approval and which is expected to close by the end of March.

Source: The Daily Deal

