Brothers all said that following the 20 October general elections and the BT/MCI merger the new Japanese government is highly unlikely to sanction a NTT breakup and would more likely speed up provisions to allow Japanese telecom providers to form tie-ups with domestic and foreign rivals. Analysts also say that the trend now in the global telecommunications industry is clearly toward integration of domestic, international and mobile communication services, not separation of services.

Makio Inui, vice president at Salomon Brothers Asia Ltd, is quoted by Reuters saying that: "the name of the game is getting bigger and bigger and size enables companies to benefit from economies of scale, something helpful in becoming low-cost service providers".

Concert's strength will be its ability to move into new markets because of the integration of the resources from BT and MCI, very little of which is duplicated, according to Vallance's media statement.

An implication of this move will be to force smaller telcos to either form tie-ups or concentrate only on niche markets, such as transmission specialists, according to analysts quoted in the Wall Street Journal. "There will be new leaders in telecommunications," said Jack Grubman, an analyst at Salomon Brothers. He noted that 10 or 15 years ago nobody had heard of Intel or Microsoft, companies that ended up wresting the future of computing away from IBM. "The lesson here for telecom companies is that strategic positioning combined with spectacular growth determines market leadership."

MCI is outpacing its much larger rival, AT&T, in revenue growth. MCI has 20 percent of the US long-distance market, and a far more lucrative share than AT&T; most of MCI's traffic comes from corporate clients. Moreover, while AT&T still has not made much headway in expanding into local phone service, MCI is now tied to BT's $ US20 billion local phone business and its vast equipment-buying power. Concert is already predicting big cost savings from their combination, $ US2.5 billion in the first five years, and better than 10 percent annual earnings growth.

The threat leads some observers to predict that AT&T and Global One (the Deutsche Telekom, France Telecom and Sprint alliance), which have both up to now relied on loose partnerships, will have to pursue the riskier strategy of outright equity deals. One analyst said that AT&T and Global One's expansion strategy has largely been to form alliances with telcos that duplicate their core business. This is fundamentally different from BT's, which has eschewed ties with established telecommunications providers, choosing instead to join forces with local companies. (for pre-merger comments from Global One on future partners, see below)

BT's CEO, Peter Bonfield, said that Concert will "offer much more seamless service" than Global One. In the key German market Concert will have superior critical mass and greater economies of scale. Bonfield also said that the merger creates a company more attractive to other potential partners. "It's no secret at some point that I'd like a deal with my good friends at NTT," said Bonfield.

Other commentators say that Concert's opportunity is to exploit the growth in core telecommunications in Latin American and Asia. Many smaller carriers are looking to grow by diversifying outside of telephony into Internet services and the like. But ultimately, moving outside of one's own country to offer telephone services may prove the better course of action, according to one comment.

The communications minister, Richard Alston, told Parliament that Telstra would be handicapped in the new competitive market if it remained 100 percent government-owned in the light of the BT/MCI merger. Alston said that "the merger amounts to a recognition that it's necessary to get together to compete effectively in the new international environment".

Alston added: "What (Telstra) needs is to have market accountability. It needs a share price which sends a day- to-day signal to investors, to the board, to management, to make them aware of how the company is travelling". Telstra partners AT&T in Worldpartners, but is an associate (ie non-equity) partner. Equity partners are Singapore Telecom and KDD which hold ten percent each. An AT&T source told Exchange in 1993 that Telstra had been offered equity, but had declined.

LANGUAGE: ENGLISH

LOAD-DATE: November 9, 1996

138TH STORY of Level 1 printed in FULL format.

Phillips Business Information Inc.
Fiber Optics News

November 11, 1996

SECTION: No. 45, Vol. 16; ISSN: 8756-2049

LENGTH: 810 words

HEADLINE: BT/MCI MERGER WOULD AGAIN SHAKE TELECOM LANDSCAPE Fiber Seen as Beneficiary as MCI Lessens Satellite Use

BODY:

The world of telecommunications was shaken to its core last week with the largest, most-far-reaching announcement since implementation of the Telecommunications Act of 1996--the merging of British Telecom and MCI Communications Corp.

A stated objective of the merger is to provide the financial resources for MCI so that it can more aggressively enter the U.S. local exchange.

"MCI is going to open up the local market in a big way," said MCI Chairman and CEO Bert Roberts. "We believe the local market will prove to be twice as profitable as the long-distance market," he continued. "We believe local rates will come down--perhaps by a factor of two."

MCI's entry into the local exchange means potentially even more aggressive deployment of fiber than the carrier heretofore has installed through its interexchange and MCIMetro.

Considering the billions it already has put into fiber, MCI is expected to continue spending significant amounts, especially now that it has the wherewithal to fuel its activities in the local exchange.

"This merger represents some awesome possibilities for us," said MCI spokesman Jim Collins of the $20.88 billion BT buyout. MCI now has 36,000 route miles of optical fiber cable in the ground, which translates into 500,000 fiber miles, Collins added.

MCI is reducing its plan to provide DBS service to the local exchange, now that it has the guns to come in with fiber. Roberts announced that the carrier is "now in the process of redefining our relationship" with News Corp., its DBS partner, by dropping its residential traffic and concentrating on business aspects.

As we reported last week, Roberts believes that there will not be a need for satellite constellations Iridium or Teledisc since those services will be available through cable by the time they were to become operational from space.

The "gaps" in cable service that the satellite industry hoped to exploit as the telecom market became more fragmented appear to be closing as major carriers with extensive cable installed globally join together.

Roberts characterized the deal as "the largest international merger in history" with the combined entity being "the first telecom company in history to provide trans-global services" and "the world's second-largest international carrier." MCI now is the third-largest international carrier in the world while BT is fifth, according to Roberts.

The BT-MCI announcement represents an extension of an earlier deal in which BT purchased 20 percent of MCI shares. "Since that time, both of us agreed the world is changing faster than either one of us had anticipated," Roberts said. The entire company is to be named Concert, the holding company overseeing MCI and BT. Dual headquarters would exist in London and New York.

Roberts and BT head Sir Iain Vallance would serve as co-chairmen of the new venture, with BT's Sir Peter Bonfield acting as CEO.

"British Telecom now is extremely well positioned in Germany, France, Holland, and the Scandinavian countries," said Vallance. "We are the most aggressive of the European telecom companies."

Vallance said BT and MCI now are working on "giving the alliance depth." He said he is "particularly looking forward to attacking the European market." Multimedia suppliers "will find us irresistible," Vallance observed. "We will be the premier telecom growth company for the 21st century."

AT&T officials at least hope to open the British market so that they can compete more effectively there should the merger go through. Despite repeated claims by Roberts and Vallance that the U.K. market is the most open in the world, officials at AT&T and elsewhere say that BT still controls 90 percent of all local connections.

"In spite of the progress made to establish competition, the U.K. market is not fully open," said AT&T Chairman and CEO Robert Allen. "New entrants and carriers who want to serve customers still face significant barriers."

SBC and Pacific Telesis were given formal approval by the Justice Department for their proposed merger last week. Lawyers for the merger had argued that U.S. companies trying to compete should not be handicapped in a regulatory sense while British Telecom is able to take a dominant ownership share in the U.S. market. Both Vallance and Roberts anticipate full regulatory review both in Europe and the United States. Several sources said the review will require waiving of the FCC's rule which states that no U.S. telecom carrier can be more than 20 percent owned by a foreign carrier.

From the time of AT&T's divestiture, MCI has strongly relied on fiber optics and in fact was the first to provide a sizeable order for Corning Glass Works' single-mode fiber back in the early 1980s.

LANGUAGE: ENGLISH

IAC-ACC-NO: 03417992 ND

Electronic Media

November 11, 1996

SECTION: News; Pg. 4

LENGTH: 360 words

HEADLINE: ASKYB TO MOVE FORWARD DESPITE MCI PULLBACK

BYLINE: LEE HALL

BODY:
News Corp. says it plans intends to move ahead with plans to launch ASkyB, its domestic satellite operation, next year, even though its biggest partner will sharply reduce its investment in the venture.

. MCI Communications Chairman and CEO Bert Roberts said his company would seek to reduce its stake from 50 percent to 20 percent, following the announcement of merger plans between MCI and British Telecommunications Plc. The two companies announced their $20 billion marriage early this month.

But ASkyB Chairman Preston Padden says the MCI decision was made weeks ago, and only made public after the merger was announced.

''It has no impact on our business. None,'' Mr. Padden said. ASkyB plans to launch its direct-to-home satellite service in late 1997 or early 1998.

News Corp. Chairman Rupert Murdoch told the Financial Times of London last week he was looking at several options for ASkyB, including moving forward with MCI as a minority partner, bringing in a new partner or taking the venture public.

Industry analyst Jimmy Schaeffler of the Carmel Group, Carmel, Calif., says either way, Mr. Murdoch shouldn't have to look too far for investors.

''Where one door closes, another opens. That's the great thing about this business right now; there are companies spending huge amounts of money to make the door open wider,'' Mr. Schaeffler said.

One potential partner is TCI, the nation's largest cable operator, which was rebuffed last month in its attempt to start its own satellite service using Canadian orbital slots.

Mr. Padden slams the door on such speculation.

''We have not talked with TCI, there are no conversations, there have been no conversations and there are none planned,'' he said.

LANGUAGE: ENGLISH

LOAD-DATE: November 14, 1996

CommunicationsWeek

November 11, 1996

SECTION: Top of the News, Pg. 1

LENGTH: 1067 words

HEADLINE: MCI, BT Recast Global Telecom -- Sights Set on Local Loop

BYLINE: Mark Rockwell

BODY:
There's power in being big, and BT and MCI hope to bring their joined might to bear at the local level.

In combining networks, personnel, R&D and other resources, the merged entity of BT and MCI could eventually set off a price war that stretches all the way from the local loop to the transatlantic network. Any price benefits, however, are at least a year away, since the deal faces significant regulatory obstacles

Although the proposed merger would let the two carriers offer the most comprehensive line of services in the industry, this isn't a grandiose attempt to create a one-stop shop, analysts contended.

"This is about size, not service," said Peter Bernstein, president of Infonautics Consulting, a Ramsey, N.J.-based consultancy. Emerging mega-carriers such as Bell Atlantic/Nynex and AT&T are poised for a make-or-break battle for global marketshare.

"These carriers' business imperatives rest on market share. Look at what's happening with frame relay service pricing," he said, pointing to major price cutting as more carriers have entered that market and more customers rush to take advantage of savings. Such price cutting could be extended to the virtual private networking market, global IP access, even voice services, said Bernstein.

BT chairman Iain Vallance estimated the current global services market at $1 trillion. "Each point of market share is worth $10 billion."

Analysts agreed that the combination might drive other large international carriers to start dealing on prices because they see their market share slippin away.

"MCI has the forward momentum. Poor (new AT&T president) John Walter just go pushed into the deep end. With the new cash infusion and network facilities, MC can widen its scope of potential customers further into medium-sized businesses AT&T has to react quickly,'' said Jeffery Kagan, president of Kagan Telecom Associates, Atlanta.

Local Market Push

The Concert merger immediately gives MCI deep pockets to fund its thrust int local markets, though the company's main splurge will come in services

The FCC ruled earlier this month that carriers can cut special deals for individual customers without publicly disclosing the price.

LANGUAGE: ENGLISH

LOAD-DATE: November 11, 1996

LEVEL 1 - 73 OF 265 STORIES

CommunicationsWeek

November 18, 1996

SECTION: Services -- Public, Private, Internet, Outsourcing, Integration, Pg. 50, Services Insight

LENGTH: 600 words

HEADLINE: No. 2 With a Bullet: MCI-BT Has Sights Squarely Set on No. 1 AT&

BYLINE: Jeffrey Kagan

BODY:

Can the new MCI-BT combination wrestle the No. 1 ranking away from AT&T? Nobody would have posed such a question a year ago, but I was asked at least a dozen times by different reporters, analysts and customers when the MCI-BT merger was announced. MCI, of course, thinks it's achievable, and for the first time, many analysts don't consider it an impossibility.

In this topsy-turvy telecom industry that is struggling to reinvent itself, the old rules no longer apply. Yesterday's leaders are not guaranteed to be tomorrow's leaders. If things continue in the same direction as they are headed today, many analysts quietly believe it's possible for MCI-BT to claim the No. 1 spot in the next few years.

AT&T is a good company with a strong brand name, but it will take much more than that to win. It will take high-profile, bold leadership and vision, which has been lacking over at the century-old phone giant. Bob Allen and the board of directors is betting the business on John Walter, who comes from outside the telecom industry. But that might actually be a plus.

Industry insiders know why certain things can't be done. An outsider whodoesn't know why things can't be done might make unexpected things happen.

John Walter needs to be brought up to speed quickly, though. MCI-BT pushed him into the deep end before Bob Allen had the chance to give him swimming lessons.

While AT&T keeps butting heads with the Bells, it has yet to enter the local market. MCI, however, is already offering local phone service in a dozen markets and is planning a rollout of 13 more by the first quarter of 1997.

Although the FCC's rules for interconnection remain tied up in court, states are, one by one, coming out of arbitration and setting the rules for resale of local phone service. So AT&T, MCI and others will be able to begin reselling local phone service in those states within the next few months.

The most recent FCC figures show AT&T's market share at an all-time low of 54 percent. MCI and Sprint's revenue growth has been strong, while AT&T's seems to be lagging. All in all, MCI and Sprint have strong forward momentum while AT&T struggles to regain its footing.

Most of all, AT&T is missing vision. MCI clearly explains its vision and has been doing so for a long time. In fact, all the phone companies are making their visions clear as they get ready to bundle services and move into each others' business.

Now, add BT's deep pockets and local expertise to MCI's marketing savvy, and AT&T faces it's worst nightmare: an MCI on steroids. AT&T needs to pull out all stops, rally the troops and regain the momentum. Otherwise, the scrappy No. 2 might move up a notch to the No. 1 spot.

Jeffrey A. Kagan is president of Kagan Telecom Associates, an Atlanta- based consultancy. The opinions expressed are his. He can be reached at jeff@jeffkagan.com, at 770-591-2677 or by fax at 770-591-1977.

LANGUAGE: ENGLISH

LOAD-DATE: November 16, 1996

LEVEL 1 - 42 OF 265 STORIES

CommunicationsWeek International

November 25, 1996

SECTION: VOL. 00; No. 175; Pg. 4

LENGTH: 570 words

HEADLINE: Concert or cacophony?

BYLINE: MENDLER, CAMILLE

BODY:

Odd couple's mega-marriage... Despite nearly three years of partnership, it is hard to find two major network operators further apart in their thinking than BT and MCI.

The history of Concert, the corporate networking venture set up by the Anglo-American pair in June 1994, reveals continual tension and competition between BT and MCI managers, whose goals and corporate cultures developed in very different environments.

"One speaks Chinese, the other Greek," said a former BT senior manager. "But if they can take advantage of each other's strengths it would be a powerful combination."

From the beginning, however, MCI staffers took the initiative in Concert, fuelled by the knowledge that they were personally accountable for its success or failure.

"If the MCI managers didn't win a debate they'd lose their job or a promotion," said a veteran of the original Concert venture. "And if you look at Concert, everything except the original Concert product came from MCI."

Although Concert's full management structure has yet to be determined, observers note that MCI staffers are already winning the top slots, likely to cause a mass dash for the exits by BT staff.

Compared to MFS Communications Co. Inc. and Worldcom Inc., whose recent pairing is widely viewed as an innovative marriage of two highly-entrepreneurial firms, the differences between MCI and BT are stunning.

MCI started life in 1968 as a challenger to AT&T's national monopoly. It quickly built a reputation as a street-fighting marketeer, its approach embodied in the breakthrough Friends and Family program, which swiftly shaved at least 15% off AT&T's market share.

BT, meanwhile, was government-owned and offered jobs for life. Many of its staff still remember its days as a monopoly.

Concert's initial problems centered on managing growth and customer relationships. And conflict over customers is still an issue, says David

Goodtree, a research director at Forrester Research Inc. in Cambridge, Massachusetts. "Companies go to each separately, receive different bids from MCI and BT and play them off each other," he said.

Both carriers possess fine technical skills, with significant investments in research and development. However, MCI finds it hard to think more than six to nine months ahead, while BT plans years in advance.

" MCI will often forget to cross all the t's or dot the i's before going out with a product," said an MCI account manager at a hardware vendor. "Things may fall through the cracks on the way."

Indeed, Concert's early customers suffered serious network re liability problems. Its frame relay network suffered repeated outages and there was difficulty in expanding the network.

Finances have been problematic too. Losses in its first year were estimated at 100 million pounds ($ 164 million). BT claims the venture will break even in fiscal 1997-98.

Today Concert boasts business worth $ 1.5 billion from 2,700 customers in 35 countries. Contracts run between one and five years, but typically three, indicating annual revenues of about $ 500 million.

Whatever Concert's teething problems, analysts say it has set the standard for global carrier services.

"They are one-and-a-half to two years down the road that Global One and others are now treading," said Berge Ayvasian, vice president at consultancy The Yankee Group in Boston.

LANGUAGE: ENGLISH

LOAD-DATE: December 12, 1996

LEVEL 1 - 38 OF 265 STORIES

CommunicationsWeek International

November 25, 1996

SECTION: VOL. 00; No. 175; Pg. 9

LENGTH: 419 words

HEADLINE: One plus one equals one

BODY:

Make no mistake, Concert, the company to be formed by the merger of BT and MCI, is not a global carrier. For now, it is simply the first multinational carrier since Cable & Wireless--and the biggest.But the deal marks a brave and significant step and raises issues that go to the heart of the reforms sweeping through the industry: Is bigger better, are alliances just transitional; is the market customer-driven or still supplier-driven. Whether defensive or visionary-and who can say in these times of turbulent change?--BT and MCI have once again shown they are the most prepared to take risks and face up to the new order head on.

Concert has snatched AT&Ts crown and is now a bellwether for the global competitive telecoms industry.

Along with newcomer WorldCom-MFSUUNet, Concert will be setting the rules. Is this good for customers? Probably. Good for shareholders? Maybe. Good for the old school of telecoms? No.

Along with the recent merger deal struck by Mercury, Nynex Cablecomms and Bell Cablemedia, such ventures show how open markets encourage innovation and competitive strength. The United Kingdom's two main carriers have both become stronger through their recent deals and the ability to compete abroad, although the regulator must still watch out for potential abuses at home should a neo-duopoly emerge.

The BT-MCI deal also has implications for the next government, to be elected by May 1997. Labour, confident of winning power for the first time in nearly two decades, has been keen to see BT develop as a national champion. With the MCI merger, and without Labour's help, BT has managed to become a much more powerful force. It does not need-and should not be distracted by-the ability to deliver television signals, contrary to Labour's suggestion.

Instead Concert is well positioned to shape the world's digital information backbone, particularly for the delivery of corporate and Internet traffic.

To this end, bigger is better--provided there is a well-defined focus and a willingness to listen to customers: So far the BTMCI merger smells rather more of supplier expediency than strong commercial logic, and major customers have expressed reservations about the deal.

Work has to be done here. At the moment many customers question whether alliances work. With its split headquarters and dual-management structure, Concert still shows many signs of being an alliance. It has to go further flit is to be seen as a truly seamless global carrier for the corporate world.

LANGUAGE: ENGLISH

LOAD-DATE: December 11, 1996

Network World

December 2, 1996

SECTION: OPINIONS; Network Convergence; Pg. 39

LENGTH: 827 words

HEADLINE: The BT/MCI merger: Is bigger better?

BYLINE: Mary Johnston Turner

BODY:

The $ 21 billion British Telecommunications plc/MCI Communications Corp. merger generated the type of large-print headlines reserved for only the industry's biggest news. The merger, like the Bell Atlantic Corp./NYNEX Corp. and LDDS WorldCom/MFS Communications Company, Inc. mergers an-nounced earlier this year, is clearly motivated by a desire to achieve economies of scale and to consolidate market share in todays highly competitive communications market.

The companies certainly have a lot to work with - fixed assets of more than $ 10 billion in the case of MCI, and more than $ 26.6 billion in the case of BT. And since 1993, the two carriers have jointly operated a successful global managed services business, proving they know how to work together. They plan to fund MCI's buildout of local-loop facilities in 25 top U.S. markets, a move that, some analysts suggest, will enable BT/MCI to reduce local calling rates by as much as 50%.

Several key factors will determine whether this merger will actually play out to the benefit of customers and stockholders. These include the following assumptions:

Facilities-based competition matters.

Being able to drive down the price of bandwidth to the lowest levels among all competitors is a good thing.

Network facilities spread across two continents can be managed more efficiently, and at lower cost, than two separate sets of facilities.

The installed base of network switches and transmission plants is an asset rather than a boat anchor.

If all of the above assumptions are true, the new BT/MCI Concert venture, having the biggest scale of any of the recent mergers, should do very well.

However, what if the nature of technology is changing the ground rules regarding economies of scale? What if overbuilding in the long-haul arena means that facilities ownership is not critical? What if driving down prices simply lowers margins across the industry, rather than delivering higher profits to the price leader? What if the tools needed to manage these very large networks fail to scale effectively across time zones? And what if the end is near for switched voice and private-line networks?

Does a large legacy base of switches designed for the pre-Internet era act as a bottleneck to effective competition? Can newer players optimized to operate in an all-cell or all-packet world do so at a better overall level of profitability than operators of legacy systems can ever achieve by pushing scale?

Actually, the fundamental question is whether scale matters. BT/MCI is betting big that it does. For corporate network managers, however, the scale arguments may not be so compelling.

It's my guess that you care more about whether the new, combined network can meet ever-growing demand for Web traffic and Internet/intranet connectivity. You probably care about whether you can get end-to-end service levels off the shelf quickly rather than via long-term, highly customized managed service or outsourcing deals. And you probably want your supplier to give you solid advice about capacity, planning and performance, and help you make decisions about whether to put all your international voice traffic over the Internet. You'd probably like your carrier to set up and manage a global directory and addressing plan or help you implement a global E-mail or even build a global transaction processing utility for your business and trading partners. Again, you'd like these capabilities to be standard offerings, not big, complex, onetime custom deals.

With all the hoopla surrounding the BT/MCI merger, very little detail has come out as to how the merged company will leverage technological innovation to do business differently. At the end of the day, IT managers should certainly take what they can get in terms of discounts, particularly when the services, such as voice, fax and leased lines, are largely commodities anyhow.

However, when making choices about your strategic network partners, look at more than the total combined assets and the geographic distribution of the workforce. Look at where the service provider is spending its capital dollars. Old or new, large or small, you want a supplier that is investing in bandwidth and infrastructure for the future - a future that is going to be dominated by cells, packets and IP. Investing in duplication of existing local facilities or upgrading old technologies may result in some near-term cost reductions, but it doesn't mean your supplier can really support the global service utility needed to make your business hum.

Finally, keep an eye on how much of the capital budget is going into new vs. legacy technology. The best long-term partner for you is the one that will have the right type of facilities ready when you need them.

Turner is a vice president with Northeast Consulting Resources, Inc., a Boston-based consulting company. She can be reached at (617) 654-0619 or via the Internet at turner @ncri.com.

LANGUAGE: ENGLISH

LOAD-DATE: December 10, 1996

Phone Tag: BT Secures Its Place Among Telecom ...

DOCUMENT 15 OF 18
J9630900157
Phone Tag:
* BT Secures Its Place
Among Telecom Titans
* With MCI Takeover

The $20.88 Billion Deal Puts
Concert Global on Course
To Enter New Markets

Marriage of Staid and Spunky
By Wall Street Journal Staff Reporters
John J. Keller and Gautam Naik in New York
And Kyle Pope in London
2677 Words
17402 Characters
11/04/96
The Wall Street Journal
A1

On the brink of a new age of competition in global telecommunications, even the biggest giants fret they don't have enough size to survive.

* So it is that MCI Communications Corp., the scrappy upstart that built a $15 billion-a-year business by sticking a thumb in the eye of AT&T Corp., has agreed to become the pricey property of its 20%-owner,
* British Telecommunications PLC -- the former state telephone monopoly that is essentially the AT&T of the United Kingdom.

The stunning union of global assets, in which MCI shareholders will receive about $20.88 billion in BT stock and cash -- the equivalent of $36 a share -- for the remaining 80% stake that BT will acquire, is aimed at securing British Telecom as one of the world's most powerful telecom titans. The combination, to be called Concert Global Communications PLC, would rival AT&T in size and scope: annual net income of almost $5 billion, revenue of $42 billion, a global network serving 43 million customers in 30 countries, and 182,000 workers. Its stock market value based on Friday's prices would be nearly $55 billion compared with AT&T's $55.2 billion.

For British Telecom, the MCI deal -- the biggest takeover in British corporate history -- caps an extraordinary decade. When it was privatized in 1984 amid the free-market frenzy engineered by then-Prime Minister Margaret Thatcher, BT was deemed the worst telephone company in the world in terms of customer service. Customers were forced to wait weeks for new service, operators were surly and marketing efforts were laughable.

Now BT churns profits in one of the most competitive markets in the world and leads the charge to open up new markets in Europe and Asia -- a situation similar to MCI's as it sought to take on AT&T. BT has built up a half-dozen alliances in Europe in anticipation of deregulation there in 1998, and it is eyeing a deal with Japan's Nippon Telegraph & Telephone Corp. By forming a trans-Atlantic powerhouse with MCI, it gets access to the half of the world's 500 biggest companies that are based in the U.S. or in the U.K.

"This isn't a pebble we're throwing on the surface of the pond. This is a big rock that's going to make a big splash," says British Telecom Chairman Sir Iain Vallance, who will be co-chairman of the newly merged concern with MCI Chief Executive Bert C. Roberts Jr.

For MCI, the BT takeover would mark a bittersweet end to its tumultuous history as an independent company and self-styled giant-killer. Backed by BT's $8.9 billion a year in cash flow, almost three times as large as its own, MCI can accelerate a multibillion-dollar push to build local fiberoptic networks to challenge the monopolies of the Baby Bells and GTE Corp. Together, they can leverage BT's international links and MCI's marketing savvy and brand cachet in the U.S. to take aim at the main global rival of the future-AT&T.

"It allows BT a big, flashy entry into the U.S. It will turn into AT&T vs. BT, a colonial vs. a homeland power," says Boyd Peterson, analyst at Yankee Group in Boston. Jack B. Grubman, an analyst at Salomon Brothers Inc., adds: "MCI will have the financial muscle AT&T has if not more. This has got to be nightmarish to AT&T."

But British Telecom isn't, at first glance, the most likely or most natural partner for MCI. Marrying staid BT to spunky MCI is a little like Masterpiece Theatre eloping with MTV. The new company will have to merge distinctly different cultures under an unwieldy new management structure, painstakingly split as evenly as possible to downplay the impression that BT ultimately will take control. Concert will also have to push conflicting brand names, tear into newly opened markets and operate with urgency well into the next century.

MCI, after all, rose up in the 1970s by challenging the AT&T monopoly; its antitrust suit played a key role in helping break up the old AT&T. Now it finds itself teaming up in the '90s with one of Europe's biggest, most reserved erstwhile monopolies. BT only recently began to shed its stodgy, upstairs-downstairs attitude toward customers and competition. Its top two executives, Sir Iain and Sir Peter Bonfield, are knighted. ("Please don't mention that," a BT executive pleads. "We are changing.")

MCI cut its teeth poking fun at such tradition. Though now huge itself, MCI remains brash to its marrow, outgrowing AT&T by a 3-to-1 ratio and living dangerously -- sometimes even a little recklessly. Its guiding light, the late William McGowan, built much of the company's foundation on junk bonds pushed by former Wall Street potentate Michael Milken, with whom the company remains close. In the marketplace, MCI offers and then pulls service offerings and forms partnerships almost as fast as it delivers phone calls.

Says Gerald Taylor, MCI's president: "We thrive on chaos."

Now a new owner will take over with BT shareholders clearly in control. The main headquarters will be in London, not MCI's Washington base. A new stock, Concert, will trade in Britain with U.S. investors getting ADRs (American depositary receipts). MCI's stock, one of the hottest equity plays of the past two decades, will disappear. "Concert will be the global brand going forward," a BT spokesman asserts crisply.

MCI had spent the past year flirting with other suitors before turning back to BT. Under pressure from investors to give MCI's lagging stock price some gas, and worried about an imminent invasion of the long-distance market by the Bells, MCI's chief executive, Mr. Roberts, felt the need to team up with someone. In an era of globalization, cutthroat competition and massive capital requirements to build and operate advanced networks world-wide, MCI needed more scale to establish beachheads in new markets.

The company's much-hyped plan to build local networks, called MCI Metro, has faltered so far: For the most recent quarter, growth was flat, revenue was at only $45 million -- a rounding error in a $15 billion-a-year company -- and most of that represented MCI's own long-distance traffic rather than new customers. MCI hasn't nearly the depth of switching and other network facilities as other challengers to the local monopolies.

Seeking help, Mr. Roberts had talked at various times individually with Bell Atlantic Corp., Nynex Corp., Pacific Telesis Group, GTE and others, say executives close to the companies. All brushed him off, saying the premium he sought was too steep and based too much on MCI's vaunted brand name.

In the end, the MCI chief may have had little other choice than to return to BT's embrace. Under terms of their 1993 pact in which BT paid $4.3 billion for 20% of MCI, MCI couldn't join up with another partner for seven years unless BT approved. BT enjoyed the right of first refusal. "It appears that MCI was really hamstrung in terms of doing a deal with anyone else," says Kenneth Leon, analyst at Chicago Corp.

Now that MCI has settled on BT, the combination faces intense regulatory and trade scrutiny in the U.S., the U.K. and the European Union because of its size and the enormous advantage it gives BT on the world stage. The two partners hope to close the deal in about a year and to be operating as a single company by January 1998, just as EU markets

Source: Wall Street Journal, November 4, 1996

open their doors to fullscale competition.

In the U.S., BT-MCI will have to win a waiver of federal rules that bar a foreign company from owning more than 25% of a U.S. telecommunications provider and from owning a significant stake in a company that holds broadcast licenses, as MCI does. One government official predicted regulators will impose "a much more indepth analysis" than when BT first sought permission to buy the 20% chunk of MCI. BT, for its part, may have to get around a provision that says no foreign investor can hold more than 15% of the company without approval of the British government.

Rivals can be expected to weigh in against the deal. While BT and MCI officials yesterday called the U.K. "the most open market in the world," AT&T is expected to argue quite the opposite. AT&T has begun offering local service in Britain but can't handle any international traffic that originates there.

"We have to operate there strictly on a resale basis and aren't allowed to own facilities," AT&T Chairman Robert E. Allen says. "If this is properly reviewed by the Federal Communications Commission, the Department of Justice and other authorities, [the BT-MCI deal] probably finally suggests that we'll get an open market in the U.K."

Analysts say that with Nynex and U S West Inc. already competing in the British market, U.S. regulators may give a thumbs-up to the BT acquisition.

Even so, "It will be five years before either MCI or BT determines if this is a good marriage," predicts John Malone, president of Eastern Management Group, a telecom-consulting firm. "If it's a lousy one, it will pull MCI and BT down within 20 months."

BT and MCI officials acknowledge the obstacles ahead. "I'm not going to tell you -- because you wouldn't believe me -- that this merger doesn't have its challenges," says Sir Peter, the BT chief executive who will hold the same job in the newly combined company. "All mergers hold surprises."

Some analysts further question whether the big deal is necessary given that BT and MCI together already have a global presence. The existing Concert venture, which provides advanced voice and data services to multinational customers, currently has about $1.2 billion in contracts and about $300 million in annual revenue. It may have also just turned profitable, analysts say. That puts Concert far ahead of AT&T's loose confederation known as World Partners -- and the acquisition of MCI won't necessarily provide a bigger boost.

In addition, MCI is already the world's fastest growing carrier of "international direct dial" traffic, and among the top-five providers in terms of size. MCI has 20% of the U.S. domestic long-distance market, but 40% of the higher-margin international business. It isn't clear that merging with BT would substantially improve these results, either.

Source: Wall Street Journal, November 4, 1996

"Everyone is assuming that MCI will now have a war chest to be a big local and long-distance provider," Mr. Leon of Chicago Corp. says. "But it is unclear that this will spur their strategy in information services or electronic commerce." David Goodtree of Forrester Research Inc. in Cambridge, Mass., adds: "I can't think of a good reason for doing this deal other than boosting MCI's stock price, which has languished in the 20s for the last two years. I'm eager to see what ownership brings that tight coupling doesn't."

Newly formed Concert Global Communications also may have to impose some significant job cuts to be competitive with the likes of AT&T. Since privatization, BT has transformed itself -- but not enough. A brutal cost-cutting and job-reduction program under Sir Iain has slashed 120,000 jobs -- nearly as many jobs as its remaining work force of 130,700 people. Under the effort, called Project Sovereign, BT employees also were required to write job descriptions for themselves and to reapply for their jobs, and the company's entrenched unions were attacked head-on. "It alerted people that they didn't have a job for life," one manager says.

Yet BT remains bloated. Even with its slimmed-down work force generating $22 billion in sales, BT's revenue-per-worker picture doesn't hold up to MCI's. The U.S. company has only 50,000 workers generating sales of $15 billion. AT&T has about 125,000 employees and revenue of more than $50 billion.

By combining, BT and MCI contend they can cut $2.5 billion in costs from their operations in the next five years and save $850 million in the fifth year alone. That will let them boost their combined pretax profits by $765 million in the next five years. The companies claimed their deal would boost earnings by the second year after it closes, and that the combined company can post annual earnings growth in double-digit percentages.

MCI provides a highly valuable North American link in BT's global system. The international telecom-services business is a $568 billion annual market, 38% of which comes from North America and another 31% from Europe, according the Eastern Management Group. BT will use its invulnerable base in the U.K. -- where it still controls 90% of domestic traffic, most international calling and 40% of a highly competitive wireless industry -- as a hub from which to try to dominate the flow of telecom services world-wide. France Telecom and Deutsche Telekom have similar plans via their 20% stake in Sprint Corp. and could very well increase their stake at some point.

"BT's in a race to beat the French and German national phone companies to be the main international hub for communications traffic," says Francis McInerney, president of North River Ventures, an international high-tech investment firm. "It wants to be the Heathrow Airport of international telecommunications."

Source: Wall Street Journal, November 4, 1996

James Ross, a telecom analyst at ABN AMRO Hoare Govett in London, adds: "BT is a dragon trying to turn itself into a dragon-slayer. And it's doing a reasonable job of it."

Now British Telecom will have to navigate its own remake while trying to wrap in MCI. The U.S. company, while posting handsome growth in long-distance revenue, hasn't had a big hit in the consumer market since its "Friends & Family" service was introduced a few years ago. It is a mere reseller in the wireless business, while AT&T owns the largest cellular business in the world.

MCI and its new owner also must decide what to do with MCI's stake in Rupert Murdoch's News Corp. MCI has agreed to invest $2 billion in that company, but told analysts it may not invest the entire amount. It may also have to divest of its Murdoch holdings because of News Corp.'s U.K. cable and satellite operations. Mr. Murdoch sits on the MCI board, but won't be on the board of the combined company. Yesterday, MCI said it was scaling back its investment in News Corp.: It plans to cut its stake in satellite venture A-Sky-B to 20% from 50%.

As MCI and its British acquirer trumpeted their transaction, both sides sought to play the deal as a merger of equals -- while separately appealing to their local audiences to give reassurances of how much power each would have. In New York, Mr. Roberts, the MCI chief, emphasized the role his brass will play: "Look at where MCI management has been placed in this company."

While Mr. Roberts and Sir Iain will be co-chairmen and Sir Peter the chief executive, Mr. Taylor, MCI's president, will be chief operating officer. Timothy F. Price, chief of MCI's principle unit, MCI Telecommunications, steps up to president of the entire MCI business in North America. MCI Chief Financial Officer Douglas L. Maine will become CFO of the combined company. And MCI's chief strategist Michael J. Rowny will head strategic development for the combined company. Concert's 15-member board is similarly split: Of the nine independent directors, five will be selected by BT and four by MCI.

It remains unclear whether this fragmented structure will help or hurt as the two partners try to merge their divergent personalities. In New York, Sir Iain insisted he hopes to impose more of MCI's brash style on BT rather than vice versa. "MCI is completely different. It's a startup, gutsy organization willing to take on AT&T or die in the ditch" trying, he said.

At its London headquarters yesterday, BT did its best to project a new look at a question-and-answer session. Top executives sipped champagne as they smiled their way through reporters' questions. "What an interesting day," quipped Sir Peter, the BT chief. But he said neither company underestimates the challenges ahead -- from regulators and rivals alike. "There are going to be a lot of hurdles to overcome."

Source: Wall Street Journal, November 4, 1996

Company Snapshots

Based on 1995 data

	BT	MCI
Revenues	$22.60 billion	$15.27 billion
Net Income	$3.04 billion	$548 million
Employees	130,000	52,000

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22.6
15.3
$37.9 Rev 1995
3.8 10% growth
$41.7 1996 Rev

Source: Wall Street Journal, November 4, 1996

Competitive Spur Seen; British Telecom Brings ...

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MCI Deal Reverberates on Both Sides of the Atlantic
* Competitive Spur Seen; British Telecom Brings Local Phone Experience
By MARK LANDLER
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* The British are coming to the American telephone market. And for people who call London or Long Island, that could translate into lower overseas phone rates and more competition to provide local service.

* British Telecommunications and MCI Communications announced yesterday that they would merge their operations to create the world's first trans-Atlantic telephone carrier, a company to be called Concert. The
* deal, structured as a $22 billion acquisition of MCI by British Telecom, would be the largest foreign takeover ever of a United States corporation.

Beyond financial superlatives, the deal could redraw the business map of telecommunications. At home, MCI could become a formidable competitor in the $100 billion market for residential local service. Overseas, BT, as the British company is known, could become the provider of choice for many business customers seeking global communications.

''This isn't a pebble we're throwing on the surface of a quiet pool,'' said Sir Iain Vallance, chairman of British Telecommunications, at a New York news conference yesterday announcing the deal. ''This is a rock, and it will make a big splash.''

The ripples from the huge merger were already spreading yesterday through Wall Street, Washington and the telecommunications industry. AT&T, which has been the biggest United States telephone company, urged the Clinton Administration to demand that the British Government open its phone market before it approves the deal.

''BT controls 90 percent of the telephone numbers in the U.K.,'' said Robert E. Allen, AT&T's chairman and chief executive. ''They operate in a market that is not open and competitive by the standards by which we judge competition in the United States.''

But several analysts predicted that American regulators would approve the deal precisely because it could accelerate the opening of overseas

Source: New York Times, November 4, 1996

markets. The merger, they said, could eventually lead to the dismantling of the system of tariffs that govern long-distance rates between the United States and Britain. And approval of a major European move into American markets puts pressure on European regulators to reciprocate. ''This is exactly what the F.C.C. has been looking for,'' said Daniel Reingold of Merrill Lynch.

British Telecom has owned 20 percent of MCI since 1994, but the companies will now ask the Federal Communications Commission to allow it to take full ownership. BT would acquire the remaining 80 percent of MCI for a mixture of stock and cash that values MCI at roughly $36 a share. The deal is expected to close in nine months to a year.

It took about five months of trans-Atlantic talks between Sir Iain and MCI's chairman, Bert C. Roberts Jr., to put the deal together. Mr. Roberts and Sir Iain will serve as joint chairmen of the combined company, to be based in London and Washington.

Though the dual chairmen and headquarters give the deal an international flavor, its greatest effect on American consumers is expected to be felt in the local phone business. MCI will be able to draw on the deep financial resources of BT to intensify its assault on local markets in 25 cities across 20 states. ''This ranks as No. 1 on our list of priorities,'' said Mr. Roberts in a conference call yesterday with analysts.

Mr. Roberts declined to give details on MCI's plans, but analysts said they expected the company to spend more on marketing its brand name as a local phone company -- perhaps leasing capacity on the networks of the regional Bell companies. For now, executives at MCI said, the company does not plan to increase the $400 million a year it is spending to install local fiber optic networks and digital switches.

MCI's strategy brings it into more direct competition with AT&T, which also plans to offer local service by leasing capacity from the Bell companies. Some analysts said that the sheer size of the new company posed a threat to AT&T at a time that it has been grappling with management turmoil and an erosion in its core long distance business.

''For the first time in history, AT&T is the underdog,'' said Eli M. Noam, director of the Columbia Institute of Tele-Information.

AT&T also faces a challenge in the lucrative business of providing world communications networks to big businesses. MCI and British Telecom already have a head start through a joint venture, also called Concert, that has 3,000 customers and $1.5 billion in revenue, and was deemed successful enough to become the namesake for the combined company. Now, Sir Iain said BT and MCI would be able to better coordinate Concert's sales force, and bolster its presence in Asian markets through alliances with South Korean, Japanese and Indian companies.

British Telecom, which was owned by the Government until its privatization in 1984, has expanded far beyond Britain through a web of

Source: New York Times, November 4, 1996

alliances with European and Asian carriers. Its talks with MCI became serious after it failed to buy Cable and Wireless, whose most valuable asset is Hong Kong Telecom.

Analysts, though generally optimistic about the combination, noted risks. The onset of genuine competition in American local phone service could be delayed for several months by a recent Federal court ruling that suspended the F.C.C.'s new rules on local competition. Mr. Roberts said the ruling had complicated already jigsaw-like negotiations.

Some analysts also questioned how well the corporate cultures of BT and MCI would mesh -- especially given MCI's entrepreneurial heritage and BT's roots as a state-owned monopoly. Other experts said that Concert might lose in agility what it gained in size and scale.

Sir Iain and Mr. Roberts said they sought to address those issues by insuring that MCI's top executives would have a strong role in the new company. Though BT's chief executive, Sir Peter Bonfield, will retain that title at Concert, MCI's president, Gerald H. Taylor, will serve as chief operating officer. MCI will be able to name seven directors to the board of Concert; BT, eight.

And MCI, with its underdog image and high growth rate, has risk-oriented shareholders on the lookout for rapid growth and appreciation of assets -- a philosophy markedly different from that of BT's more cautious, value-oriented investors.

Felix G. Rohatyn, a managing director of Lazard Freres, which advised MCI, said no one had ever tried to reconcile such divergent shareholders in a merger that also involved a foreign company.

The road to the merger began in June, when Sir Iain and Mr. Roberts met at the St. Regis Hotel in New York to discuss ways to strengthen their existing alliance. Sir Iain suggested spinning off Concert as a stand-alone venture. Left unsaid was the possibility that BT could buy MCI outright. Under terms of British Telecom's 1994 agreement with MCI, Sir Iain was legally barred from broaching the idea of an acquisition.

So Mr. Roberts broke the ice in a subsequent phone call, proposing a deal that would be structured more like a merger. Sir Iain reacted positively. Early in September, the two men committed themselves to a deal and brought in advisers. Mr. Rohatyn and Michael Price of Lazard advised MCI, along with Richard I. Beattie, senior partner of the law firm Simpson, Thacher & Bartlett. Yves Istel of Rothschild Inc. and Anthony Alt of Rothschild's British sister company advised BT.

In critical meetings in London, the companies agreed on a management structure and began to hammer out financial terms. They negotiated furiously until two weeks ago, when the talks reached an impasse on the price BT was willing to pay. Then, in a session at Lazard's New York offices between Mr. Taylor and Sir Peter Bonfield of BT, they broke through. BT agreed to pay MCI's shareholders $3.6 billion in cash as compensation for the stock dilution they would suffer, in addition to

Source: New York Times, November 4, 1996