

Alcatel-Lucent

Summer doldrums result in share price pull-back: Upgrade to Overweight

It takes time to turn around a company that has not been successfully turned around since '06 M&A, hence our caution early in Alcatel's restructuring plan. With the restructuring proceeding at a faster pace than guided originally and the stock having pulled back because some investors have taken profits, not because progress has stalled, we upgrade the stock to Overweight (from Neutral). We maintain our Dec-14 target price at €3.30 but show in the note there is potential upside to as much as €4.4 or more if the company becomes a pure-play core networking business.

- **Costs cuts have been ahead of plan:** Alcatel-Lucent (ALU) achieved fixed costs reduction of €335m in 2013, better than their target of €250-300m. The company achieved an additional €143m fixed costs reduction in 1Q14 with the cumulative fixed costs reduction of €478m by end of 1Q14, almost 50% of the target to achieve €1bn fixed costs reduction by 2015. Thus, cost cuts have been ahead of the plan in recent quarters. Cost cuts take time and a turn-around is not instant. The company is working away on its "Shift" plan and more cuts will likely be seen in the results through this year.
- **Core networking worth more than company market cap if overhang from rest did not exist:** ALU's router business is its crown jewel. According to Delloro, Edge routing where Alcatel-Lucent is #2 globally has grown at a 12.5% CAGR over the last decade. Though growth will be lower than that in future, it will still be an attractive growth end market. Though ALU does not break out margin in this business, we think it is almost certainly targeting 20%+ margin in the Shift plan. ALU is assiduously cutting costs as part of this restructuring plan. If it does reach the 12.5% margin and €7bn revenue target of this plan, we believe this business alone would be worth more than the current €7.4bn market capitalization.
- **Access restructuring making progress but we believe disposing wireless would generate the most shareholder value in mid to long term:** Ongoing restructuring is reducing losses in access. Fixed access is likely already cash flow positive. The issue of wireless access looms large because it is ALU's largest unit by sales, its weakest unit by market share, and there has been a structural change in the business. Historically ALU wireless had #1 global share in CDMA equipment which could command higher prices. With global standardization of LTE, ALU cannot turn wireless profitable on higher margin in a niche business. Scale matters; hence we believe ALU should dispose the business at fair value without waiting for "best value".

Alcatel-Lucent SA (ALUA.PA;ALU FP)

FYE Dec	2010A	2011A	2012A	2013A	2014E	2015E
Adj.EPS FY (€)	0.07	0.35	(0.31)	(0.17)	0.14	0.28
Revenue FY (€ mn)	15,996	15,327	14,446	14,436	13,439	14,114
Adjusted EBIT FY (€ mn)	288	491	(260)	290	658	1,077
Adj. EBIT Margin FY	1.8%	3.2%	(1.8%)	2.0%	4.9%	7.6%
EV/Revenue FY	0.5	0.5	0.6	0.6	0.6	0.6
EV/Operating Profit FY	28.8	16.9	NM	28.6	12.6	7.7
EV/EBITDA (x) FY	8.3	7.4	20.2	9.5	7.0	5.3
Adj.P/E FY	39.2	7.6	NM	NM	19.4	9.6

Source: Company data, Bloomberg, J.P. Morgan estimates.

▲ Overweight

Previous: Neutral

ALUA.PA, ALU FP

Price: €2.64

Price Target: €3.30

European Semiconductors

Sandeep Deshpande ^{AC}

(44-20) 7134-5276

sandeep.s.deshpande@jpmorgan.com

Bloomberg JPMA DESHPANDE <GO>

J.P. Morgan Securities plc

Chetan Udeshi, CFA

(91-22) 6157-3319

chetan.x.udeshi@jpmorgan.com

J.P. Morgan India Private Limited

Communications Equipment and Data Networking

Rod Hall, CFA ^{AC}

(1-415) 315-6713

rod.b.hall@jpmorgan.com

Bloomberg JPMA HALL <GO>

J.P. Morgan Securities LLC

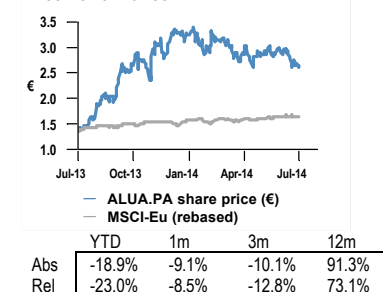
Ashwin Kesireddy

(1-415) 315-6756

ashwin.x.kesireddy@jpmorgan.com

J.P. Morgan Securities LLC

Price Performance



Company Data

Price (€)	2.64
Date Of Price	01 Jul 14
Price Target (€)	3.30
Price Target End Date	31-Dec-14
52-week Range (€)	3.45-1.25
Market Cap (€ bn)	7.43
Shares O/S (mn)	2,814

See page 16 for analyst certification and important disclosures, including non-US analyst disclosures.

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Cost cuts have been ahead of plan in recent quarters

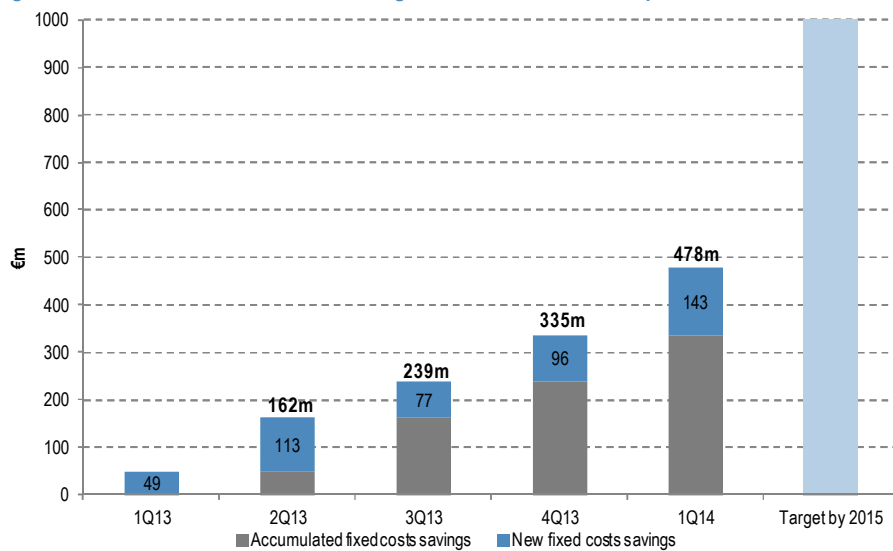
As part of the “Shift” restructuring plan announced in Jun 2013, Alcatel-Lucent had announced a target to reduce fixed costs (in COGS and opex) by €1bn over 2013-2015 compared to 2012 fixed costs base of €5.9bn. As seen in charts below, the progress on fixed costs reduction has been ahead of their plan. The company achieved fixed costs reduction of €335m in 2013, better than their target of €250-300m fixed costs reduction. The company achieved an additional €143m fixed costs reduction in 1Q14 with the cumulative fixed costs reduction of €478m by end of 1Q14, almost 50% of the target to achieve €1bn fixed costs reduction by 2015. Thus, cost cuts have been ahead of the plan in recent quarters.

Fixed costs savings have also clearly translated into lower opex (as seen in Figure 2b) with 1Q14 opex 12% lower than 1Q13 opex. In the past, we did not always see cost savings highlighted from restructuring translate into any material lower reduction in the opex for the company. Thus, that opex is also being cut materially from the elevated levels (relative to sales) of the past is encouraging.

Faster than expected costs cut has allowed the company to report better than expected gross margin and EBIT in recent quarters. However, the company has indicated that the pace of cost savings will slow down in coming quarters as the relatively easy part of cost cuts have been accomplished. Specifically, the company has indicated that it expects to achieve fixed costs savings of €250-300m this year (vs. €335m last year), of which €148m were achieved in 1Q14. Thus, the company guidance suggests that fixed costs reduction will only be €100-150m over 2Q14-4Q14 combined. That said, this management has been over-delivering so we believe actual results could be better.

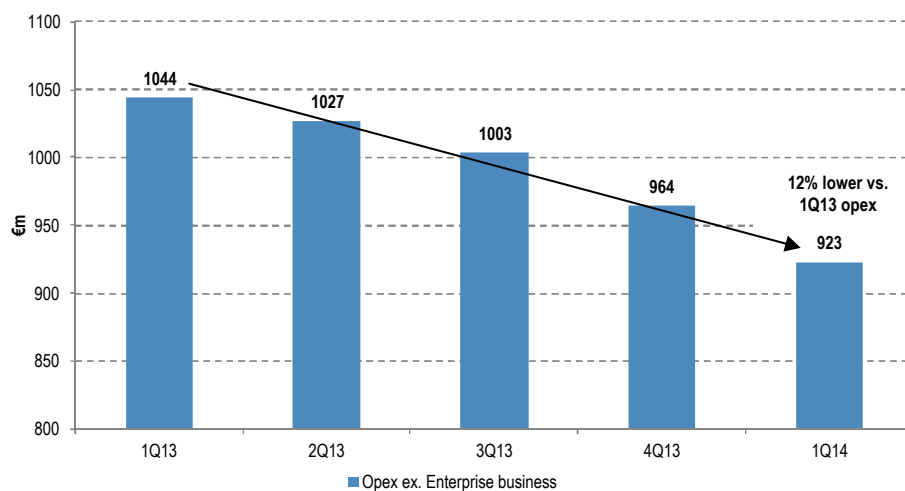
The company is now executing on a number of initiatives, including the outsourcing of part of some support functions, notably in finance and HR. The company expects these initiatives to create temporarily some overlap of cost structure before creating meaningful benefits further down the road when those outsourcing initiatives are in full swing, which should be in 2015. As the company has already guided to slowing the pace of costs cut this year, this is likely now factored in consensus numbers. Thus, there could be upside to estimates if the pace of costs cut is faster than what the company has been indicating recently.

Figure 1: Alcatel-Lucent: Fixed costs savings have been ahead of the plan



Source: Company reports; J.P. Morgan

Figure 2: Alcatel Lucent: Fixed costs savings showing up in materially lower opex

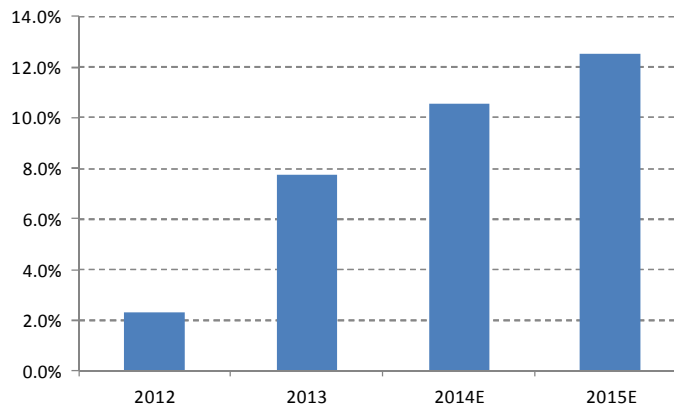


Source: Company reports

Core networking the crown jewel

The “Core” networking business unit of Alcatel Lucent is the crown jewel of the company and if it were a standalone business, we think it could be worth more than the total value of the entire company.

Figure 3: Core networking operating margin and forecast

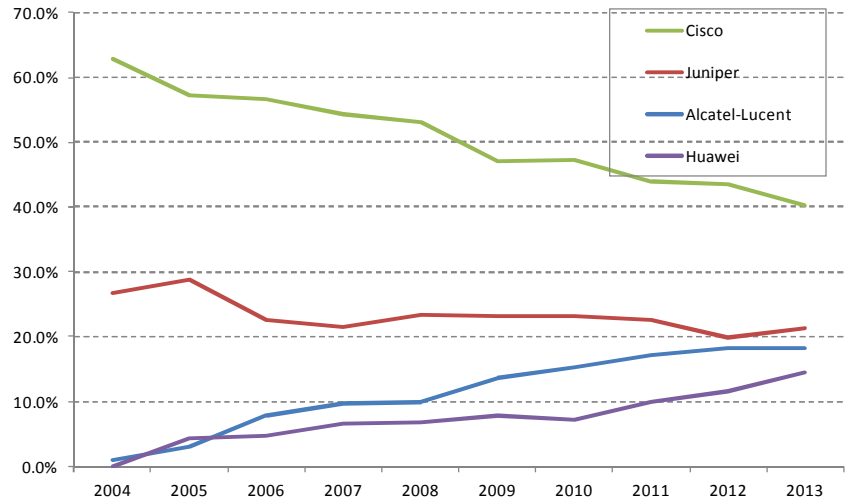


Source: J.P. Morgan estimates, Company data

As part of the Shift plan, Alcatel-Lucent has guided to >12.5% margin in this business with revenue > €7bn in 2015. At this time, whether the revenue run rate will be reached in '15 is uncertain but with the segment reporting 7.1% margin in the seasonally weak 1Q, this indicates that the business is on track to report 12.5% margin in '15.

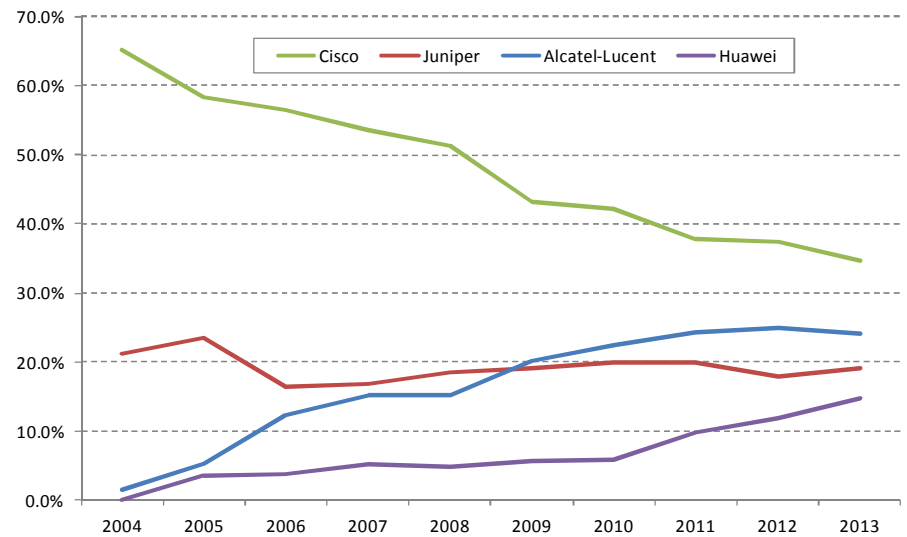
In particular within core networking, Routing is the most significantly profitable segment for Alcatel-Lucent. Within this routing market, Alcatel-Lucent competes in mostly in service provider, i.e. telco operator segment. Within the telco operator segment, Alcatel Lucent is #2 globally in edge routers. It has only recently begun competing in core routing where it is gaining share from no share two years ago. The service provider segment has averaged 72-74% of the total router market.

Figure 4: Service provider routing market share



Source: Delloro

Figure 5: Service provider edge routing market share

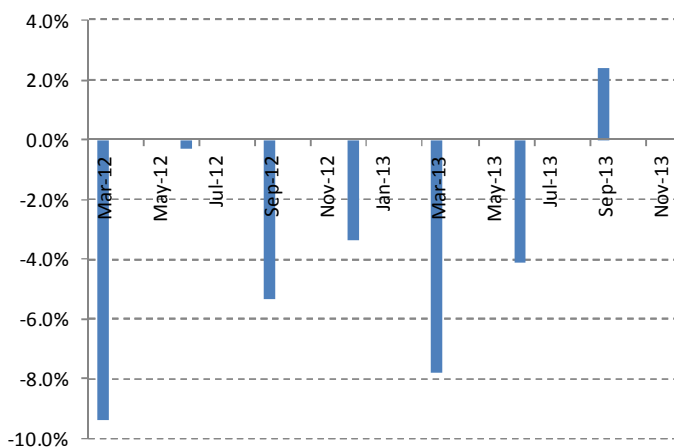


Source: Delloro

Access can be restructured to non cash consuming though sale of wireless may be the best course

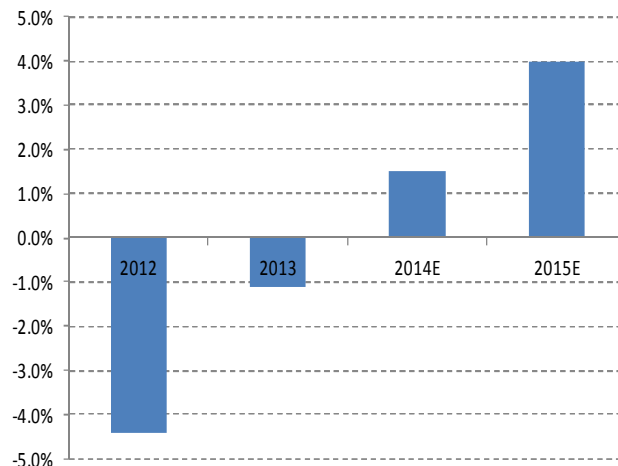
The “Shift” plan has produced reportable improvements in the Access business unit as well. From what we understand, the fixed access units have been substantially restructured and though it may not be a significant profit contributor, the business is now cash neutral to positive. The ongoing restructuring and the “shift” of fixed access to cash neutral to cash producing has improved the earnings profile of the access business as well.

Figure 6: Quarterly operating profit in Access



Source: Company data

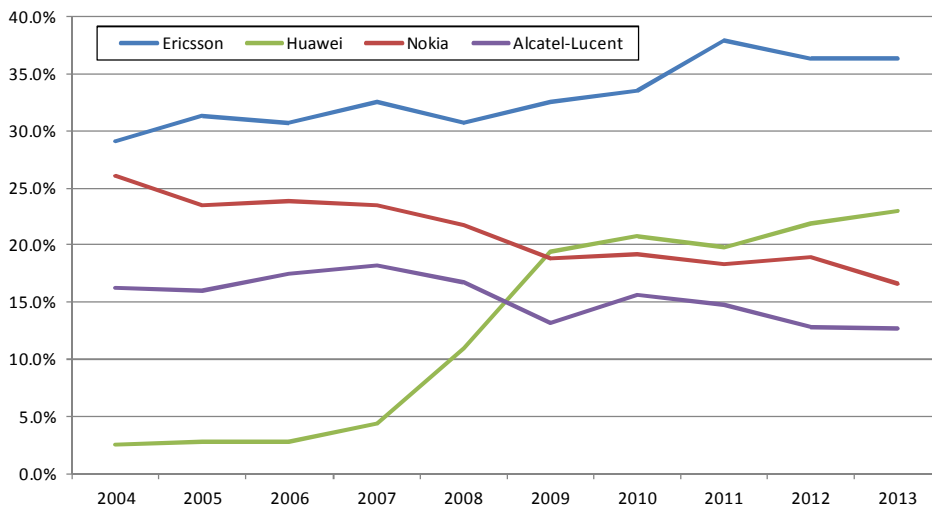
Figure 7: Yearly operating profit trends and estimates



Source: Company data

Wireless access remains the “problem child” in the access business, in our view. Though Alcatel-Lucent’s share of the business has not changed dramatically from 2004, what has changed significantly in this business is standardization on LTE unlike the past where ALU was leader in high price and higher margin CDMA networks and thus could potentially be profitable at a lower market share.

Figure 8: Wireless RAN global market share



Source: Delloro

In an all-standard LTE world, Alcatel Lucent has strong share in the US and China but is not a presence in most other markets. The market share data shows that the company through aggressive restructuring and careful cost management could keep the business cash neutral to slightly profitable. At the same time, we believe the business is dilutive to overall company margin and distracting to management when they should be focusing on profitable businesses which the company is going to focus on in the long term. We believe the pension buy-outs offered in the US are part of the mid term plan to dispose wireless potentially. Having seen tech companies in the past dither on disposing non core businesses at not the best possible price, our opinion is that if the price is fair, it should be good because in the long term the business will consume too much of management time and company cash anyway. If the company were to take this pragmatic view and dispose wireless, it could be a significant upside to share price. According to Delloro, Alcatel Lucent had approx. \$1.2bn exposure to CDMA in 2013 and thus exposure is €900m. The company also has potentially €800m-€1bn yearly exposure to Chinese revenue which is less valuable in terms of multiple because business in China to non Chinese equipment vendors has been allocated in recent contracts on non technical grounds. Thus almost 50% of the business is of low value in the mobile access business. Thus the company should be satisfied with a 0.5-0.6x sales multiple, in our view, if such an offer were to be made. We assume that if the business were disposed, the company would generate €2bn cash payment though in a bullish case a higher value could be possible.

Valuation

We current value and base our target price on Alcatel-Lucent based on the SoTP valuation shown in the table below:

Table 1: Alcatel Lucent: Our current SoTP valuation

	2015E sales	2015E margin	Multiple	Value	% of total
Core Networking	7,000.0	12.5%	1.25	8,750.0	95.3%
Licensing	150.0	100%	10	1,500.0	16.3%
Disposals				1,000.0	10.9%
Pending cash restructuring charges (2014-2015)				-1,190.0	-13.0%
Net cash at end 1Q14				-160.0	1.7%
Minority interests				718.0	7.8%
Value of Equity				9,182.0	100.0%
Value per share				3.26	

Source: J.P. Morgan estimates, Company data

However evidence on margin in routing, growth in routing, and peer multiples in profitable optical businesses show that a simple valuation as above where core networking is valued at 1.25x sales because a 12.5% margin does not value Alcatel-Lucent as peers are valued. Thus we now value the individual businesses within Core networking separately, using 2.3x sales in routers given its 20%+ margin and higher growth profile, transport at 1x sales at a discount to Ciena's multiple, and 0.7x on IP platforms due to the potential margin in that business. We also value wireless as a disposal at €2bn rather than valuing the entire business. Why we value it at €2bn is explained in our section on Access. Upside to the €2bn figure is possible in a bullish case which would provide upside to the new potential value derived below.

From the sum of parts valuation below, we see that Alcatel could be valued at €4.4 if the company sold wireless at a fair value and perhaps closer to €5 if a bullish case value were obtained in the sale of wireless.

Table 2: ALU: SoTP using peers multiples in core networking and valuing wireless at €2bn disposal value

€m	2015 sales	2015 estimated margin	2015 potential op. profit	Multiple	Value of business
IP Routing	2,816	23%	648	2.30	6,476
IP Transport	2,464	4%	99	1.00	2,464
IP platforms	1,768	7.5%	133	0.70	1,238
Core networking	7,048	12.5%	879	1.44	10,178
Fixed access	2,047	2.50%	51	0.25	512
Wireless assuming max. sale value	4,463				2,000
Managed services	422			0.5	211
Licensing	150	70%	105	7	735
Pending asset disposals					953
Pending restructuring costs (2014-2015)					(1,190)
Net cash at end 1Q14					(160)
Minority interests					718
Value of Equity					12,521
Value per share (€)					4.4

Source: J.P. Morgan estimates, Company data.

Peer valuation

The table below shows the peer valuation for Alcatel Lucent using routing and optical equipment peers. We do not include wireless access equipment peers in the table below as Alcatel Lucent is running the wireless access business for cash and thus this business is not a core business for the company, in our opinion.

As seen in the table, ALU is trading on a significant discount to peers on an EV/Sales and EV/EBITDA basis. This likely reflects the lower margin of ALU compared to most peers, in our view. However, the company has announced a target to raise core networking (IP routing and optical equipment and IP platforms) sales to >€7bn in 2015 with a 2013-2015 CAGR of >7% and EBIT margin to >12.5% in 2015 from 7.7% in 2013. If the company continues to show progress towards these targets, as has been seen in recent quarters, ALU multiples should re-rate close to peer multiples. Specifically, we believe that ALU's businesses could re-rate towards the multiples of peer businesses, hence our use of peer multiples in valuing the different segments of Alcatel-Lucent's business.

Table 3: Alcatel-Lucent: Peer valuation

	TTM Non GAAP EBIT margin	EV/'14E sales	EV/'15E sales	EV/'14E EBITDA	EV/'15E EBITDA	14E P/E	15E P/E
Juniper	19.5%	2.0	1.9	7.9	6.8	15.2	12.4
Cisco *	28.4%	2.1	2.0	6.3	6.1	12.2	11.5
Ciena *	6.2%	1.3	1.2	12.8	9.9	22.6	15.4
Infinera	3.6%	1.5	1.3	17.1	12.5	53.2	28.0
Alcatel Lucent	3.5%	0.6	0.6	7.0	5.5	77.2	18.2
Median ex. ALU		1.7	1.6	10.4	8.4	18.9	13.9
Average ex. ALU		1.7	1.6	11.1	8.8	25.8	16.8

Source: Bloomberg estimates. Company data

Financials

Table 4: Alcatel-Lucent: Quarterly P&L

€m	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14E	3Q14E	4Q14E
Revenue	3,206	3,545	3,599	4,096	3,226	3,612	3,668	3,930	2,963	3,281	3,349	3,847
Growth Y/Y (%)	-12.3%	-7.1%	-2.8%	-1.3%	0.6%	1.9%	1.9%	-4.1%	NM	NM	NM	NM
Gross Profit	971	1,125	1,004	1,247	947	1,151	1,196	1,349	956	1,042	1,072	1,298
Gross Margin (%)	30.3%	31.7%	27.9%	30.4%	29.4%	31.9%	32.6%	34.3%	32.3%	31.8%	32.0%	33.8%
SG&A	-605	-580	-543	-547	-534	-511	-514	-474	-381	-384	-384	-384
R&D	-587	-576	-586	-583	-592	-594	-566	-568	-542	-545	-545	-545
Total Opex	-1,192	-1,156	-1,129	-1,130	-1,126	-1,105	-1,080	-1,042	-923	-929	-929	-929
Opex % of sales	-37.2%	-32.6%	-31.4%	-27.6%	-34.9%	-30.6%	-29.4%	-26.5%	-31.2%	-28.3%	-27.7%	-24.1%
EBIT	-221	-31	-125	117	-179	46	116	307	33	113	143	369
EBIT margin (%)	-6.9%	-0.9%	-3.5%	2.9%	-5.5%	1.3%	3.2%	7.8%	1.1%	3.4%	4.3%	9.6%
Net Income after minorities	522	-180	-32	-389	-256	-176	-63	100	13	41	67	289
Diluted EPS (€)	-0.05	-0.07	-0.02	-0.17	-0.11	-0.08	-0.02	0.03	-0.00	0.01	0.02	0.10

Source: J.P. Morgan estimates, Company data.

Table 5: Alcatel-Lucent: Annual P&L

€m	2009	2010	2011	2012	2013	2014E	2015E
Revenue, €m	15,157	15,996	15,327	14,446	14,436	13,439	14,114
Growth Y/Y (%)	-10.6%	5.5%	-4.2%	-5.7%	-0.1%	NM	5.0%
Gross Profit	5,112	5,572	5,360	4,347	4,643	4,368	4,693
Gross Margin (%)	33.7%	34.8%	35.0%	30.1%	32.2%	32.5%	33.3%
SG&A	-2,796	-2,781	-2,526	-2,275	-2,033	-1,533	-1,436
R&D	-2,372	-2,503	-2,315	-2,332	-2,320	-2,177	-2,180
Total Opex	-5,168	-5,284	-4,841	-4,607	-4,353	-3,710	-3,616
Opex % of sales	-34.1%	-33.0%	-31.6%	-31.9%	-30.2%	-27.6%	-25.6%
EBIT	-56	288	519	-260	290	658	1,077
EBIT margin (%)	-0.4%	1.8%	3.4%	-1.8%	2.0%	4.9%	7.6%
Net Income after minorities	7	152	1,326	-79	-395	410	778
Diluted EPS (€)	-0.05	0.07	0.35	-0.31	-0.17	0.14	0.28

Source: J.P. Morgan estimates, Company data.

Table 6: Alcatel-Lucent: Quarterly segment breakdown

€m	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14E	2Q14E	3Q14E	4Q14E
Revenue	3,206	3,545	3,599	4,096	3,063	3,440	3,500	3,753	2,963	3,281	3,349	3,847
Core Networking	1,369	1,475	1,482	1,854	1,311	1,571	1,496	1,716	1,352	1,550	1,554	1,935
IP Routing	464	516	542	619	494	624	580	555	549	626	615	707
IP Transport	559	620	554	636	428	530	544	618	454	547	562	663
IP Platforms	346	339	386	599	389	417	372	543	349	377	377	565
Access	1,607	1,824	1,881	1,981	1,697	1,816	1,951	1,983	1,572	1,736	1,800	1,916
Wireless Access	931	1,035	1,062	1,123	1,012	1,062	1,196	1,240	999	1,099	1,154	1,212
Fixed Access	433	509	537	551	463	523	541	542	460	515	515	556
Licensing	30	28	23	31	18	16	28	15	14	18	25	35
Managed Services	213	252	259	276	204	215	186	186	99	104	106	113
Other	226	239	236	259	59	59	60	55	40	0	0	0
% of total revenue												
Core Networking	42.7%	41.6%	41.2%	45.3%	42.8%	45.7%	42.7%	45.7%	45.6%	47.2%	46.4%	50.3%
IP Routing	14.5%	14.6%	15.1%	15.1%	16.1%	18.1%	16.6%	14.8%	18.5%	19.1%	18.4%	18.4%
IP Transport	17.4%	17.5%	15.4%	15.5%	14.0%	15.4%	15.5%	16.5%	15.3%	16.7%	16.8%	17.2%
IP Platforms	10.8%	9.6%	10.7%	14.6%	12.7%	12.1%	10.6%	14.5%	11.8%	11.5%	11.3%	14.7%
Access	50.1%	51.5%	52.3%	48.4%	55.4%	52.8%	55.7%	52.8%	53.1%	52.9%	53.8%	49.8%
Wireless Access	29.0%	29.2%	29.5%	27.4%	33.0%	30.9%	34.2%	33.0%	33.7%	33.5%	34.5%	31.5%
Fixed Access	13.5%	14.4%	14.9%	13.5%	15.1%	15.2%	15.5%	14.4%	15.5%	15.7%	15.4%	14.5%
Licensing	0.9%	0.8%	0.6%	0.8%	0.6%	0.5%	0.8%	0.4%	0.5%	0.5%	0.7%	0.9%
Managed Services	6.6%	7.1%	7.2%	6.7%	6.7%	6.3%	5.3%	5.0%	3.3%	3.2%	3.2%	2.9%
Other	7.0%	6.7%	6.6%	6.3%	1.9%	1.7%	1.7%	1.5%	1.3%	0.0%	0.0%	0.0%
EBIT	(222)	(30)	(126)	115	(179)	45	113	292	33	113	143	369
Core Networking	(47)	(9)	3	195	(15)	138	92	257	96	139	140	300
Access	(151)	(5)	(100)	(67)	(132)	(75)	46	76	(37)	0	48	96
Other	11	0	(10)	7	0	(1)	2	(3)	(1)	0	0	0
EBIT Margin												
Group	-6.9%	-0.8%	-3.5%	2.8%	-5.8%	1.3%	3.2%	7.8%	1.1%	3.4%	4.3%	9.6%
Core Networking	-3.4%	-0.6%	0.2%	10.5%	-1.1%	8.8%	6.1%	15.0%	7.1%	9.0%	9.0%	15.5%
Access	-9.4%	-0.3%	-5.3%	-3.4%	-7.8%	-4.1%	2.4%	3.8%	-2.4%	0.0%	2.7%	5.0%
Other	4.9%	0.0%	-4.2%	2.7%	0.0%	-1.7%	3.3%	-5.5%	-2.5%			

Source: J.P. Morgan estimates, Company data.

Table 7: Alcatel-Lucent: Annual segment breakdown

€m	2012	2013	2014E	2015E
Revenue	14,446	13,756	13,439	14,114
Core Networking	6,180	6,094	6,391	7,048
IP Routing	2,141	2,253	2,496	2,816
IP Transport	2,369	2,120	2,226	2,464
IP Platforms	1,670	1,721	1,668	1,768
Access	7,293	7,447	7,025	7,083
Wireless Access	4,151	4,510	4,463	4,463
Fixed Access	2,030	2,069	2,047	2,047
Licensing	112	77	92	150
Managed Services	1,000	791	422	422
Other	960	233	40	0
% of total revenue				
Core Networking	42.8%	44.3%	47.6%	49.9%
IP Routing	14.8%	16.4%	18.6%	19.9%
IP Transport	16.4%	15.4%	16.6%	17.5%
IP Platforms	11.6%	12.5%	12.4%	12.5%
Access	50.5%	54.1%	52.3%	50.2%
Wireless Access	28.7%	32.8%	33.2%	31.6%
Fixed Access	14.1%	15.0%	15.2%	14.5%
Licensing	0.8%	0.6%	0.7%	1.1%
Managed Services	6.9%	5.8%	3.1%	3.0%
Other	6.6%	1.7%	0.3%	0.0%
EBIT	(263)	271	658	1,077
Core Networking	142	472	675	881
Access	(323)	(85)	107	283
Other	8	(2)	(1)	0
EBIT Margin Group	-1.8%	2.0%	4.9%	7.6%
Core Networking	2.3%	7.7%	10.6%	12.5%
Access	-4.4%	-1.1%	1.5%	4.0%
Other	0.8%	-0.9%	-2.5%	

Source: J.P. Morgan estimates, Company data.

Investment Thesis, Valuation and Risks

Alcatel-Lucent (Overweight; Price Target: €3.30)

Investment Thesis

With the 'Shift' restructuring program proceeding at a faster pace than guided originally and the stock having pulled back because some investors have taken profits, not because progress has stalled, we upgrade the stock to Overweight (from Neutral).

Valuation

Our Dec 14 PT of €3.30 is based on a SoTP (shown below) and assumes the new plan is successfully implemented as planned. However, we caution investors that substantial execution risks exist and there is only a limited upside even assuming that plan is successfully implemented. Thus, we believe there remains a case for taking some profits on the stock. As our model is based on successful implementation of the restructuring plan in 2015 rather than 2014 & 2015E earnings, our price target does not change following the revisions to our estimates in this note.

Alcatel Lucent: SOTP valuation

	2015E sales	2015E margin	Multiple	Value	% of total
Core Networking	7,000.0	12.5%	1.25	8,750.0	95.3%
Licensing	150.0	100%	10	1,500.0	16.3%
Disposals				1,000.0	10.9%
Pending cash restructuring charges (2014-2015)				-1,190.0	-13.0%
Net cash at end 1Q14				-160.0	1.7%
Minority interests				718.0	7.8%
Value of Equity				9,182.0	100.0%
Value per share				3.26	

Source: J.P. Morgan estimates, Company data

Risks to Rating and Price Target

We see several risks that could prevent the stock from achieving our target price and rating:

1. If the reduction in costs from the ongoing cost reduction program or any new cost reduction program is lower than expected, there could be downside to our estimates and price target.
2. Lower than expected carrier spending could result in the downside to estimates.
3. A structural decline in the profitability and cash generation profile of the company with the recently announced Shift restructuring plan would be the key reason to turn more negative on the stock.
4. Alcatel-Lucent is a complex business that contains both growth and legacy technologies. If the growth in the newer technologies decelerates to more than offset the growth in legacy products, there could be downside to our estimates.

Alcatel-Lucent: Summary of Financials

Profit and Loss Statement						Cash flow statement					
€ in millions, year end Dec	FY11	FY12	FY13	FY14E	FY15E	€ in millions, year end Dec	FY11	FY12	FY13	FY14E	FY15E
Revenues	15,327	14,446	14,436	13,439	14,114	Net Income (Reported)	913	(745)	(377)	394	778
% Change Y/Y	(4.2%)	(5.7%)	(0.1%)	(6.9%)	5.0%	Depreciation & amortization	-	-	-	-	-
Gross Profit	5,360	4,347	4,643	4,368	4,693	Other items	(316)	(260)	(373)	(354)	(330)
Gross Margin (%)	35.0%	30.1%	32.2%	32.5%	33.3%	Cash flow from operations	93	(97)	(135)	(10)	759
EBIT (Adj)	491	(260)	290	658	1,077	Capex	(570)	(582)	(528)	(532)	(530)
% Change Y/Y	70.5%	(153.0%)	(211.5%)	126.8%	63.8%	Other	(280)	(561)	(704)	457	0
EBIT Margin (Adj)	3.2%	(1.8%)	2.0%	4.9%	7.6%	Free cash flow	(477)	(679)	(663)	(542)	228
Net Interest	(294)	(279)	(391)	(294)	(280)	Equity raised	3	0	0	0	0
Earnings before tax	560	(190)	(414)	367	800	Equity repaid	0	0	0	0	0
% change Y/Y	58.2%	(133.9%)	117.9%	(188.5%)	118.2%	Debt Raised	2	18	4,087	0	0
Tax (charge)	402	(632)	49	49	0	Debt repaid	(935)	(102)	(2,716)	(988)	(96)
Tax as a % of BT	71.8%	(332.6%)	(11.8%)	13.4%	0.0%	Dividends paid	(83)	(37)	(10)	0	0
Net Income (Reported)	913	(745)	(377)	394	778	Other	12	123	964	6	0
% change Y/Y	456.7%	(181.6%)	(49.4%)	(204.4%)	97.7%	Beginning cash	5,040	3,543	3,402	4,097	3,107
Adj.EPS	0.35	(0.27)	(0.17)	0.14	0.28	Ending cash	3,534	3,402	4,097	3,107	3,279
% Change Y/Y	413.1%	(178.8%)	(36.9%)	(179.4%)	102.8%	DPS	-	-	-	-	-
Balance sheet						Ratio Analysis					
€ in millions, year end Dec	FY11	FY12	FY13	FY14E	FY15E	€ in millions, year end Dec	FY11	FY12	FY13	FY14E	FY15E
Cash and cash equivalents	3,534	3,401	4,096	3,106	3,279	EBITDA margin (Adj) (%)	7.3%	2.8%	6.0%	8.8%	11.2%
Accounts Receivable	3,407	2,861	2,482	2,436	2,431	Net margin (%)	6.0%	(4.6%)	(2.9%)	2.8%	5.5%
Inventories	1,975	1,940	1,935	1,955	1,962	SG&A/Sales	16.5%	15.7%	14.1%	11.4%	10.2%
Others	1,374	926	972	1,398	1,343	R & D as a % of Revenue	15.1%	16.1%	16.1%	16.2%	15.4%
Current assets	11,229	10,656	11,744	10,695	10,815	Sales growth (%)	(4.2%)	(5.7%)	(0.1%)	(6.9%)	5.0%
LT investments	533	340	357	369	369	Attributable net profit growth (%)	456.7%	(181.6%)	(49.4%)	(204.4%)	97.7%
Net fixed assets	1,263	1,164	1,075	1,060	1,048	Net debt/EBITDA	13.1%	(28.7%)	(22.1%)	24.3%	1.2%
Total assets	24,203	21,365	21,896	20,717	20,799	Net debt to equity	3.2%	(4.4%)	(5.3%)	8.3%	0.5%
Liabilities						Sales/assets (x)	0.6	0.6	0.7	0.6	0.7
ST loans	329	857	1,240	556	556	Total Assets/Equity	6.6	7.9	8.9	7.5	7.1
Payables	3,892	3,729	3,518	3,531	3,664	ROE	24.7%	(23.0%)	(16.9%)	13.3%	26.5%
Others	4,157	3,738	3,521	3,432	3,288	ROCE	1.6%	(14.8%)	4.1%	8.0%	20.9%
Total current liabilities	8,378	8,324	8,279	7,520	7,507						
Long term debt	4,290	3,954	4,922	4,638	4,542						
Other liabilities	1,228	1,066	1,178	1,218	1,218						
Total liabilities	19,602	18,674	18,233	17,230	16,925						
Shareholders' equity	3,854	1,946	2,933	2,753	3,116						
BVPS	1.46	0.79	1.22	0.99	1.11						

Source: Company reports and J.P. Morgan estimates.

JPM Q-Profile

Alcatel-Lucent SA (FRANCE / Information Technology)

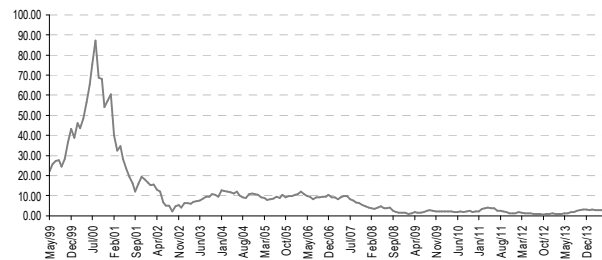
As Of: 27-Jun-14

Global Equity Quantitative Analysis

Quant_Strategy@jpmorgan.com

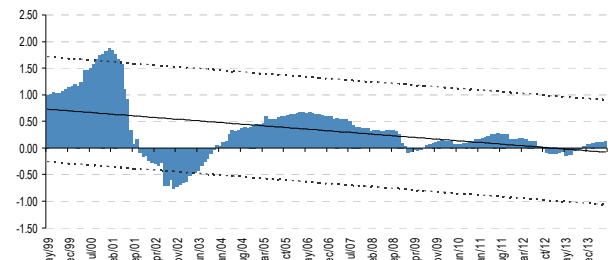
Local Share Price

Current: 2.65



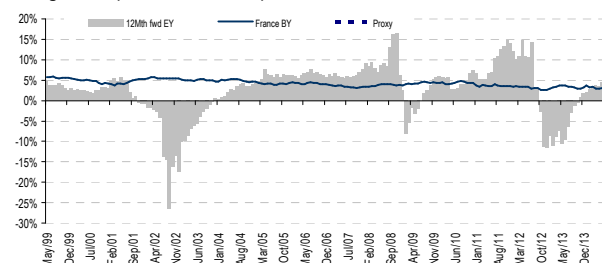
12 Mth Forward EPS

Current: 0.12



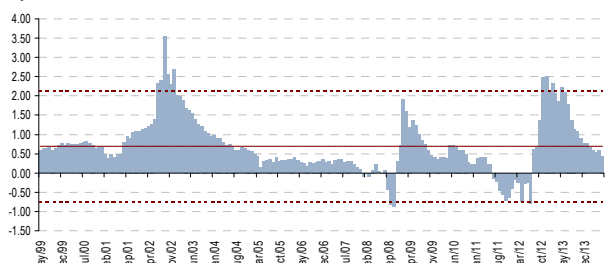
Earnings Yield (& local bond Yield)

Current: 4%



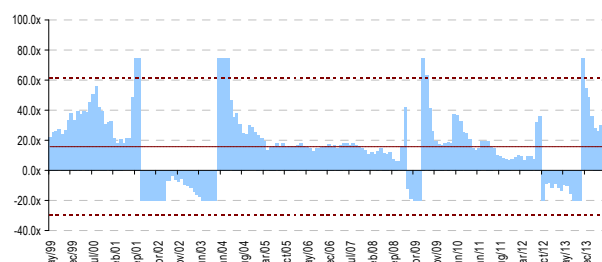
Implied Value Of Growth*

Current: 44.61%



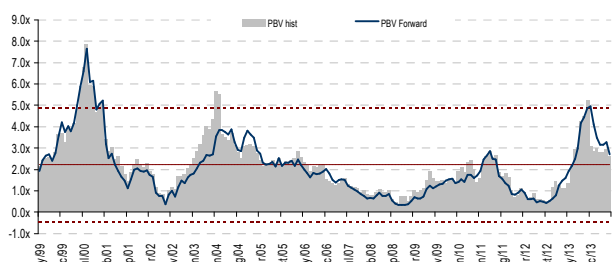
PE (1Yr Forward)

Current: 22.6x



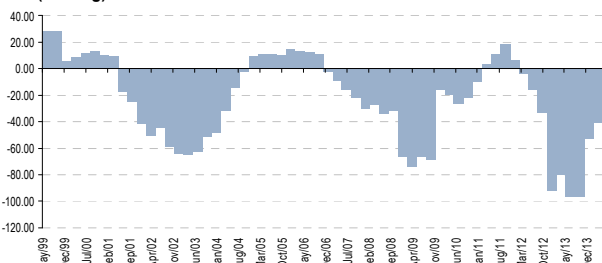
Price/Book Value

Current: 2.6x



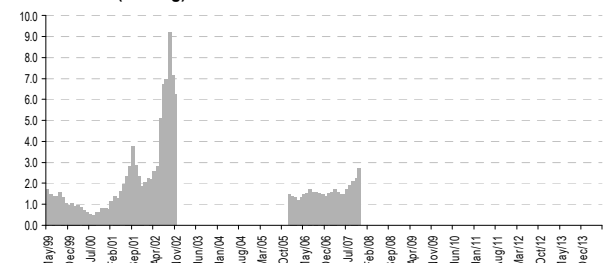
ROE (Trailing)

Current: -40.80



Dividend Yield (Trailing)

Current: 0.00



Summary

Alcatel-Lucent SA		SEDOL		5975006		As Of:		27-Jun-14	
FRANCE						Local Price:		2.65	
Information Technology						EPS:		0.12	
	Latest	Min	Max	Median	Average	2 S.D.+	2 S.D. -	% to Min	% to Max
12mth Forward PE	22.58x	-20.00	75.00	16.19	15.82	61.38	-29.74	-189%	232%
P/BV (Trailing)	2.59x	0.38	7.84	2.12	2.23	4.88	-0.42	-85%	203%
Dividend Yield (Trailing)	0.00	0.00	9.18	0.00	0.75	3.59	-2.09	-28%	-30%
ROE (Trailing)	-40.80	-96.26	28.16	-19.10	-22.97	43.80	-89.74	-136%	169%
Implied Value of Growth	44.6%	-0.88	3.54	0.59	0.69	2.14	-0.76	-297%	695%

Source: Bloomberg, Reuters Global Fundamentals, IBES CONSENSUS, J.P. Morgan Calcs

* Implied Value Of Growth = $(1 - EY / \text{Cost of equity})$ where cost of equity = Bond Yield + 5.0% (ERP)

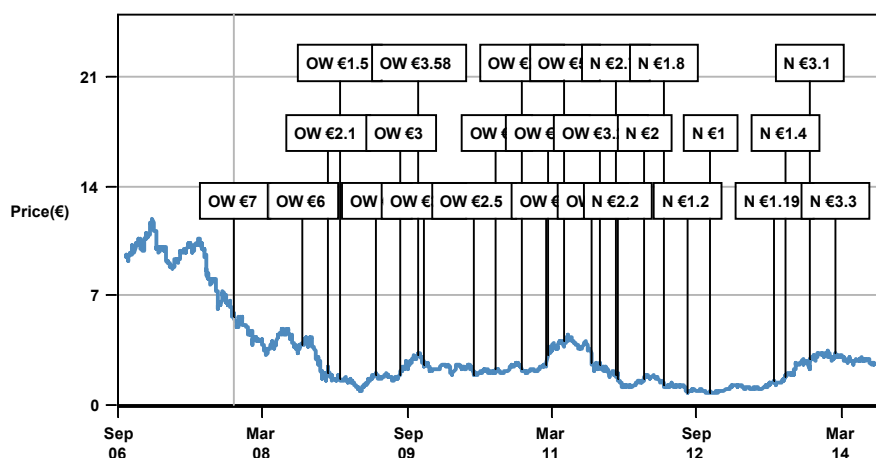
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Alcatel-Lucent (ALUA.PA, ALU FP) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Nov 14, 2007.

Date	Rating	Share Price (€)	Price Target (€)
14-Nov-07	OW	5.63	7.00
29-Jul-08	OW	3.83	6.00
31-Oct-08	OW	2.02	2.10
15-Dec-08	OW	1.64	1.50
06-May-09	OW	1.96	2.00
31-Jul-09	OW	1.94	3.00
12-Oct-09	OW	3.18	3.58
02-Nov-09	OW	2.57	3.50
07-May-10	OW	1.98	2.50
02-Aug-10	OW	2.28	3.00
05-Nov-10	OW	2.35	2.50
07-Feb-11	OW	2.52	3.00
11-Feb-11	OW	3.16	4.50
14-Apr-11	OW	4.15	5.00
29-Jul-11	OW	2.76	4.00
31-Aug-11	OW	2.51	3.25
01-Nov-11	N	1.99	2.70
07-Nov-11	N	1.67	2.20
13-Feb-12	N	1.68	2.00
27-Apr-12	N	1.22	1.80
27-Jul-12	N	0.83	1.20
16-Oct-12	N	0.74	1.00
20-Jun-13	N	1.50	1.19
31-Jul-13	N	1.83	1.40
01-Nov-13	N	2.97	3.10
07-Feb-14	N	3.27	3.30

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IB clients*	75%	66%	54%

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