

US fibre-based infrastructure provider **Level 3 Communications** has completed its US\$3bn acquisition of IP solutions provider **Global Crossing**. In a statement on 4 October, Level 3 said it will now be transferring its stock listing from the Nasdaq to the NYSE.

It will also conduct a 1-for-15 reverse stock split – a move which has already been approved by shareholders.

The combined business had pro forma 2010 revenues of US\$6.2bn and expects total synergies of up to US\$300m of run-rate EBITDA.

The transaction will reduce its financial leverage from 6.8x net debt to adjusted pro forma EBITDA to 4.4x, the company said.

As a part of the deal, Level 3 will be redeeming and discharging US\$1.35bn of Global Crossing's outstanding debt.

US\$430m of senior secured due 2014 from Global Crossing's UK subsidiary will be redeemed on 3 November.

Level 3 CFO Sunit Patel said in a statement: "As a result of potential revenue growth and synergies, over the longer term, we expect to have significant free cash flow available for investment in high-return opportunities, including US and international network expansions."

Speaking to *SatelliteFinance*, Patel said: "The nature of the opportunities we are talking about relates to extending our network in the US, Latin America and in Europe."

Patel asserted "the most important thing" about the Global Crossing deal was how it makes the business more international. He said that 30% of revenues would now come from outside the US. On the issue of

Level 3 completes purchase of Global Crossing

the reverse stock split, Patel said Level 3 had been contemplating such a move for a number of years, but they wanted it to take place at a juncture where the company's momentum was "clear and positive".

Level 3 made a net loss of US\$181m in the three months ending on 30 June, a deeper loss than the US\$169m net loss in Q2 2010.

Under the terms of the agreement originally announced in April, Global Crossing shareholders are receiving 16 Level 3 shares for each of their Global Crossing shares. The deal was valued at US\$3bn, including US\$1.1bn of Global Crossing's debt.

Level 3's advisers for the deal were *BoA Merrill Lynch, Citigroup and Morgan Stanley*, while *Rothschild* also offered a fairness opinion.

Level 3's legal adviser was *Wilkie Farr & Gallagher*.

Global Crossing's financial adviser was *Goldman Sachs* while its legal adviser was *Latham & Watkins*.

In order to secure the acquisition, Level 3 received US\$1.75bn of committed financing from *BoA Merrill Lynch* and *Citigroup*, which included a US\$1.1bn bridging loan.

Level 3 subsequently made a US\$1.2bn bond offering in order to refinance this bridging loan. The proceeds from this offering had been placed in an escrow account until the completion of the deal.

Globecomm on the hunt for app acquisitions

Satellite communication services provider **Globecomm Systems** is actively looking to acquire a wireless apps company, according to chairman and CEO David Hershberg. Speaking to *SatelliteFinance*, Hershberg said Globecomm was looking at fast-growing companies in the US\$15m-30m value range.

"We are looking at companies with application capability in the wireless business. We see this as a very important growth area," Hershberg stated. "We have developed some of our own apps but are looking at some application companies for wireless, perhaps those that haven't been able to get the critical mass yet."

The move reflects Globecomm's wider strategy of making a number of bolt-on acquisitions to rapidly bolster its presence in new verticals. For example, a series of purchases between 2009 and 2011 saw Globecomm significantly expand its maritime offering.

"We took a look at the satellite industry in general and said what has a lot of stickiness? Well ships, you're not going to put fibre on ships and we weren't in ships," Hershberg said.

"So we went and bought this company, Telaurus (for approximately US\$6.5m June 2009) which was making a good buck and that deal was like a bolt-on. We then bought Mach6, which specialises in Ku-Band, and finally we got Evolution Communication, that was part of the C2C acquisition, and together that became our maritime business. We're now trying to expand our cellular business and the

acquisition of ComSource, which is one of the leaders in software for cellular operations, counting Verizon as one its customers, has significantly helped our capability."

Hershberg expected Globecomm's maritime business to growth further.

"We are about 6-8% of the maritime market right now and we are trying to get to 10%. What we are trying to do is innovate, differentiate ourselves. We are close to a very large contract to provide broadband services to around 400 ships. We haven't got it yet but we are hopeful," he said.

In order to help fund these acquisitions, Globecomm has a US\$72.5m credit facility with Citibank which it tapped earlier this year for its US\$41m acquisition of ComSource.

However, Hershberg argued that in spite of the flexibility the facility gives Globecomm, he would prefer the company to be debt free.

"Citibank has been very good, lending to us at a good rate, 2.2%. It isn't something that we need but if we want to get something that comes up, it's nice to have it," he said.

"What I'd like to do if the market would give us a bit better stock value, is to go out and sell some stock and pay the loan off. I don't like debt, we never had debt before. We did it because the rate was good."

Shortly after the ComSource acquisition was completed, speculation arose that Globecomm may itself be an acquisition target and had hired JP Morgan to advise it on any potential deal. While revealing the company had

attracted unsolicited offers, Hershberg said that there was no active intention to sell the company.

"What happened was that a couple of people came in and gave us some offers and ranges and I thought that as CEO in a public company we had an obligation to look at it, so we hired someone to look at it. There was no one out there trying to sell the company. That is not something we were or are trying to do," he said.

Indeed, at present Globecomm's focus is on further expanding its presence in its existing verticals as well as developing new revenue channels such as wireless apps.

"We have five different verticals, and maybe that sounds like a lot for a company of our size, but they are all basically IP-type technology which we are very good at, we've got really good intellectual property there that we have developed over the years," added Hershberg.

"What we are currently trying to do is develop a media cloud now where we can host media for companies and deliver it in different ways. Whether it is via internet, satellite or fibre, to deliver whatever the customer wants, where he wants it and doesn't have to worry about it.

"We currently do this in a small way, but we really want to do it in a big way so we are talking to a number of big companies that have a lot of video hardware about working with us to build a video cloud. It would be a joint venture similar to that which we currently have with two of the major cellular providers offering services on a revenue share basis."