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RIM Takeover Beckons Microsoft With Cheapest Multiple: Real M&A
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By Hugo Miller and Danielle Kucera

June 21 (Bloomberg) -- Research In Motion Ltd. has lost so much value that an acquirer could pay a 50 percent premium and still buy the BlackBerry maker for a lower multiple than any company in the industry.

RIM, once worth $83 billion, has fallen more than 80 percent from its record three years ago as Apple Inc.’s iPhone and Google Inc.’s Android platform siphoned off smartphone customers. The Waterloo, Ontario-based company, which plunged last week after saying quarterly sales may drop for the first time in nine years, closed yesterday at $25.89 a share, or 4.7 times earnings next year. That’s less than any communications- equipment provider, according to data compiled by Bloomberg.

While Jim Balsillie and Mike Lazaridis, RIM’s co-chief executive officers, said last week that their commitment to RIM is “stronger than ever,” the company may now attract Microsoft Corp. and Dell Inc., BMO Harris Private Banking said. A buyer would get a smartphone maker that is still dominant among corporate clients, offers greater security with its own e-mail servers and generates more free cash versus its market value than any of its rivals. Paying $40 a share still values RIM at a discount to comparable companies in the industry.

“Given how significant the deterioration of the stock price has been, that alone will cause interest,” said Paul Taylor, who oversees $14.5 billion, including RIM shares, as chief investment officer at BMO Harris in Toronto. “RIM still has meaningful market share in the U.S. and meaningful market share internationally, and RIM has an iconic brand.”

Shareholder Value

“It’s not hard to envision a stock price that’s somewhere between $40 and $50 a share” in an acquisition, he said.

Tenille Kennedy, a spokeswoman at RIM, declined to comment.

Since peaking in June 2008, RIM’s shareholders have lost almost $70 billion, leaving it with a market capitalization of $13.6 billion. The 82 percent decline was the biggest among communications-equipment providers worth at least $10 billion in the past three years, data compiled by Bloomberg show.

Over that span, Cupertino, California-based Apple advanced 74 percent to become the world’s most valuable technology company, with a market capitalization of $292 billion.

RIM, which slumped 55 percent this year alone, now sells for less than 5 times its per-share earnings of $5.49 in its fiscal year ending February 2013, according to analysts’ estimates compiled by Bloomberg.

Market Share

HTC Corp., the Taoyuan, Taiwan-based maker of handsets using Android and Microsoft operating systems, trades at about 9 times profit, while Apple is valued at 11 times earnings next year, the data show. Espoo, Finland-based Nokia Oyj, which has fallen 48 percent this year on concern it's also losing share of smartphone sales, trades at 14.4 times next year's profit.

RIM's slump accelerated last week after it released second-quarter sales and profit forecasts that trailed analysts' estimates. In a span of about two years, RIM's market share in North America declined to 13 percent from 54 percent, Pierre Ferragu, a London-based analyst at Sanford C. Bernstein & Co., wrote in a report yesterday.

The company, which is losing out as consumers spurn its aging models for iPhones and handsets running Android software, hasn't introduced a major new BlackBerry since August.

Cheaper Android phones are also making inroads in Latin America, Asia and Europe, threatening the popularity of RIM's less expensive BlackBerry models such as the Curve.

Acquisition Cost

"Any device they come out with is likely at best to catch up with current offerings, not exceed them," said Michael Yoshikami, chief investment strategist at YCMNet Advisors, which manages $1 billion in Walnut Creek, California. "I wonder if management completely recognizes the market challenge."

While RIM's managers have made it less valuable versus its earnings than any other smartphone maker, it's also giving buyers willing to bet on a turnaround a chance to purchase the company on the cheap.

At $40 a share, or an almost 55 percent markup to yesterday's price, RIM would be valued at 7.29 times next year's earnings, according to data compiled by Bloomberg. That's still less than the average communications equipment provider, which trades at about 12.3 times profit, the data show.

RIM also generated $2.87 billion in free cash flow, or cash from operations after capital expenses, in the past 12 months, the data show. That equals about 21 percent of its market value, the highest proportion in the industry.

Among potential acquirers, Microsoft could build its share in smartphones and gain a device to complement its Windows Phone 7 mobile-phone platform, said BMO Harris's Taylor.

Customer Base

RIM's customer base will increase to 77 million by the end of next fiscal year, from 42 million last year, Bernstein's Ferragu said. Almost a quarter of those customers will be corporate users.

Microsoft lost almost half of its own market share for mobile operating systems in the first quarter, falling to 3.6 percent from 6.8 percent a year earlier, according to Gartner Inc. The decline comes after the world's largest software maker already failed with its Kin smartphone, scrapping the model last year after less than two months on the market.

RIM would "would bring more critical mass" to Microsoft's smartphones, said Scott Sutherland at Wedbush Securities Inc. in San

Francisco. “From a valuation perspective and given their market exposure, it does become interesting at these levels.”

Melissa Havel, a spokeswoman for Redmond, Washington-based Microsoft, declined to comment.

PC to Mobile

RIM would also help Dell, the world’s second-largest maker of personal computers, reduce its dependence on PCs as consumers buy more handheld devices, according to Stuart Jeffrey, an analyst at Nomura Holdings Inc. in New York.

Dell’s revenue from desktop PCs has tumbled 32 percent in the past five years, data compiled by Bloomberg show.

To help counter the decline, Dell last year released its Venue Pro smartphone, which runs Microsoft’s Windows operating system. Dell doesn’t disclose its phone sales, according to David Frink, a spokesman for the Round Rock, Texas-based company.

He declined to comment on demand for the Venue Pro since its debut or whether it would bid for RIM.

“Dell is clearly trying to build a handset business and found it difficult,” said Jeffrey, who is based in New York and has a “neutral” rating on RIM. “That would be a big strategic decision on their part.”

RIM has also built its own network of e-mail servers that make sending and receiving messages more secure compared with other smartphones, according to Jeffrey.

‘Unique Assets’

“RIM does have some unique assets,” he said. “There are clearly some strategic benefits such as the enterprise position and the security advantages that they’ve got.”

Any takeover may need the approval of Canadian regulators. Prime Minister Stephen Harper’s government in November rejected Melbourne-based BHP Billiton Ltd.’s $40 billion hostile takeover of Saskatoon, Saskatchewan-based Potash Corp. of Saskatchewan after the province said the sale would cut jobs and tax revenue.

RIM’s 50-year-old co-CEOs are also the company’s biggest shareholders, with Balsillie holding a 5.9 percent stake and Lazaridis controlling 5.4 percent, Bloomberg data show.

“Our commitment to RIM is stronger than ever and we know what we have to do jointly to accomplish and take RIM to the next stage of growth and success,” Lazaridis said on a conference call last week. “While I can’t promise that there won’t be bumps in the road ahead, I can assure you that Jim and I have never been more committed to the business and that our interests remain closely aligned with those of our shareholders.”

Missing the Boat

Lazaridis, who invented the BlackBerry to handle mobile e- mail, has shared the role of CEO with Balsillie since 1992. They are also both co-chairmen of RIM.

For Walter Todd, who helps manage $950 million at Greenwood Capital in Greenwood, South Carolina, there’s little that companies such as Microsoft could do to revive RIM beyond boosting shareholder sentiment with a takeover premium.

“It’s easy to say the stock is cheap and somebody should buy it,” said Todd. “In reality, the options are a lot less than people think. You see them missing the boat and being killed by Apple and Google’s Android. It’s hard to catch up when you miss the boat.”

Peter Sorrentino, who helps oversee $14.8 billion at Huntington Asset Advisors in Cincinnati, says further declines in RIM’s stock will attract more potential buyers.

If the slump “persists you’ll start to see some dance partners start to circle,” he said. “The stock has been hammered down to the point that when you look at their tech footprint, and there’s a revenue model out there, you do get to a point where you’re almost being paid to take the franchise.”

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--With assistance from Rita Nazareth and Sarah Rabil in New York and Dina Bass in Seattle and Aaron Ricadela in San Francisco.
Editors: Michael Tsang, Daniel Hauck.

To contact the reporters on this story:
Hugo Miller in Toronto at +1-416-203-5724 or hugomiller@bloomberg.net; Danielle Kucera in New York at +1-212-617-5853 or dkucera6@bloomberg.net.

To contact the editors responsible for this story:
Daniel Hauck at +1-212-617-1697 or dhauck1@bloomberg.net; Katherine Snyder at +1-212-617-5212 or ksnyder@bloomberg.net; Peter Elstrom at +1-212-617-7884 or pelstrom@bloomberg.net.