Cap Gemini SA of France said Tuesday it has agreed to acquire Ernst & Young's management-consulting business for 11 billion euros ($10.7 billion), a deal that would catapult it into the top five consulting companies worldwide.

Cap Gemini will pay for the proposed transaction by issuing 43.5 million shares, representing 36% of its capital, and paying a further 375 million euros in cash.

The Paris-based computer-services company already has reached agreements on the deal with the management boards at seven of Ernst & Young's largest country units, which account for 88% of the business to be acquired. It must now pass muster with Ernst & Young's nearly 5,000 partners, generally with two-thirds of the partners in each country unit having to sign off for their unit to be included in the deal. They are expected to finish voting by the end of March, and Cap Gemini expects to take the deal to its shareholders for their approval at a meeting in late May.

Executives at the two companies said they will reconsider the terms if any of Ernst & Young's largest country units balk. But Philip A. Laskawy, the Big Five accounting firm's chairman and chief executive officer, said Monday that he had "nothing but the utmost confidence" that the seven large country units in the U.S., Canada, the U.K., Germany, France, Spain and Italy will approve the transaction.

### Alliance of Road Warriors

<table>
<thead>
<tr>
<th></th>
<th>STAFF</th>
<th>1999 REVENUE</th>
<th>U.S. PRESENCE**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cap Gemini</td>
<td>40,000</td>
<td>4.3 billion euros</td>
<td>13%</td>
</tr>
<tr>
<td>After Merger*</td>
<td>60,000</td>
<td>8 billion euros</td>
<td>36%</td>
</tr>
</tbody>
</table>

*based on pro-forma calculations

** U.S. revenues as a percentage of total, in 1999

Source: Cap Gemini
Cap Gemini plans to bring the acquired units together with its own business under a single brand and management structure. Company executives said they hadn't decided on a name yet, but that they had clearance from U.S. government watchdogs to use the Ernst & Young brand for four years.

The acquisition would add nearly 20,000 staff to Cap Gemini's 40,000 employees world-wide and almost double its revenue. The deal would radically alter the geographic mix of the French company's business, finally giving it sizable operations in the important U.S. market, and quadrupling the size of its small German unit.

Executives at the companies said the deal would build on their recent e-commerce initiatives. "Besides the geographical complement, the main feature that makes it good for shareholders is that on both sides we have launched initiatives to transform ourselves for the e-world," said Paul Hermelin, a member of Cap Gemini's executive board.

The acquisition also would reduce U.S. regulatory pressure on Ernst & Young to clearly separate its consulting and auditing businesses, providing a neat separation between the two. Talks between the two companies were in fact partly spurred on by U.S. Securities and Exchange officials' threats to bring enforcement action against one of the Big Five accounting firms over possible conflicts of interest. U.S. watchdogs have repeatedly expressed concerns that auditors have let accounting irregularities go ignored in order to keep their companies' lucrative consulting contracts. Cap Gemini's purchase of Ernst & Young's consulting business could well be the first of a series of similar deals involving the Big Five.

However, it is unclear whether the SEC will bless the transaction. There have been "no agreements reached with any of the firms on any transaction structure," says a top SEC official. "It's still under review and being discussed."

Mr. Laskawy said the companies and the SEC had reached "a certain level of understanding with them and we just need to sort out the details as far as I'm concerned."

Based on Cap Gemini's Monday closing price, the bid amounts to about 2.75 times Ernst & Young's consulting unit's revenue, significantly higher than analysts had expected. A person familiar with the transaction said the amount of the bid increased partly because of the sharp rise in Cap Gemini shares since their discussions first became public in December.

In Paris trading on Monday, Cap Gemini rose 50 European cents to 256.50 euros. The stock is up nearly 50% over the past three months.

The companies would cash in 25% of the newly issued shares upon the close of the transaction to cover taxes and related expenses. Under the deal, Ernst & Young's remaining audit and tax structure and partners would sell their roughly 16% share in Cap Gemini's capital within five years. Ernst & Young's consulting partners, who would assume the title of vice president in the merged company, would be gradually permitted to sell their approximately 8% of Cap Gemini's capital over five years.

Executives from the two companies first explored a possible deal over a dinner in Brussels in January 1999. Ernst & Young was advised in the transaction by Wasserstein Perella. Lazard Freres & Cie. and Goldman Sachs advised Cap Gemini.

Cap Gemini's Mr. Hermelin said the French company could still be interested in another acquisition to boost its presence in Germany.
Write to Kevin J. Delaney at kevin.delaney@wsj.com and Elizabeth MacDonald at elizabeth.macdonald@wsj.com

URL for this Article:
http://interactive.wsj.com/archive/retrieve.cgi?id=SB95177935618510552.djm

Hyperlinks in this Article:
(1) http://interactive.wsj.com/archive/retrieve.cgi?id=SB94451976666945208.djm
(2) mailto:kevin.delaney@wsj.com
(3) mailto:elizabeth.macdonald@wsj.com

Copyright © 2000 Dow Jones & Company, Inc. All Rights Reserved.
Printing, distribution, and use of this material is governed by your Subscription Agreement and copyright laws.

For information about subscribing, go to http://wsj.com

Close Window