Don’t Count On A BlackBerry Buyout

Description

By: Robert Baillieul

BlackBerry (TSX: BB, NASDAQ: BBRY) is up for sale. On Monday, the company announced that it had formed a special committee to explore “strategic alternatives,” including the possible sale of the company. But this isn’t the first time buyout rumours have circulated around the troubled handset maker and investors shouldn’t count on any sale this time around either.

Not an attractive private equity target

Yes, private equity is known for finding hidden gems using the veil of privacy and financial engineering to turn around struggling companies. But it’s difficult to see how this would apply in BlackBerry’s case.

First, BlackBerry’s fundamentals are deteriorating. The launch of the company’s new BB10 operating system has been at best underwhelming. Subscribers are fleeing at an accelerating pace. Why would a private equity player want to step in and catch this falling knife? How does going private make those problems any easier to address?

Second, financial shenanigans will offer no quick fix, either. Often private equity firms will leverage a company’s balance sheet to enhance return but BlackBerry really isn’t a suitable candidate for such an operation.

While it appears the company is generating free cash flow, this is only because it’s delaying payments to suppliers and selling off assets to pad its balance sheet. After you strip out these operations BlackBerry is burning cash at an alarming rate with the rollout of its new handset devices. Could the company really handle any additional debt burden?

There could be some analogies to the troubled PC maker **Dell**, which found a bid. But the difference is Michael Dell is the perfect private equity partner as he controlled more than 15% of shares, was willing to put in loads of capital, and has highly-sought-after expertise. And yet in spite of these advantages only one bidder emerged, Silver Lake. **KKR** had no interest. TPG kicked the tires but didn't make an offer. **Blackstone Group** proposed a deal but dropped out after conducting some due diligence.

Private equity has certainly taken some risks in the past. But they step away from deals too.

No other buyers likely to emerge, either

This isn't the first time BlackBerry shares have rallied on buyout rumours. Last year the company hired **J.P. Morgan** and the **Royal Bank of Canada** to explore the company's strategic options. Yet in spite of shares trading below $7 per share last year no buyers emerged.

Lots of companies have been named as potential suitors. **Microsoft** is often touted as a likely buyer given the company's mobile push. However, a partnership with **Nokia** seems so much more likely given their existing relationship. It has been well-established that **Lenovo** and **HTTC** have an interest in acquiring BlackBerry. But once again, it's difficult to see this deal going over well with Canadian regulators just on the grounds of national security (or pride).

Perhaps **Google**, **Apple**, or another technology company might be interested in BlackBerry's patents. But the company's portfolio is unlikely to fetch much at auction. Google discovered that the intellectual property it acquired from Motorola Mobility is not worth nearly as much as originally thought. In addition, President Barack Obama's new battle against patent trolls has reduced the value of IP rights everywhere.

Foolish bottom line

Of course there's one obvious hole in this thesis: Prem Watsa, CEO of **Fairfax Financial Holdings** (TSX:FFH). On Monday, the company's largest shareholder resigned from the board of directors over potential conflict of interest concerns. Watsa joined the board in early 2012 as part of attempts to revitalize the company and remains a strong supporter of management during this process.

This is of course no guarantee that Watsa will make a bid for Blackberry. He may have left the board because Fairfax wants to keep its position in the company if it does go private. Nevertheless, Watsa's resignation is an encouraging sign for shareholders.

Not all Canadian companies are as volatile as BlackBerry. For a profile of some of the best this country has to offer **click here now** and download our **FREE** report "**5 Stocks to Replace Your Canadian Index Fund**". One of the 5 just got taken out a huge premium. **Click here now** to learn about the other 4, at no charge!

The Motley Fool's purpose is to help the world invest, better. ***Click here now*** *for your free subscription to* ***Take Stock****, The Motley Fool Canada's free investing newsletter. Packed with stock ideas and investing advice, it is essential reading for anyone looking to build and grow their wealth in the years ahead.*

Follow us on Twitter and Facebook for the latest in Foolish investing.

Fool contributor Robert Baillieul does not own shares in any of the companies mentioned at this time. David Gardner owns shares of Apple and Google. Tom Gardner owns shares of Google. The Motley Fool owns shares of Apple, Google, JP Morgan, and Microsoft.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BB (BlackBerry)
2. TSX:BB (BlackBerry)

Category

1. Investing

Date
2025/09/10
Date Created
2013/08/12
Author
motley-fool-staff