

Lucent takes steps to ensure Alcatel deal

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Alcatel and Lucent Technologies took their first step towards merging into one giant global telecommunications equipment manufacturer, which most likely will be a sound financial move but may face considerable opposition given the political implications.

From a purely corporate perspective, the deal makes good business sense as it will allow the companies not only to merge their research capabilities but also cut costs and expand their global outreach. The problem, however, is that there is already some opposition to the deal amid fears of security threats and concerns about terrorism. Indeed, some analysts are already worried that lawmakers might try to block the deal as they had in preventing Dubai Ports World from buying six U.S. port operations in the name of national security. Still, Lucent is going on the offensive by ensuring that some of the biggest names in the U.S. military defense industry play a major role in its operations to reassure critics.

Over the weekend Paris-based Alcatel said it would buy \$13.4 billion of Lucent stock, much to the jubilation of investors in the French company, which saw its share price soar more than 5 percent Monday following the announcement. The two companies had first started making public their interest in merging five years ago, but while plans ultimately fell through in 2001 due to financial reasons, the deal appears to be solid to press ahead this time around.

Certainly, the numbers seem to approve the move strongly, as the soon-to-be created company will have a market capitalization of \$36 billion

and lead to cost cuts of about \$1.7 billion within three years of the deal. Alcatel and Lucent plan to reduce their global workforce by 10 percent but will likely make full use of the 26,100 scientists and engineers it has across the world.

"A combined Alcatel and Lucent will be global in scale, have clear leadership in the areas that will define next-generation networks, boast one of the largest research and development capabilities focused on communications, and employ the largest and most experienced global services team in the industry. It will create enhanced value for shareholders of both companies who will benefit from owning the most dynamic, global player in the communications industry," said Serge Tchuruk, chief executive of Alcatel who will become the chairman of the combined companies.

Analysts broadly welcomed the news as a sound business decision.

"This new company -- let's call it 'Lucatel' will also benefit from having more financial capabilities to support the important R&D long term bets that a network equipment provider has to undertake. The agenda of the new company is pretty clear, and will certainly be focused on delivering operational efficiency gains at the very beginning," said Jean-Charles Doineau, an analyst at London research group Ovum.

"The agenda of the new company is pretty clear, and will certainly be focused on delivering operational efficiency gains at the very beginning. ... Lucatel could finally become, after 15 years of management, what Alcatel was to become when Serge Tchuruk wanted it to be: 'A world leader in telecommunications equipment, protected from external acquisition threats,'" he added.

Still, that does not change the fact that many are concerned about the potential security risk the deal might bring. After all, Lucent and its

subsidiary Bell Labs are heavily involved in satellite network and defense research and contractors to the U.S. government, including updating the U.S. Army's telecommunications network.

Independent telecommunications analyst Jeff Kagan of Marietta, Ga., argued that legislators and the public at larger need to "feel comfortable with foreign ownership" of the U.S. company, adding that having the Murray Hill, N.J.-based group in European hands is "a new idea in a dangerous time" amid heightened fears about terrorist attacks and security risks.

As a means to ease such fears, however, Lucent has already announced that it would create a separate entity independent of the larger group for sensitive research and development of U.S. government work.

"Both Lucent and Alcatel are trusted, experienced contractors in the defense and national security community, and fully understand the sensitivity and requirements regarding certain classified type of work. Consequently, the combined company will form a separate, independent U.S. subsidiary under Bell Labs for certain contracts with U.S. government agencies to ensure that this type of work continues to be performed in the U.S. with the proper safeguards in place," Lucent said in a statement Monday.

The subsidiary will be managed by a board with three U.S. nationals who are deemed acceptable to the U.S. government, namely former Defense Secretary William Perry, former National Security Agency Director Kenneth Minihan and Director of Central Intelligence James Woolsey.

Meanwhile, Bell Labs President Jeong Kim will continue to lead the facility, which will remain based in New Jersey under the guidance of the former nuclear submarine officer in the U.S. Navy.

"We will implement the combination between Lucent and Alcatel with U.S. national interests as one of our critical priorities so that we can continue to assure protection of our classified work for the U.S. government," said Pat Russo, who will serve as chief executive of the combined company after the merger and currently is CEO and chairman of Lucent.

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