



VirnetX has identified P2P targets under USD 100m, will look at buys in fourth quarter, CEO says

By Monique Lewis

VirnetX Holding Corp., the listed product communications developer, has identified person-to-person communications targets and will begin looking at acquisitions in the fourth quarter, CEO Kendall Larsen said.

The Scotts Valley, California-based company's technology provides security for real-time peer-to-peer communications such as VOIP, video conferencing and IM.

Attractive buys are peer-to-peer unified communications targets with under USD 100m revenues and trading at a low multiple, Larsen said. However, the eye-catching value for VirnetX is intellectual property. VirnetX has identified targets that do not have patent protection, but Larsen declined to name them. The company is especially interested in Virginia, Maryland and Silicon Valley, California.

Typical multiples in the space are 8x to 10x revenue, and can exceed even that if a company has a patent portfolio. VirnetX would be willing to pay the higher multiple, Larsen said.

To fund acquisitions, VirnetX plans to sign five USD-100m patent licensing deals for its GABRIEL Connection Technology by the end of the year. The company has hired ipCapital Group, an intellectual property strategy consulting and licensing firm, to sign companies with market capitalizations of at least USD 100bn, Larsen said.

VirnetX has 18 granted patents worldwide and the continuation of 29 pending, Larsen said.

Based on assumed licensing agreements, the company's 2009 projected revenues are USD 8m and more than USD 135m in 2010, Larsen said. The products would be released in 2009, and VirnetX will seek 1% to 3% of product revenue per patent.

Allan Chan, partner at Allan Chan & Associates, said that security for peer-to-peer communications is an unlimited market in which such royalties would generate a significant amount of revenue; however, six months after the technology is released, it is considered obsolete.

"You have to understand that people are going to provide a better competition," he said. "Someone else will come out with a better product and projected revenues may not be as high as initially projected".

However, Larsen said that VirnetX will not only encourage others to develop the products but also develop products in-house better than its competition.

"We have a high likelihood and high competency to do that," he said.

VirnetX will hire a financial advisor in the latter half of this year to pursue strategic buys. The company's corporate counsel is Orrick, Herrington & Sutcliffe and its legal counsel, McDermott, Will and Emery.

VirnetX went public on AMEX in December 2007 and has 11 employees with 100-plus outsourced contractors. Its market capitalization is USD 233m.

**Source
mergermarket**

**Value
USD 233m (market cap)**

**Stake Value
more than 30% inclusive**

Mergermarket (U.S.) Ltd, 895 Broadway #4, New York, NY 10003