

## **Siemens, GE battle for Alstom**

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**By Aaron Kirchfeld, Francois de Beaupuy & Alex Webb, Bloomberg**

Siemens AG proposed French rival Alstom SA a deal to swap train and energy assets to beat a offer from General Electric Co, according to people familiar with the matter.

Under the plan, Alstom would get some of Siemens's transport assets and an additional cash payment in exchange for its power business, the people said, asking not to be named as the matter is not public. Siemens is willing to match or beat the financial terms of GE's binding offer — which values Alstom at about US\$13 billion (RM42.5 billion) — and make guarantees for jobs, management positions and locations, they said.

To defend GE's offer, chief executive officer Jeffrey Immelt will meet French President Francois Hollande and Industry Minister Arnaud Montebourg today. Alstom, whose board met yesterday to examine both offers, said it's continuing to review its options and will make an announcement no later than the morning of April 30.

A deal between Siemens and Alstom would create two leading European entities in the energy and train industries and help to address concerns by the French government regarding potential job cuts with GE's proposal. A tie-up of Alstom with GE is likely to have fewer workforce and product overlaps than the German offer and face less opposition from European regulators.

Alstom's management is currently leaning toward the GE offer, which would see the US company buying its energy assets, representing more than 70% of sales, the people said. The French government currently prefers the Siemens blueprint, two of the people said.

### **Industrial heritage**

Alstom is of strategic importance for France and the government wants to examine all the options, Montebourg said. He said Siemens's proposal would make the German company an energy champion and Alstom a transport champion. Alstom

and Siemens both manufacture high-speed trains, which operate under the respective TGV and ICE brands.

While the French state has no direct stake in Alstom, it is keen to preserve a company with a market value of 8.3 billion euros (RM37.5 billion) and considered a crown jewel after the state saved it from bankruptcy a decade ago.

The government is ready to “preserve the interest of France’s industrial base,” Montebourg said. French President Francois Hollande said yesterday he is meeting with Montebourg, Prime Minister Manuel Valls and Energy Minister Segolene Royal to discuss the situation.

### **Rebounding economy**

Alstom jumped as much as 18% on April 24 after Bloomberg News reported on the talks with GE; the shares were suspended on Friday. Alstom said yesterday it asked for its shares to continue to be suspended.

A transaction with GE would give the Americans control of Alstom’s technology for power transmission and power plant maintenance as Europe’s economy starts to revive. It would be a rare example of a major French company being taken over by a US rival.

GE is emphasizing its Alstom offer has a better chance of completion because talks with the French company are more advanced than with Siemens and it has conducted due diligence and signed a non-disclosure agreement, according to people familiar with the matter. GE’s board has already signed off on the binding offer, which has been presented to Alstom, the people said.

### **Product overlaps**

The US company is also stressing that its bid has fewer workforce and product overlaps than the German proposal, so there would be fewer job cuts, said the people. GE’s offer also has less overlap in their grids and steam-turbines businesses, they said. A combination of Siemens and Alstom energy and train assets could require more significant restructuring and cost cuts, they said.

GE’s offer for the Alstom’s energy business would value the entire company, excluding debt, at about \$13 billion, the people have said.

Siemens yesterday said it's willing to discuss "strategic opportunities" with Alstom as an alternative to a GE deal, declining to comment further. Siemens would also consider a straight-up purchase of Alstom's energy assets comparable to GE's proposal, one of the people said. GE and Alstom declined to comment.

An asset swap would see Alstom ending up with Siemens's ailing train business. Profit at Siemens's six billion-euro- revenue transportation business has been burdened by 356 million euros in charges relating to delayed train deliveries in Germany since 2011.

### **Train charges**

In contrast, Alstom's transport business, which makes products ranging from signalling equipment trams to regional trains and high-speed long distance locomotives, has been reporting rising sales and profitability.

The transportation unit has constantly dragged Siemens's operating performance down, Societe Generale analyst Gael de Bray has said. Increasing competition from Chinese suppliers and constrained public spending in Europe will make it difficult to boost margins, he said.

Alstom's power business, also including highly profitable thermal services to maintain and upgrade plants as well as hydro and steam turbines, could help boost Siemens's customer base and sales.

At its energy business, Siemens is cutting 1,400 jobs in Germany after gas turbines demand slumped in Europe. Gas-fired plants are struggling to compete with wind and solar generation that gets preferential access to the grid, and coal-fired stations that benefited from a slump in the cost of carbon permits needed to burn the fuel.

### **Siemens review**

While cutting jobs at its Berlin turbine factory, Siemens has added more than 1,000 positions at its plant in Charlotte, North Carolina as the shale boom drives demand for gas turbines in North America. Faced with falling demand and prices for turbines and power-transmission gear, Alstom is also cutting 1,300 jobs at its support function and boiler division, and hundreds of positions at its rail division.

The time of a potential deal coincides with the culmination of a strategy review at Siemens by CEO Joe Kaeser. The 167-year- old company, which uses its peers'

earnings as a benchmark, has lagged profitability at GE for at least 24 years, according to data compiled by Bloomberg.

Kaeser will present his review findings on May 7. Siemens has faced analyst and investor criticism for the unwieldy scope of its 60 business units and Kaeser has said he plans to focus the company's business "along the electrification value chain.

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