Fairfax Says It Won't Abandon BlackBerry Bid

Rob Gillies, Associated Press

TORONTO (AP) — The head of Fairfax Financial Holdings Ltd. said Wednesday he has every intention of completing the acquisition of BlackBerry, despite doubts that the $4.7 billion deal for the troubled smartphone maker will go through.

BlackBerry announced earlier this week that Fairfax signed a letter of intent that "contemplates" buying BlackBerry for $9 a share. Fairfax, BlackBerry's largest shareholder, is trying to attract other investors.

BlackBerry shares on Wednesday lost 6 percent, closing a dollar below Fairfax's bid on fears the deal won't happen.

There is no breakup fee should Fairfax walk away, but Fairfax Chief Executive Prem Watsa told The Associated Press his firm is not in the business of making an offer and then walking away or redoing the deal.

"We've got a track record of 28 years of completing what we've done. We've never re-negotiated," Watsa said. "We thought long and hard before we offered $9 dollars a share and we're not in the business of offering a number and at the last minute changing the figure. Over 28 years our reputation is stellar on that front. We just don't do that."

Watsa noted the deal is subject to six weeks of due diligence but stressed Fairfax won't abandon it.

Watsa stepped down as a board member last month because of potential conflicts when BlackBerry announced it was considering a sale. If the proposed deal goes through, BlackBerry would go private and no longer be traded publicly.

Watsa said Fairfax won't be contributing more to the bid than the 10 percent it already owns.

"The 10 percent is like $500 million. It's a significant amount of money," he said. "We're going to bring equity partners and we think the company will be very well capitalized."

He declined to name the other investors he is trying to bring in.

Bernstein analyst Pierre Ferragu said the lack of details make the chances of the

deal going through appear grim. Ferragu noted that Fairfax is not committing any more equity and said other investors are unlikely to join a bid "that sounds like a last chance rescue attempt for Fairfax's stake."

Fairfax's average cost per share in acquiring BlackBerry shares is $17. The Canadian insurance and investment firm has lost hundreds of millions on BlackBerry.

Analysts say that although BlackBerry's hardware business is not worth anything, the company still owns valuable patents. BlackBerry is also strong in having total cash and investments of about $2.6 billion, with no debt, though it's burning through that stockpile. In just the past few months, it's spent about half a billion dollars.

Watsa said Fairfax is not buying BlackBerry to break it apart.

"Rest assured when we do this it won't be done to split the company," Watsa said. "I mean one of the reasons I went on the board, and I said it publicly, was to keep the company in Canada and to make sure it survives and exists in Canada. It is one of Canada's most successful companies. Companies do fall on hard times and they come back again and we expect this company to do the same."

Watsa said BlackBerry needs to get out of the media glare that comes with being public and work on a long term turnaround in private.

The billionaire founder of Toronto-based Fairfax Financial Holdings Ltd. is one of Canada's best-known value investors and has taken over troubled companies before. He compared his BlackBerry interest to his stake in the troubled Bank of Ireland. Watsa said his Bank of Ireland stake is now worth double what he paid for it a few years ago at the height of the European crisis.

The tentative BlackBerry deal comes just days after the Canadian company announced plans to lay off 40 percent of its global workforce.

The BlackBerry, pioneered in 1999, was once the dominant smartphone for on-the-go business people and other consumers. But then came a new generation of competing smartphones, starting with Apple's iPhone in 2007. The BlackBerry suddenly looked ancient. Although BlackBerry was once Canada's most valuable company with a market value of $83 billion in June 2008, the stock has plummeted to $8 from over $140 a share, giving it a market value of $4.2 billion, short of Fairfax's offer.

"This is a company that's had a tremendous amount of success. It's got a brand

name, BlackBerry, that's recognized all over the world," Watsa said. "It's got subscriber base in the 60 or 70 million area, it's got very smart people. In the enterprise market it's got a very significant market advantage so we think that by focusing it on the enterprise market, it's not going to be as big as it used to be, but it will be profitable again."

Watsa said Blackberry can focus on business users and its smartphone service business where it manages the security of BlackBerry and competing smartphones on its network. He said all possibilities are open including getting out of the hardware business and changing the CEO. He said he's a fan of CEO Thorsten Heins and thinks he's done a very good job, but said he was handed a tough job when he took over in early 2012. "We have to in this due diligence look at all of these things," Watsa said.

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