Alcatel to buy Lucent for $13.4B; work force to be cut 10% - Apr. 2, 2006

PARIS (Reuters) - French communications-equipment maker Alcatel said Sunday it would buy smaller U.S. rival Lucent Technologies Inc. for $13.4 billion to gain more market heft and broaden its product mix.

The companies plan to cut about 10 percent of their combined work force, or about 8,800 jobs. The cuts would be "fair and balanced" across geographic regions and business sectors, Lucent said.

Together, the companies will have more power to negotiate prices with their telephone company customers, which have resumed a wave of mergers, and a broader research and development base.

(For more on the telecom consolidation, click here)

"As we looked at this there is no question this is an R&D issue. Competition is increasing and size and scale really matter," said Lucent (Research)'s Chief Executive Patricia Russo, who will serve as CEO of the combined Paris-based company, although she does not speak French.

The transaction comes five years after the companies first discussed a merger, but those talks broke down in 2001 after Lucent balked at the idea of a takeover, rather than a so-called "merger of equals."

Alcatel (Research) now would own 60 percent of the combined company, which will have total revenue of $25 billion (€21 billion). It expects the deal to boost earnings per share in the first year, excluding restructuring charges.

Alcatel Chairman and Chief Executive Serge Tchuruk would be nonexecutive chairman. The two companies will have equal representation on the board of directors, with two additional independent European directors.

With the deal, Lucent would gain a stronger partner after struggling to cut costs and restructure after customers curtailed spending after the
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burst of the Internet bubble, analysts said.

Alcatel, which has expertise in high-speed digital subscriber line (DSL) technology, would gain Lucent's dominance in wireless technology and contracts with carriers such as Verizon Communications.

Alcatel also gets Bell Labs, Lucent's historic research arm, which has invented key technology ranging from the transistors and lasers to cellular telephone technology, data networking and communications satellites.

"The question for Alcatel/Lucent is, can they put this company together without a lot of integration risks?" UBS analyst Nikos Theodosopoulos said.

National security issues

Lucent said it would create an independent unit to oversee sensitive contracts with the U.S. government. The subsidiary would be separately managed by a board composed of three U.S. citizens "acceptable to the U.S. government," Russo said.

Lucent's government work includes an advanced communications system for the Defense Advanced Research Projects Agency, the Pentagon's technology incubator.

"I don't think there's any rational reason for anyone to oppose this deal. But rationality and politics are two different things. It doesn't mean that this deal doesn't become a political football," said Stephen Kamman, an analyst with CIBC World Markets.

Several recent deals with international companies have raised national security concerns among U.S. lawmakers. Most recently, state owned Arab company Dubai Ports World agreed to transfer operation of six U.S. port terminals to a U.S. entity to defuse a political firestorm.

China's Lenovo Group Ltd. last year submitted to undisclosed conditions to win approved from the Committee on Foreign Investment in the United States, or CFIUS, to acquire IBM's personal computer business.

Under the terms of the deal, Lucent shareholders will receive 0.1952 of an ADS (American depositary share) of Alcatel for every common share of Lucent that they currently hold.

That values Lucent at about $3.01 per share, or slightly below its closing stock price on Friday of $3.05.

Lucent Chief Financial Officer John Kritzmacher called the deal "fair and equitable." The price reflects a 6.7-percent premium over the price of Lucent's stock before news of the merger talks first emerged 10 days ago.

The price values Lucent at about 17-times earnings, which is below the industry average of about 22-times earnings.

Analysts said the deal could trigger mergers throughout the equipment sector as manufacturers look for ways to cut costs and broaden their product lines. However, The scant premium paid for Lucent could set a low benchmark for other deals.

Satellite complications

The Alcatel/Lucent tie-up had been partly complicated by Alcatel's plans to increase its stake in French defense electronics group Thales -- a politically sensitive issue that has involved the German and French governments.

Alcatel said it remained keen on increasing its stake in Thales. It plans to continue talks with Thales over possibly increasing its shareholding...
in the group. Alcatel now has a stake of around 9.5 percent in Thales, while the French government holds around 30 percent of Thales.

Defense industry sources have said Alcatel hopes to fold its satellite activities into Thales in exchange for a bigger stake in the company. However, European plane maker EADS is also keen for a stake in Thales.

Sources close to the situation said EADS had the possibility to enter into Thales' share capital, if it felt it needed to.

Alcatel shares closed down 1.5 percent at €12.77 Friday. Its ADS closed at $15.40, off 31 cents, or 2 percent.

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