

1998 Merger of MCI and Worldcom

- On September 30, 1997, MCI had 696,490,435 outstanding shares and the stock price was \$29.375/share. Therefore, their market capitalization on that date equals:

$$\$29.375/\text{share} * 696,490,435 \text{ shares} = \$20.46 \text{ billion}$$
- On November 5, 1997, Worldcom had 903,380,987 outstanding shares of stock and the stock price was \$34.438/share. Therefore, their market capitalization on that date was:

$$\$34.438/\text{share} * 903,380,987 \text{ shares} = \$31.11 \text{ billion}$$
- The current market capitalization of MCI Worldcom, \$139.8billion, is much larger than the \$51.57 billion market capitalization of the two companies separately. Therefore, it appears as though investors saw the merger as a good idea.
- Because Worldcom and MCI were basically in the same core business, long distance telecommunications, it appears as though a combination of businesses in the same market (horizontal integration) are viewed positively by investors. Therefore, if Big Telecom Inc. wants to increase its stock value, they may acquire one of their competitors.

1996 Break-Up of AT&T

- At a price of \$46.8125 and a market cap of \$149.4 billion, the number of outstanding shares is approximately 3,195,727,637. This times the Jan. 2, 1996 price of \$44.917/share gives a Jan. 2, 1996 market capitalization of \$143.5 billion. (Notice that this valuation is very close to today's valuation.)
- The table below shows the prices for the three companies:

Stock Prices

	January 2, 1997	January 2, 1998	January 4, 1999	Today
Lucent	\$11.47	\$19.95	\$57.09	\$63.56
AT&T	\$27.92	\$39.21	\$51.92	\$46.81
NCR	\$33.75	\$28.50	\$41.69	\$43.81

Market Capitalization (in billions)

	January 2, 1997	January 2, 1998	January 4, 1999	Today
Lucent	\$35.15	\$61.15	\$174.98	\$194.80
AT&T	\$89.22	\$125.30	\$165.91	\$149.60
NCR	\$3.35	\$2.83	\$4.14	\$4.36
Total	\$127.72	\$189.28	\$345.03	\$348.76

- From these figures, it looks as though AT&T did the "right" thing in eliminating its combined company into its separate components (equipment, telephony, and computers) because the market capitalization definitely increased (almost by a factor of three) overall. For Big Telecom Inc., it might not be a good idea to buy equipment makers because investors value separate equipment/computer/telephony companies more than one vertically integrated company.