

Applied Materials in takeover of Tokyo Electron (Update 2)

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Chip-making equipment manufacturer Applied Materials is acquiring Tokyo Electron Ltd., a rival maker of equipment for production of semiconductors, flat panel displays and solar panels.

The two companies said Tuesday their \$9.39 billion all-stock transaction will result in the creation of a new company with a market capitalization of about \$29 billion.

Tokyo Electron's chairman Tetsuro Higashi said the deal is meant to create a "truly global company" to meet the needs of companies supplying consumer electronics, such as smartphones and tablets.

The new company will have shared leadership, with Higashi as its chairman and Applied Materials' president and CEO Gary Dickerson as its CEO.

Applied Materials' shareholders will own about 68 percent of the new company and Tokyo Electron's will hold about 32 percent. The two companies expect the deal to be finalized in the latter half of 2014.

The companies said they plan to conduct a \$3 billion stock repurchase program within 12 months of the deal's completion.

Tokyo Electron's profit has stagnated in the past few years because of weaker demand from chip makers.

Morningstar analyst Andy Ng said in a research note that while the deal comes as a surprise, it makes strategic sense at first glance. The companies are two of the three largest chip equipment firms and have fairly broad product portfolios.

As semiconductor technology has advanced, the complexity of chip fabrication has also risen. He argues that by pooling knowledge and expertise, the companies stand to improve their technological advantage.

The companies do have some overlapping products, but Ng said he views the deal as complementary, as their strengths vary.

Shares of Applied Materials jumped \$1.45, or 9 percent, to close at \$17.44 on the Nasdaq.

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