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Xerox in $6B deal to expand tech services business

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(AP) -- Xerox Corp. said Monday it will buy Affiliated Computer Services Inc. for $6.4 billion in cash and stock, joining the expensive race among technology companies to broaden their offerings.

Xerox said the deal will create a $22 billion business that combines Xerox's copiers, printers and document management services with the "business process outsourcing" of Dallas-based ACS. Outsourcers like ACS take on tasks for other companies, such as helping to manage payroll or run health care plans.

Xerox's offer amounted to a 33 percent premium over ACS's closing stock price on Friday, although the value fell as Xerox shares lost $1.47, or 16 percent, to $7.50 in morning trading, while ACS shares jumped $6.53, or 14 percent, to $53.78.

The move takes Xerox deeper into the back-office operations of its business customers with the kind of acquisition that is popping up more and more as technology companies add a greater variety of equipment and services under a single tent.

Last week Dell Inc. said it would buy Perot Systems Corp. for $3.9 billion, kick-starting an information-technology services business for the company. That comes a year after rival Hewlett-Packard Co. expanded its own services business with the $13.9 billion buyout of Electronic Data Systems Corp. Business software maker Oracle Corp. also hopes to become more of a one-stop shop by closing a $7.4 billion deal for computer server and software maker Sun Microsystems Inc.

ACS, a $6.5 billion company with about 74,000 employees and profit of $350 million in its last fiscal year, offers a range of services, such as helping companies manage health care plans and accounting. It has customers in government, transportation, health care and retail.

By buying ACS, Xerox sees a way to boost profits and expand the roles it can play in assisting clients with running their businesses.

"They've told us they need a little bit more help," Xerox CEO Ursula Burns said in an interview, adding, "This is not just two companies coming together to get costs down."

ACS's chief executive, Lynn Blodgett, offered automated toll collection as an example. For E-Z Pass, the electronic toll system in the Northwest, ACS gathers images of cars passing through tollbooths and has employees record license plate numbers manually for processing payments. Xerox has image-recognition technology that could automate that process and might take it a step further, checking to see if a car is up to date on its registration.

The deal marks Burns's first big move since she took charge of Xerox on July 1. Although still profitable, Xerox has been hurt by the slowdown in spending by businesses during the recession. Apart from selling printers and copiers, Xerox gets most of its revenue from leasing equipment and charging for supplies and helping companies manage their documents.

Xerox said buying ACS will triple its services revenue to an estimated $10 billion next year.

In a conference call with analysts, Xerox Chief Financial Officer Larry Zimmerman said only about 20 percent of ACS and Xerox customers overlap, meaning the companies will have an opportunity to sell those clients more products. In particular, Xerox hopes to expand the overseas reach of ACS, which does more than 90 percent of its business in the U.S.

ACS stockholders will receive $18.60 per share in cash plus 4.935 Xerox shares for each ACS share they own. Xerox, based in Norwalk, Conn., will also take on $2 billion of ACS's debt and issue $300 million of convertible preferred stock to ACS's Class B shareholders.

The acquisition, which was approved by both companies' boards, is expected to add to adjusted earnings results in the first year. Xerox expects to save $300 million to $400 million in the first three years after the deal closes, which is targeted for the first quarter of 2010.

The companies said ACS will function independently and will be headed by Blodgett, who will report to Burns.