Vodafone and Verizon in US$130bn mega-deal

LONDON, UK: Verizon on Monday, 2 September said that it had agreed to buy Vodafone's 45% in Verizon Wireless from the British company for US$130bn.

The blockbuster deal - which would be one of the biggest in corporate history - would allow Vodafone to bounce back from hefty losses, pay down debt, make new acquisitions and return money to shareholders, according to analysts.

The deal also marks the group's exit from the United States market and injects several billion dollars into the British economy that is struggling to lift out of the doldrums.

Verizon said it will pay Vodafone US$58.9bn in cash and issue common stock valued at about US$60.2bn, with other items accounting for the balance.

Vodafone said that it would return US$84bn of the funds it receives back to shareholders and plough over US$9bn into organic investments over the next three years to improve its networks and services.

It said shareholders would receive all Verizon shares and nearly US$24bn in cash totalling US$84.0bn and equivalent to 112p per share. This amount to 71% of the net proceeds from the transaction.

Major shareholder Standard Life welcomed the sale, with investment director Andrew Millington telling the Financial Times it would leave Vodafone with control over a greater proportion of its cash flow, a strengthened balance sheet, and the opportunity to return a large amount of capital to shareholders.

Shareholder value

Vodafone Group chairman Gerard Kleisterlee said the company's investment in Verizon Wireless created a great deal of value for shareholders and Verizon's offer now provides an opportunity to realise this value.

He added that the transaction will position Vodafone strongly in mobile and unified communication services for consumers and enterprises both in developed markets and emerging markets.

The gigantic buyout will be the second-biggest merger and acquisition deal in global corporate history, according to data firm Dealogic. The world's biggest merger and acquisition deal remains Vodafone's purchase of Germany's Mannesmann for US$172bn including debt, concluded in 1999.

The latest deal would be so big that some analysts said the effect on the British economy would be as great as the hundreds of billions of pounds being injected into the British economy since 2009 by the Bank of England.

The Verizon Wireless transaction will give US fixed-line company Verizon full control of the operation after 13 years of shared ownership.

Cash pot for Vodafone

Atif Latif, director of trading at Guardian Stockbrokers in London, said the deal would create a cash pot to fund acquisitions in Europe.

"With this news we could see more acquisitions within Europe to give Verizon a foothold in markets where they have fallen behind in recent times," Latif told AFP. Latif noted that the potential tax bill would likely be less than expected.

In May, Vodafone revealed that annual net profits had slumped by 90% after taking a vast impairment charge relating to poor business in the debt-laden eurozone nations of Italy and Spain.

Profit after taxation collapsed to £673m in the group's financial year to the end of March compared with £7.0bn in 2011/12.

Since then it has announced rising first-quarter sales, as strength in emerging markets such as Africa and Asia countered weakness in Europe.

In June, Vodafone launched a €7.7bn cash offer for Kabel Deutschland, Germany's largest cable operator.

Moody's and Standard & Poor's both lowered their credit ratings for Verizon because it is taking on about US$67bn of new debt to finance the purchase and will take its overall debt load to US$116bn.

Moody's warned that even if Verizon uses all of its free cash flow to reduce debt (as expected), debt balances will still be over US$120bn at the end of 2015.

Source: AFP via I-Net Bridge