

# Loral deal creates \$30 billion Lockheed

GRAHAM WARWICK/ATLANTA

**L**OCKHEED MARTIN has again raised the stakes in the US defence business with its agreement to buy the bulk of Loral for \$9.1 billion. The latest deal, which comes less than a year after Lockheed's merger with Martin Marietta, will create a group with sales of \$30 billion, giving it a clear lead in the world aerospace-defence industry.

Lockheed Martin chairman Dan Tellep describes the deal as a "strategic combination", rather than an acquisition or a merger. Loral chief executive Bernard Schwartz will become vice-chairman of Lockheed Martin.

The deal, which is expected to be completed in February, centres on Loral's defence-electronics and systems businesses, for which Lockheed Martin will pay \$7 billion in cash and \$2.1 billion of assumed debt.

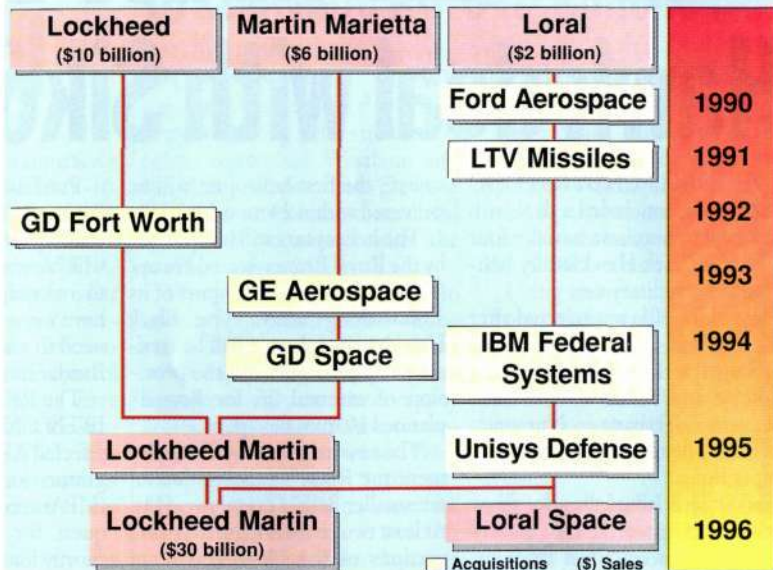
The Loral space business is not included in the merger and will be set up as a new independent company, Loral Space and Communi-

cations, in which Lockheed Martin will take only a minority 20% stake for \$344 million.

The enlarged Lockheed Martin group will have a backlog of \$47 billion, an annual research-and-development budget of \$1 billion, and is expected to generate \$1.5-2 billion in free cash.

Tellep will continue as Lockheed Martin chairman, with chief executive Norman Augustine and Schwartz as vice-chairmen. Lockheed Martin chief operating officer Vance Coffman and Loral's Frank Lanza will become executive vice-presidents, dividing responsibility for the company's operating sectors.

The Loral businesses will initially form a sixth business sector in Lockheed Martin, Tactical Systems. A consolidation plan will be devel-



## Loral pins future on space

**I**N THE 23 YEARS since Bernard Schwartz acquired control of Loral, he has built the company from sales of only \$27 million into a \$6.7 billion defence-electronics giant, in one of the most aggressive and sustained acquisition sprees in US aerospace history.

The business, which he acquired for just \$7.5 million, is now valued at more than \$9 billion under the merger deal worked out with Lockheed Martin. That will see Loral's defence-electronics activities absorbed into Lockheed Martin, leaving its remaining space activities free to pursue ambitious growth plans as a stand-alone company.

Schwartz will be chief executive of Loral Space and Communications, which will begin business with more than \$700 million in cash and no debt, he says. The new company will own Loral's 31% stake in the \$2 billion GlobalStar satellite-communications network, a 33% holding in satellite manufacturer Space Systems/Loral and aircraft-braking company K&F Industries.

The space businesses were not included in the merger because of Loral's "aggressive valuation", says Schwartz, but he also admits that it

avoided anti-trust complications.

Lockheed Martin has a \$700 million contract to manufacture satellites for Motorola's rival Iridium communications network, but it does not believe that there will be a problem with owning 20% of Loral Space. "They will compete," says Schwartz.

Loral Space's net worth of \$1.7 billion is projected by Schwartz to reach \$4 billion by 2002, by which time GlobalStar is projected to have 3 million subscribers, generating \$2.7 billion in sales, with profits to match. Loral Space also intends to become a service provider in the direct-broadcast market, probably outside the USA, he says.

Schwartz' decision to sell Loral's non-space businesses may result from difficulties GlobalStar has experienced in raising the \$2 billion needed to establish its constellation of 48 low-Earth-orbit satellites. So far, \$1.4 billion has been raised.

In 1995, the company dropped plans for a \$400 million debt offering, opting instead for \$250 million in bank financing secured by Loral. Plans call for a first launch in 1997 and initial operations in 1998. □

oped within the first year, but Tellep foresees minimal overlap. "The businesses are so complementary," he says.

The main focus of rationalisation in the wake of the Lockheed and Martin Marietta merger was on space, but Augustine points out that a similar overlap has been

avoided in the Loral deal. Analysts believe that this will also help the merger to clear anti-trust hurdles.

The acquisition will bolster Lockheed Martin's electronics and information-system sectors, which until now have lacked the market-leading strength of the company's aerospace, energy and space sectors, says Augustine. Defence electronics will account for \$17 billion in annual sales.

Loral is already one of the top electronic-warfare companies in the world even without the addition of sizeable Lockheed Martin assets. The company also has a huge systems-integration business — much of it acquired with the purchase of IBM Federal Systems.

Talks between Tellep, Augustine and Schwartz began in mid-September, at the instigation of merchant bankers. Agreement on valuation of the Loral businesses was reached in late December, 1995, and the final deal was signed on 8 January. There were no discussions with other potential buyers, says Schwartz, who cites "strategic reasons" for selling the bulk of Loral.

Tellep says that Lockheed Martin's focus "for the next couple of years" will be on reducing its debt. There may be some niche acquisitions, he says, as well as some "modest portfolio reshaping" through divestitures. The company plans to dispose of real-estate assets freed by consolidation now under way. □