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Microsoft Raced to $7.2 Billion Deal With Soul-Searching

By Matthew Campbell and Aaron Kirchfeld - Sep 3, 2013

Microsoft Corp. (MSFT)'s agreement to buy Nokia Oyj (NOK1V)'s handset business, codenamed Project Gold Medal, was more of a sprint than a marathon.

Talks between the two companies began in February after both sides agreed a two-year-old collaboration on smartphone development wasn't working, according to people familiar with the deal.

By July, Microsoft and Nokia, based near Helsinki, settled on the price and structure of a 5.44 billion euro ($7.2 billion) deal to buy the handset business and license its patents, the people said. In contrast, Vodafone Group Plc's announced sale on Sept. 2 of its 45 percent stake in U.S. mobile company Verizon Wireless for $130 billion followed years of talks with Verizon Communications Inc. (VZ)

Nokia's codename in the talks was Nurmi, named after Paavo Johannes Nurmi, the nine-time gold medal runner known as the "the Flying Finn." Microsoft was dubbed Edwin Moses, for the American track-and-field athlete who won two gold medals in the hurdles.

Nokia's board met more than 50 times to deliberate on a sale, a process described as a soul-searching exercise by the people, who asked not to be identified.

Timed to follow last month's announcement that Microsoft Chief Executive Officer Steve Ballmer would retire, the Nokia deal is intended to set up the U.S. company for a renewed assault on the smartphone and tablet markets, the people said. Once the world's most dominant technology firm, Microsoft under Ballmer has lagged behind Google Inc. (GOOG) and Apple Inc. in fast-growing mobile devices, amid contraction in the personal-computer market it helped invent.

'Stronger Ally'

"Microsoft realized that it wouldn't be possible to succeed without controlling the entire value chain," said Francisco Jeronimo, research director for European mobile devices at research firm IDC in London. "Nokia has realized that it needed a stronger ally with the financial muscle to continue driving its Lumia smartphones."

Microsoft investors signaled unhappiness with the deal yesterday, pushing the firm's stock down

4.6 percent to $31.88, eliminating about $13 billion in market value. Nokia shares soared 34 percent to 3.97 euros, valuing the firm at about 15 billion euros.

Discussions began in earnest after a meeting between Ballmer and Risto Siilasmaa, the Finnish company's chairman, at the Mobile World Congress in Barcelona in February. The venue was fitting; Nokia CEO Stephen Elop introduced the companies' partnership at the 2011 edition of the Congress, which has since become a showcase for flashy announcements from more successful device-makers like Samsung Electronics Co.

Branded Device

The executives felt the collaboration hadn't delivered on its promise, the people said, citing duplication of efforts on marketing and on encouraging developers to write applications for Microsoft's Windows Phone software. The companies also run parallel mapping platforms.

Ballmer, who had initiated the talks, felt that Microsoft needed to own a branded consumer device, said a person with direct knowledge of the situation.

Microsoft's heavily marketed Surface tablet computer has so far been a flop, resulting in a $900 million write-down on the value of unsold devices.

Nokia relied for advice on JPMorgan Chase & Co. (JPM)'s Markus Boser, co-head of technology, media and telecommunications in Europe, the Middle East and Africa, Gary Weiss, head of M&A in the Nordic region, and Jennifer Nason, global chairman for TMT investment banking. Microsoft tapped Goldman Sachs Group Inc., where George Lee, global co-head of TMT, and Sam Britton, a managing director on the TMT team, led a team of bankers. Both firms also worked on the $2.2 billion July sale of Siemens AG's stake in Nokia Siemens Networks to Nokia. Law firm Simpson, Thacher & Bartlett LLP advised Microsoft while Skadden Arps Slate Meagher & Flom LLP provided guidance to Nokia.

Due Diligence

With key issues in the Microsoft deal worked out by mid-summer, the companies and advisers spent August hammering out details, the people said. Due diligence for Microsoft, which has never had a large-scale hardware business apart from the Xbox gaming console, was complex, they added.

Nokia Siemens, which builds networking gear for telecommunications operators, will account for the core of the new-look Nokia now that it is exiting the handset business, which as recently as 2007 had nearly 40 percent of the global market for mobile phones.

The decision to abandon the devices business was an emotional one for Nokia's board, whose chairman and vice chairman are Finns, the people said. The phones are a source of national pride and at one point were carried by 90 percent of Finns. After introducing its first handsets three decades ago, Nokia emerged as Finland's first major global corporation and symbolized the country's transformation into a technology-driven economy.

Full Control

"There is clearly of course some emotion attached to this, me being a Finn and all that," Nokia Chief Financial Officer Timo Ihamuotila said in a Bloomberg Television interview.

For Microsoft, taking full control of Nokia's devices business may not be enough to make headway in the mobile sector. Windows Phone had a 3.7 percent share of the smartphone market in the second quarter, according to IDC, compared with 79 percent for Google's Android.

Meanwhile, Redmond, Washington-based Microsoft is keeping an eye on BlackBerry Ltd., the people said. The Canadian manufacturer has said it's seeking a buyer, and its strong presence in the enterprise market could still attract interest from Microsoft, they said.

Frenetic Summer

The Microsoft-Nokia transaction caps a frenetic summer for telecommunications, technology and media bankers. In addition to the Vodafone-Verizon transaction, where both Goldman and JPMorgan had roles, in July Publicis Groupe SA and Omnicom Group Inc. agreed to merge into the world's largest advertising agency.

Their involvement with Microsoft and Nokia will secure the positions of Goldman Sachs and JPMorgan atop the closely-watched league tables for merger advice in the TMT sector. Goldman Sachs has advised on about 40 deals valued at about $263 billion so far this year, according to data compiled by Bloomberg, ahead of JPMorgan with about 34 deals worth $230 billion.

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