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# THE SECOND BREAKUP OF AT&T: THE INVESTORS; An Eager First Day, but an Uncertain Future

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Once again, holders of AT&T are about to get a blizzard of paper in place of one share certificate. The last time that happened, more than a decade ago, holding onto the package for years was a smart strategy. This time may be different.

Wall Street reacted with enthusiasm yesterday to the highly surprising announcement by the AT&T Corporation that it will split into three pieces, while selling off a variety of assets.

AT&T shares leaped $6.125, to $63.75, in trading on the New York Stock Exchange yesterday. That tacked $9.7 billion onto the company's market value, pushing it to $101 billion.

It was perhaps the biggest gain ever for a company that announced a billion-dollar write-off. Almost lost in the attention given to the planned split-up was the company's move to take a $1.5 billion write-off on its computer operations, reflecting its huge failure since buying the NCR Corporation. AT&T's value rose more than $6 for each dollar of write-off.

The immediate winners include all 2.3 million AT&T shareholders, of course, whose holdings are worth 10.6 percent more now than they were a day earlier. That, no doubt, includes many employees, and it also includes a lot of mutual funds. The biggest beneficiary in that group would appear to be the Galaxy II Utility Index fund, which at last report had 14 percent of its assets in AT&T. Its net asset value rose 1.8 percent yesterday.

When all is said and done -- and AT&T's assessment that it can be completed by the end of 1996 may be optimistic -- shareholders will have three pieces of paper instead of one. They will own shares in the company running telephone operations, the company making equipment and the computer company.

The theory is that less is more, and that there are negative synergies in AT&T's current collection of businesses. Robert E. Allen, AT&T's chairman, who helped build the company and then take it apart, spoke hopefully at a news conference, envisioning for example that AT&T's equipment company might persuade the MCI Communications Corporation to buy from it after the split-up. MCI would no longer be a competitor to that company.

It was to settle an antitrust suit in 1982 that AT&T agreed to be broken up the first time, spinning off its local telephone companies into what became known as the Baby

Bells. Shareholders in AT&T ended up getting shares in as many as seven new companies to go along with their shares in AT&T.

When the breakup was announced, on Jan. 8, 1982, AT&T shares rose on the news, but they soon settled back and performed poorly during the run-up to the actual split, which was completed in January 1984.

In the immediate aftermath of the 1982 announcement, the conventional Wall Street wisdom was that AT&T was "getting to keep its good businesses and is getting rid of the less attractive operations," as one analyst put it.

That opinion serves now as a reminder that conventional Wall Street wisdom can be quite wrong. The wisdom now, which is reflected by Mr. Allen's comments, is that two things will spur the value. First, the new operations will be leaner, able to move faster.

Second, the new phone company and the equipment company will be valued in different ways; even the money-losing computer operations will be seen to have some value on a stand-alone basis. Applying differing multiples will produce a larger total value than was given to the previous combination. Or so it is hoped.

It may work out that way. But at least some of that is in the market now. And certainly there were synergies in the current operation, with the equipment division having a guaranteed customer that would help in product development. Moreover, the run-up to the split-up, and perhaps its immediate aftermath, threaten to create demoralizing chaos for at least some AT&T employees. The productivity of people wondering if they will survive the coming reorganization may suffer. And some good workers, fearing the worst, may start to look for other jobs.

Before the split-up occurs, Mr. Allen said yesterday, the computer operations will have been turned around. If not, AT&T must decide whether to go ahead and spin off a sick company -- raising its cost of borrowing and, at worst, leaving potential clients unsure about its staying power -- or to delay the spin-off.

AT&T also will seek buyers -- through a public offering if no private buyers appear -- for its 86 percent stake in AT&T Capital, the leasing operation that it took public last year. In the general good feeling, the fact that a huge block of shares was about to go on the market was deemed good news yesterday, and AT&T Capital shares rose $2.50 to $35.25.

For no apparent reason other than to get some cash, AT&T is also considering an initial public offering of its 15 percent of the shares in the new equipment company, with the rest to be spun off to AT&T shareholders.

**Correction:** September 25, 1995, Monday

A chart in Business Day on Thursday listing large holders of AT&TCorporation stock misattributed some data. Figures showing the holdings of institutional investors were from Technimetrics Inc., not Bloomberg Business News.