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2nd UPDATE: Oracle To Buy Hiring Software Co. Taleo For $1.9B

-- Oracle to buy human-resources software maker Taleo for $1.9 billion

-- Deal raises questions about what tech giants will pay for cloud-computing companies

-- Taleo reports fourth-quarter loss widened slightly

(Updates to add advisor, analyst comments starting in ninth paragraph.)

By Matt Jarzemsky and Lauren Pollock
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NEW YORK (Dow Jones)--Oracle Corp. (ORCL) agreed to acquire human-resources software maker Taleo Corp. (TLEO) for $1.9 billion, the software giant's latest push into products delivered over the Internet.

The deal suggests the industry's recent buying streak for Web-based software, commonly referred to as cloud computing, isn't over. Oracle and rival SAP AG (SAP, SAP.XE) are seeking to tap the fast growth in sales of online business tools, which can provide savings and fewer maintenance issues for customers. The cloud software market remains fragmented, with numerous vendors selling programs for specific business functions.

Meanwhile, the mild 18% premium over Taleo's close Wednesday raises questions about whether the remaining cloud-software companies can still command lofty premiums in the ongoing sector consolidation. Oracle's bid for Taleo, worth $46 a share, pales in comparison to the 52% premium SAP AG (SAP, SAP.XE) offered human-resources software maker SuccessFactors Inc. (SFSF) in a $3.4 billion buyout.

Taleo shares jumped 17% to $45.55 in recent trading. Oracle edged down 5 cents to $28.68. The deal lifted the stocks of other Web-based software providers. Kenexa Corp.'s (KNXA) shares climbed 2.6% to $28.85.

"Human capital management has become a strategic initiative for organizations," said Thomas Kurian, executive vice president of Oracle Development. "Taleo's industry leading talent management cloud is an important addition to the Oracle Public Cloud."

The deal, subject to shareholder and regulatory approval, is expected to close in mid-2012.

The deal follows SAP agreeing in December to buy Taleo rival SuccessFactors Inc. (SFSF) for a 52% premium to its latest stock price. The same month, International Business Machines Corp. (IBM) offered a 57% premium to DemandTec Inc. (DMAN), a provider of web-based data analysis software.

While Oracle offered a relatively modest premium to Taleo's latest closing stock price, the valuation is more impressive when considering other metrics, said Marty Wolf, founder and president of advisory firm Martin Wolf M&A Advisors.

"It trades at 5-times revenue and 44-times [earnings before taxes, depreciation and amortization]," he said. "Those are crazy valuations."

The streak of acquisitions raises pressure on smaller software vendors to scale up their business or prime themselves for a takeover, according some analysts.

"The remaining 'indie' vendors now need a truly unique product offering or target market to prosper," BMO Capital Markets analyst Karl Keirstead wrote in a note to clients. Keirstead said Salesforce.com Inc. (CRM), Jive Software Inc. (JIVE), NetSuite Inc. (N) and Workday Inc. fit that profile.

The shift toward software that runs online--or in the cloud, in industry parlance-- began in the late 1990s with the emergence of companies like Salesforce.com Inc. (CRM) and NetSuite. The products let companies avoid the cost of installing and maintaining software on their own server systems and personal computers. Instead, they offered functions that employees could tap on demand through a Web browser.

Oracle touted online software efforts at its user conference last fall and said it would launch programs that customers access over computer networks. In October, it agreed to buy customer-service software maker RightNow Technologies Inc. for $1.43 billion, getting in on the industry's shopping spree for providers of Web-based business tools.

The moves represent an about-face from a few years ago, when Oracle Chief Executive Larry Ellison dismissed the need for his company to push more decisively into online software, saying that companies that sold their products that way didn't make very much money.

Separately on Thursday, Taleo reported a slightly wider fourth-quarter loss than it had a year earlier. Revenue from its software subscriptions rose, but so did costs.

The Dublin, Calif., company has benefited from growing demand for its software, which is used for hiring and human-resources analysis, despite tepid job growth in the U.S.

Taleo reported a loss of $911,000, compared with a year-earlier loss of $620,000. On a per-share basis, the loss was unchanged at 2 cents.

Excluding items such as stock-based compensation and acquisition-related costs, Taleo's per-share profit rose to 26 cents from 23 cents, topping the average estimate of 23 cents by analysts polled by Thomson Reuters.

Revenue rose 26% to $84.8 million, falling short of Wall Street's $87 million prediction.

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