GE Bids $17 Billion for Alstom Energy to Preempt Siemens

By Francois de Beaupuy, Richard Clough and Alex Webb - Apr 30, 2014

General Electric Co. (GE) made a 12.4 billion-euro ($17 billion) offer for Alstom SA (ALO)’s energy business to open up official negotiations and circumvent a potential counterbid from Siemens AG. (SIE)

Alstom’s board received a binding offer from Fairfield, Connecticut-based GE and has appointed a committee of independent directors to review the transaction by June 2, the two companies said today. If the review concludes positively, negotiations will then be on an exclusive basis, it said.

The announcement leaves the door open for a rival offer from Germany’s Siemens, which yesterday said it will make an offer for Alstom pending access to financial information.

Alstom, a maker of power equipment and the high-speed TGV trains, is coveted by the French government, which wants to extract the best terms from any bidder for jobs and the country’s energy independence. In separate meetings with French President Francois Hollande, Siemens Chief Executive Officer Joe Kaeser and GE CEO Jeffrey Immelt have sought to make their case.

“None of these big players buying Alstom is going to have a smooth ride,” said Simon Toennessen, an analyst at Credit Suisse Group AG. “Siemens is seeing the competitive threat from GE as big enough to consider this step.”

Rival Bid

Siemens asked for access to Alstom’s data and permission to interview the management for four weeks in a letter to the French company, the German rival said in a statement yesterday. Munich-based Siemens, which was also interested in acquiring parts of Alstom more than a decade ago, is willing to match or exceed the financial terms of GE’s offer, people familiar with the proposal have said.

Siemens’s proposal would probably entail swapping some of its rail assets for Alstom’s energy division and creating two “European champions,” French Industry Minister Arnaud Montebourg has said. Siemens would become one of the world’s largest manufacturers of equipment for power plants and electric transmissions while the companies’ train assets would form a France-based rail industry leader, bringing together the German company’s ICE high-speed trains with Alstom’s iconic TGV.
Rolls-Royce Holdings Group Plc said yesterday it’s in talks to sell power-generation assets to Siemens, adding to a flurry of possible cross-border deals as some of Europe’s largest engineering companies reshape their portfolios.

Under the proposed GE transaction, Alstom would keep its transport business. The French company said today it would use the proceeds from GE to “strengthen its transport business and give it the means of an ambitious development, pay down its debt and return cash to its shareholders.”

**Job Cuts**

GE said today its all-cash offer values the business at 7.9 times pro forma earnings before interest, taxes, depreciation and amortization, adding that the purchase would be accretive to earnings in the first year.

“Allstom’s businesses are very complementary in technology, operations, and geography to our power and grid businesses,” Immelt said today. “We expect these actions will generate more than $1.2 billion in annual cost synergies by year five.”

Siemens shares yesterday rose 0.6 percent to close at 94.15 euros while GE fell 0.1 percent to the $26.76 in New York. Alstom jumped as much as 18 percent in Paris on April 24 after Bloomberg News reported the talks with GE. Its shares have been suspended since Friday and will resume trading today.

**Break-Up Fee**

Alstom said today it won’t solicit bids from third parties for its energy units, though may respond to unsolicited offers. If Alstom were to support another transaction, GE would get a “break-up” fee equal to 1.5 percent of the purchase price, it said.

The committee reviewing the GE proposal will be led by Jean-Martin Folz, an independent director at Alstom and former chairman of PSA Peugeot Citroen. (UG) Alstom, saved from bankruptcy about a decade ago by the state, employs 18,000 people in France.

“Alstom’s employees would join a well-known, major global player, with the means to invest in people and technology to support worldwide energy customers over the long term,” Alstom CEO Patrick Kron said.

The GE deal would be subject to merger control and other regulatory clearance, and final approval will be sought from shareholders, Alstom said. Bouygues SA, which owns 29 percent of Alstom, has pledged not to sell its shares until this approval, and has indicated it will support Alstom board’s recommendation, the company said.

**Government Intervention**

As in the U.S., the French government can intervene to protect companies deemed to be of national importance from being acquired. In 2005, it passed an anti-takeover decree amid speculation...
PepsiCo Inc. was planning a bid for dairy-products maker Danone.

Alstom had to be rescued in a 4.4 billion-euro bailout by the state and banks in 2004. The company built France’s power grid and the generators that produce most of the nation’s electricity.

The French state has no direct shareholding in Alstom, although the company depends in part on orders from the SNCF railway network and from Electricite de France SA, the electric utility that’s 84 percent government-owned.

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