Siemens AG

Siemens AG (Siemens) has been on an acquisition roll for the past two years. While debt levels have risen considerably, the company is capturing market share in numerous cutting edge technologies.

Headquartered in Munich, Germany, Siemens is a global, diversified company focused on medical engineering, information technology, communications, networking, and electronics. The company is structured as a holding company with mostly autonomous subsidiaries, some of which are publicly traded as independent companies. With close to 450,000 employees worldwide, Siemens has over 400 manufacturing sites, and operates in 190 countries.

The company is organized into business groups focused on automation, industrial projects, technical services, information technology, communications, medical engineering, and power distribution and transmission. Siemens health services division is one of the world's largest and most diversified providers of complete healthcare solutions, offering medical imaging systems, image management technology, and consulting services.

In 1999 the company completed a number of alliances and acquisitions. In order to broaden business initiatives in personal computers, network servers, and mainframes, Siemens' computer systems division joined Fujitsu Computers Europe Ltd. to form Fujitsu Siemens Computers (Holding) B.V., of Amsterdam, Netherlands. The company's automation division launched a joint venture with one of Japan's leading manufacturers of electric motors, Yaskawa Electric Corporation. Siemens' power generation division strengthened its competitive position in the hydroelectric power business by partnering with J. M. Voith AG, of Heidenheim, Germany. The company completed a joint venture with U.S.-based Omnipoint Technologies, Inc. to strengthen the development and marketing of its wireless Internet access solutions. Lastly, Siemens acquired Westinghouse's fossil-fuel power plant operations and Elektrowatt's building technologies business.

During the first half of fiscal 2000 (September 1999 to March 2000), Siemens successfully completed public offerings of its Infineon Technologies AG and Epcos AG subsidiaries. In addition, the company brought its mobile networking and mobile telephone businesses together to form a new group – Information and Communication Mobile (ICM). Siemens also remains active in the acquisition arena. To augment its U.S.

services business, the company acquired Entex Information Services, Inc., an information technology services provider. Siemens' acquisitions of Atecs Mannesmann and Robert Bosch GmbH were designed to make the company a global force in automotive electronics, considered by many the most crucial area of automotive design. To complement industry-leading capabilities with existing expertise, Siemens' medical engineering group acquired Shared Medical Systems, a top provider of information technology services and systems for healthcare in the US.

Business at Siemens is increasingly being shaped by the Internet. The company is using electronic commerce to integrate customers with suppliers. By networking a large share of business processes through the Internet, the company is improving cost efficiencies and time management.

To develop its eBusiness, Siemens set up the "Center of e-Excellence", where employees define objectives, coordinate projects, and share beneficial work procedures. Siemens has further plans to expand electronic purchasing and distribution, and will invest several hundred million euros to develop their internal network.

Worldwide revenues increased 14% in 1999, to 68.6 billion euros from 60.2 billion euros in 1998. In US dollars, this translates into a year-over-year increase of 9%, to $72.7 billion from $66.8 billion in 1998. Net income increased to almost $2 billion in 1999, up from $0.5 billion in 1998, and earnings per share rose to $3.13, up from $0.87 in 1998. Second quarter fiscal 2000 revenues increased by 13%, to 35.5 billion euros, and net income surged to $6 billion euros, up from 710 million euros in the comparable year-ago quarter.

Siemens' long-term debt to equity ratio was 48% in 1998 and 42% in 1999, having risen due, at least in part, to the acquisitions made. This rise in indebtedness probably contributed to the trimming of the company's S&P long-term credit rating from triple A status in 1997 to double A in 1998 and 1999. Nonetheless, the company remains on strong financial footing; its dividend payout ratio was 32% in 1999. Moreover, Wall Street has given the company a vote of confidence: the ADRs are up 33% since January 3rd of this year, and the stock closed at $168 on July 14th.

Written: 7/17/00