

GTE's surprise \$28B MCI bid

WHAT'S NEXT, BERNIE?

By JON ELSÉN

Bernie Ebbers is in for the fight of his life.

The WorldCom gunslinger and his team of advisers were figuring out yesterday how they'll respond to GTE's eye-popping \$28 billion all-cash bid for MCI.

The interloper didn't come as a complete surprise. The WorldCom team knew when they launched their own bid two weeks ago that GTE was the most likely possible new rival.

But now they have to decide whether to hold 'em, fold 'em — or increase their bid.

Analysts are bracing for a bidding war.

Stakes increase for WorldCom

MCI has assets worth \$50 a share, and there is lots of room for the eager suitors to increase their offers, said Salvatore Muoio, an analyst at S. Muoio & Co.

WorldCom's current bid, he said, would make an MCI acquisition accretive to WorldCom's earnings, giving it plenty of room to go higher if it wants MCI badly enough. And Ebbers needs MCI for the left it would provide, and the presence it would provide in long-distance, Internet

access and data transmission.

Acquirers will often pay prices that would dilute their earnings if an acquisition is important enough.

"I don't think the bidding is over," Muoio said.

By offering cash, GTE is playing on the fears of some MCI investors that taking WorldCom stock for their shares would be risky. While WorldCom stock has run up dramatically in recent years, skeptics call it inflated and vulnerable to a

downturn, though analysts support the WorldCom offer.

For BT, the GTE bid might be a blessing.

It is unlikely BT could compete with WorldCom's bid, since its shareholders don't want it to.

But having rival bidders enhances BT's leverage.

"BT is in an enviable position," said David Otto, a telecommunications analyst at Edward Jones. "BT gets to study all three of-

fers. They have a seat on the GTE board, and they get to vote on the offers. They're not just innocent bystanders; strategically they get to learn a lot."

GTE Chairman Charles Lee said in a letter to MCI chief Bert Roberts that he shares the global vision that went into the planned BT-MCI merger.

BT might now be able to call more of the shots in negotiations with alternate bidders. And both WorldCom and GTE want to keep BT on board, in part to avoid having to pay a \$450 million breakup fee.

If its own deal with MCI is dropped, BT would still have a lot to gain from allying with WorldCom-MCI or GTE-MCI. BT is committed to establishing a foothold in the important U.S. market, and is talking to AT&T and the Baby Bells about possible alternate deals.

But its best bet might be to stick with its alliance with MCI. That would give it a strong U.S. partner, and free up capital for other investments.

An alliance with a GTE-MCI would give BT access to both long-distance and local phone service in the U.S. An alliance with a WorldCom-MCI would provide access to a U.S. long-distance giant, with strong Internet and data transmission capacity.

AT&T and Sprint, and might propel both into deals of their own. Sprint is now 10 percent owned by Deutsche Telekom and 10 percent by France Telecom, and those European phone giants might expedite their expected eventual acquisition of Sprint.

AT&T might do a deal with whoever loses the bidding war for MCI, though it is struggling with its own management issues. AT&T has been in renewed discussions with GTE, in part because GTE would offer AT&T a local phone service and a new chief executive.

Antitrust hurdles for new suitors

WASHINGTON, D.C. — MCI Communication Corp. would be trading regulatory certainty for uncertainty if it goes with its latest surprise suitor GTE Corp., or an earlier brush pursuer, WorldCom Inc.

MCI currently is engaged to British Telecommunications and has cleared all regulatory hurdles here and abroad to be taken over by the London-based company.

But MCI would have to start the regulatory process all over again if it decides to get hitched to GTE or WorldCom.

Either deal would be subject to approval by antitrust authorities at the Federal Communications Commission.

The Department of Justice, which oversees most telecommunications mergers, would be the likely agency to conduct the antitrust review of GTE-MCI deal.

The Justice Department would determine whether a GTE-MCI combination would stifle or boost competition in the long-distance market. And, it would examine the deal's likely effect on telephone prices.

The FCC would determine whether the deal would serve the public, which can include pricing and competition issues. But unlike the Justice Department, the FCC can't block a deal by taking it to court.

There was a buzz among some analysts about a four-way deal among BT, WorldCom, GTE and MCI, but that would likely draw opposition from Washington policy-makers.

The FCC had no immediate comment on GTE's bid for MCI.

That deal or one with WorldCom would be viewed by a "new" FCC. Barring any unexpected problems, by next month four of the FCC's five members will be new, including the chairman. Only one veteran, Susan Ness, will remain.

Incoming FCC Chairman Bill Kennard, Senate hearings, has said that one of his top priorities is speeding up the snail-like pace of local phone competition.

Like a WorldCom deal, a GTE-MCI combination would help MCI expand its local phone business, which has taken more money and time to build than anticipated.

Ringing off the hook



WORLD COM

GTE

BT

Company	WorldCom	GTE	British Telecom
Chairman	Bernard J. Ebbers	Charles R. Lee	Sir Iain Vallance
HQ	Jackson, Miss.	Stamford, CT	London
Net sales	\$4.5B (1996)	\$21.3B (1996)	\$24.5B (1997)
Net income	\$2.2B (loss)	\$2.8B	\$3.4B
Employees	13,000	102,000	129,600
Business	Global business telecommunications, including local, long distance, international and Internet services	Supplies local, long distance and wireless telecommunications services	Supplies local, long distance and other telecommunications services and products.
What they bring to the table	Offering \$2B more than next best bid; could win big cost savings from merger.	Combines local phone powerhouse with MCI's long distance. Offer is cold hard cash.	Creates a global telecom powerhouse.

Source: Bloomberg

have an embarrassment of riches

and stands to make a mint even in defeat.

Here's how the offers now stand.

British Telecom had the original deal to buy MCI for about \$24 billion. Then upstart WorldCom Inc. topped that with a stock-swap transaction worth \$33.88 billion.

So far the decision for shareholders was easy. WorldCom's offer is superior.

But GTE, the quietest telecommunications company in an industry where quiet isn't good, decided to make some noise. Late yesterday GTE, after an all day directors

meeting, offered \$40 a share in cash for MCI.

Which is a better deal, WorldCom's or GTE's?

"I still like the WorldCom deal," said one takeover speculator yesterday.

But it really isn't that easy.

Under the terms of the WorldCom proposal, shareholders would get stock worth \$41.50 a share. Unless WorldCom shares go below \$34, in which case shareholders would get 1.2206 shares for each of their MCI shares. If the stock goes above \$40, they'd get only 1.0375 a share.

So, if WorldCom's stock

trades for anywhere from \$34 a share to \$40 a share, MCI shareholders are guaranteed \$41.50 worth of stock.

WorldCom's stock closed yesterday at 35 1/16, down 1 5/16. Trading was halted in GTE shares yesterday. It closed at 48 Tuesday. MCI also was halted. It closed at 36 7/8 on Tuesday.

The GTE deal is simple. Cash is cash — \$37 is \$37.

For MCI shareholders to favor the WorldCom deal, they have to hope that the price of the company's stock doesn't go much under \$34, since the 1.2206 share ratio

doesn't budge below that price. So, if WorldCom's stock drops precipitously for whatever reason, MCI shareholders will get screwed.

On the other hand, if WorldCom's stock suddenly soars above \$40, MCI shareholders could get a bonanza since they would still get 1.0375 shares.

But it is even more complicated than that. MCI's management would probably feel more comfortable merging with GTE, a more traditional telecommunications company with a well-known name.

But the WorldCom deal will probably run into fewer regu-



Photo: Steve Hirsch

BERT ROBERTS

In driver's seat.

latory problems.

"This is far from over," said another trader. I'll buy that.