

# Shares In BAE, EADS Slide After Merger Talk

The Associated Press

LONDON (AP) — Skeptical investors sent shares in aerospace and defense contractors BAE Systems and EADS down sharply Thursday, a day after the two companies announced they were in merger talks.

Shares in British-based BAE were down as much as 9 percent in early trading in London, after gaining 10.6 percent on Wednesday after the news leaked. Meanwhile EADS shares were down 5.6 percent at €26.44 in morning trading, leaving the stock back at the level of Tuesday's close and more than 12 percent lower than last Friday.

If it goes ahead, the deal would create a global aerospace and defense giant with combined sales of more than €70 billion (\$90.3 billion) and more than 220,000 employees.

The new company would create a European rival to U.S. defense giant Boeing.

The U.S. company's defense and space business had revenue last year of almost \$32 billion, from selling Chinook helicopters and F-18 fighter jets to the U.S. and, increasingly, other countries.

Defense revenue at EADS was a little more than half as much, but by adding BAE, the combined company would have a defense business significantly bigger than Boeing's.

Oliver Wynne-James, an analyst at Panmure Gordon & Co. said the proposed deal "paves the way for value creation across unloved, deep value stocks."

However the merged organization will have a complex ownership structure split among several countries including the U.K., France, Germany and the Netherlands, and all would have a say in how and whether the merger goes ahead.

"With the prospect of a protracted and bumpy ride to completion, we advise shareholders to cash-in," said Andrew Gollan, analyst at Investec Securities in London.

"Approvals will be required from multiple global governments. Perhaps of more significance, agreement by U.K., French, German and Spanish governments on ownership structures, and protection of national interests (e.g. nuclear deterrent), will prove politically highly sensitive issues," Gollan said in a research note.

EADS is incorporated in the Netherlands with dual headquarters in Munich and Paris as well as the Airbus headquarters in Toulouse, France.

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"There's always political machinations between the French and the Germans," said Cai von Rumohr, an aerospace analyst at Cowen & Co. in New York. "Now if you put the British in the mix, I think that's going to get further complicated."

The British government said it was aware of the proposed deal and was working with both companies to protect British interests.

Germany's Daimler holds a 22.5 percent stake in EADS, the French government owns 15 percent and French media company Lagardere has 7.5 percent.

Lagardere said in a statement on website Thursday that it would "ensure that all consequences associated with the proposed EADS NV - BAE Systems PLC merger are taken into consideration in determining the terms and conditions of the proposed transaction before it consents to the deal."

Italian defense contractor Finmeccanica said the announcement of a possible merger as "an important step in the consolidation of the European defense industry, and an even more significant step in geo-political terms."

However, the company's former CEO, Pier Francesco Guarguaglini, told Radiocor private radio that the company should consider seeking a tie-up with French defense group Thales, to meet the challenge of such a large competitor. Finmeccanica shares were down 5.7 percent in Milan.

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