Verizon Pushing Vodafone Deal Puts Wireless Control in Grasp (2)
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(Updates with market-value increase in second paragraph.)

By David Welch, Scott Moritz and Jacqueline Simmons
March 6 (Bloomberg) -- Verizon Communications Inc.'s effort to resolve its relationship with Vodafone Group Plc, potentially ending their wireless joint venture, would put it on a path to full ownership of the most profitable and fastest-growing major wireless carrier in the U.S.

The two phone companies have discussed a range of options, including the idea of Verizon acquiring 100 percent of their U.S. wireless partnership, people familiar with the situation said. Vodafone's 45 percent stake in the venture, called Verizon Wireless, could fetch $115 billion, according to analysts. Vodafone jumped as much as 6.7 percent for its steepest gain in four years, adding more than $8 billion in market value.

Verizon is eager to take over the unit this year, giving the New York-based company greater control over its most profitable division, said the people, who asked not to be named because the discussions are private. Verizon Wireless added a record 2.1 million subscribers last quarter, eclipsing the growth of AT&T Inc. and other rivals, and the wireless service generated an earnings margin of more than 41 percent.

"Verizon wants to control what is genuinely the best telecom asset on the planet," said Jonathan Chaplin, an analyst at New Street Research in New York who has a neutral rating on Verizon. "Verizon Wireless just came off a phenomenal year where they capture all the growth in the industry with record high margins. And this year I would expect the same."

Restarting Talks?

Vodafone and Verizon also discussed a full merger of the two companies as recently as December, said two of the people familiar with the talks. Those negotiations broke down over disagreements on the combined company's leadership and headquarters location, making a buyout or partial sale of Vodafone's stake in the Verizon Wireless a likelier outcome, the people said.

No formal discussions of a merger are currently under way, and deliberations over the sale of Vodafone's Verizon Wireless stake haven't progressed to substantial negotiations, the people said. The talks on both are likely to restart again this year, three of the people said.

An agreement would unwind a venture that began more than a dozen years ago and set the stage for the biggest deal since Time Warner Inc.'s 2001 combination with AOL, which was valued at $124 billion.

'Finally Ready'

"Seems like both parties are finally ready to end this saga," said Walt Piecyk, an analyst at BTIG LLC in New York.

For Vodafone, the sale would be a culmination of efforts by Chief Executive Officer Vittorio Colao to sell stakes in operators that the company doesn't fully control. The phone company already shed its holdings in SFR, the second-biggest French mobile-phone operator, in 2011, and also has pared back ownership in Asian and Polish holdings.

Vodafone, based in Newbury, England, has explored the idea of using the proceeds from a deal to make its own acquisitions in Europe, instead of just returning proceeds to shareholders, one of the people said. Vodafone has held internal discussions about a possible bid for Germany's Kabel Deutschland Holding AG, people familiar with the matter said last month.

Bob Varettoni, a Verizon spokesman, declined to comment on whether the company is working toward a deal. Simon Gordon, a Vodafone spokesman, declined to comment on the status of talks about the partnership or on past negotiations.

Longstanding Interest

Vodafone shares rose 6.1 percent to 178.90 pence at 9:35 a.m. in London. Verizon advanced 1.2 percent to close at $47.69 in New York yesterday following Bloomberg's report. The stock has risen for 12 straight days, the longest stretch since 1985.

Verizon Chief Financial Officer Fran Shammo said at a Deutsche Bank AG conference this week that there was nothing new to report on the Vodafone venture, and that Verizon has always been interested in owning all of the U.S. wireless business.

The alternative to a stake sale -- a full merger -- could mean one of the biggest takeovers in history. Verizon has a market value topping $135 billion, while Vodafone's is about $125 billion.

A Verizon buyout of the U.S. wireless business would mark the end of a venture that began when Bell Atlantic Corp. -- the U.S. telephone company that would later become Verizon Communications -- agreed to merge its mobile unit with Vodafone's in 1999. Verizon Wireless debuted the next year.

Capital Gains

Verizon could finance the transaction with existing cash and new debt, said one of the people. Verizon could also include stock in the purchase to reduce the tax burden for Vodafone, this person said. If Vodafone were to come into a windfall from any sale, it could avoid a capital gains tax by transferring shares in the wireless business to Verizon under an accounting method known as a C Reorganization, according to Robert Willens, a corporate tax specialist based in New York. Vodafone could liquidate the unit that held the stake, and then be compensated with Verizon shares, he said.

An end to the joint venture would be a win for both sides and make it easier for Verizon to sustain its shareholder dividend, Piecyk said.

“Verizon Wireless generates a lot of cash that Verizon could use at a time when the landline business might not be able to fund the dividend,” Piecyk said. “Given Verizon’s valuation, and what it implies for their successful wireless business, we think they would have to pay well over $100 billion for Vodafone’s stake.”

Cross-Border Mergers

A deal would further Vodafone’s plans to seek acquisitions in Europe as telecommunications companies there lobby regulators to allow more consolidation between carriers and ease pressure from a crowded market, people familiar with the matter have said. While Neelie Kroes, the European Commissioner in charge of the digital agenda, has said cross-border mergers would be beneficial, EU Competition Commissioner Joaquin Almunia has expressed concerns about competitiveness.

Vodafone’s Colao said in November that while he’s satisfied with the company’s U.S. venture with Verizon Communications, he wouldn’t rule out exiting the business in the future. Vodafone’s board reviews the investment twice a year, he said.

“I see myself as the guardian of money from shareholders,” he said at a conference organized by Morgan Stanley in Barcelona at the time.

CEO Debate

Merger talks between Verizon and Vodafone have occurred on and off every few months for at least two years, said several of the people. Talks faltered as the two sides debated who would be CEO, where to locate the company and whether some Vodafone assets should be sold off, according to these people.

At one point, talks had progressed as far as creating joint working groups to identify cost savings, according to one of the people. The consulting firm McKinsey & Co. also was recruited to explore synergies between the two companies at one stage, the

person said. A spokesman at McKinsey in the U.K. declined to comment.
Vodafone looks at Verizon options every year and makes presentations to its board on the matter, said one of these people. The two sides have revisited the merger frequently to weigh the potential for cost savings, said two people.
One merger scenario proposed last year had the new company based in the U.K., which would be advantageous for tax purposes, and led by Verizon CEO Lowell McAdam, two of the people said. Under this proposal, Verizon shareholders would hold 55 percent to 60 percent of the merged company's equity, according to those people.

Shareholder Backing

The talks picked up last year for several reasons, including support from large shareholders with holdings in both companies, said one of these people. They also gained steam as Verizon's market value came in line with Vodafone's, which would allow both sides to portray the deal as a merger of equals, that person said.
That round of negotiations ended because of Verizon's resistance to moving to Europe and Colao's reluctance to step aside, according to one person. Also complicating discussions was Verizon's lack of interest in certain Vodafone assets, such as its Indian operations, another person said.

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