Xerox to buy Affiliated Computer for $5.75 Billion

ANDREW VANACORE

NEW YORK (AP) - Xerox Corp. has agreed to buy Affiliated Computer Services Inc. for about $5.75 billion in cash and stock in a deal that will boost the size of its document management business and take it another step away from its roots as a printer company.

The deal, announced Monday, calls for Xerox to pay $63.11 for each ACS shares and will create a $22 billion business that will mesh both printing and copying services with the information technology and outsourcing components of Dallas-based ACS.

The price is a 33 percent premium over ACS's closing stock price on Friday. Xerox shares fell 60 cents, or 6.6 percent, to $8.42, in premarket trading while ACS shares jumped $12.75, or 27 percent, to $60.

"Acquiring ACS helps us expand our business and benefit from stronger revenue and earnings growth," Xerox CEO Ursula Burns said in a statement.

The acquisition marks the first big move by Xerox since Burns took charge of the company July 1. Although financially healthy, Xerox has been hurt by the slowdown in supply and equipment spending by businesses during the recession. Apart from selling printers, most of its revenue comes from leasing equipment and charging for supplies and document management.

Xerox said buying ACS will triple its services revenue to an estimated $10 billion next year.

ACS, a $6.5 billion company, had fiscal 2009 revenue growth of 6 percent and new business signings of $1 billion in annual recurring revenue.

ACS stockholders will receive $18.60 per share in cash plus 4.935 Xerox shares for each ACS share they own. Xerox, based in Norwalk, Conn., will also take on $2 billion of ACS's debt and issue $300 million of convertible preferred stock to ACS's Class B shareholder.

With about 91 million ACS shares outstanding, that would value the deal at $5.75 billion. The companies are valuing the deal at $6.4 billion.

The acquisition, which was approved by both companies' boards, is anticipated to add to adjusted earnings results in the first year.

Xerox expects to save $300 million to $400 million in the first three years after the deal closes, which is targeted for the first quarter of 2010.

ACS will function independently upon the transaction's completion, and will initially be branded as ACS, a Xerox Co. The company will be headed by its CEO Lynn Blodgett, who will report to Burns.