

Microsoft's Yahoo Bid May Signal Rebound in Takeovers

By Jason Kelly and Zachary R. Mider

Feb. 1 (Bloomberg) -- Microsoft Corp.'s \$44.6 billion unsolicited bid to buy Yahoo! Inc. signals a revival of mergers and acquisitions as corporate buyers exploit falling stock prices and fill a void left by private-equity firms.

The offer by Redmond, Washington-based Microsoft came after Yahoo fell 18 percent in 2008 and declined in the two previous years. The Standard & Poor's 500 Index's 11 percent drop from a record high in October may prompt other companies to seek deals.

Takeovers fell by almost a third from a record \$2.4 trillion in the first half of 2007 as losses on subprime mortgages led banks and investors to stop lending. While January was the slowest month since 2004, companies are starting to take advantage of their cash and the woes of leveraged buyout firms, which have been sidelined by rising financing costs.

"Strategic buyers were getting beat in auctions and they didn't like that," said Jim D'Aquila, managing director of Minneapolis-based investment bank Mercanti Group. "The markets will shift to their advantage now because the financial buyers can't come up with the debt to pay the lofty prices they were."

Microsoft's bankers, Morgan Stanley and Blackstone Group LP, could split about \$53 million in fees, and Yahoo's could get about \$80 million, according to Bloomberg estimates based on publicly disclosed fees from about 600 transactions since 2005.

Yahoo's Bankers

Yahoo hasn't disclosed its bankers. Goldman Sachs Group Inc. is advising Yahoo, Reuters reported, citing people familiar with the situation. Goldman spokesman Michael DuVally declined to comment on whether his company is involved.

Goldman got the biggest share of last year's record \$4.05 trillion in merger activity, according to data compiled by Bloomberg. Morgan Stanley was second and Blackstone, manager of the world's largest buyout fund, ranked 37th. All three firms are based in New York.

Microsoft is using lawyers from Simpson Thacher & Bartlett LLP and Cadwalader Wickersham & Taft LLP, and Yahoo is using Skadden, Arps, Slate, Meagher & Flom LLP.

Federal Reserve policy makers lowered the target for their benchmark rate by 1.25 percentage points in the past two weeks to revive an economy that may be slipping into a

recession. The U.S. unexpectedly lost jobs for the first time in more than four years last month, the Labor Department reported today.

`Adverse Circumstances'

``With a potential recession and a downturn in the market, people will position themselves for acquisitions," said Randy Lampert, a managing director at Morgan Joseph & Co. in New York. ``The strong absorb the weak and use the adverse circumstances to build their position going forward."

Bank of America Corp. agreed last month to buy Countrywide Financial Corp., gaining the largest U.S. mortgage lender for about \$4 billion after the company's stock dropped 79 percent in 2007. Warren Buffett's Berkshire Hathaway Inc., which had more than \$40 billion of cash as of September, bought Marmon Holdings Inc. for \$4.5 billion in December.

Wilbur Ross, who became a billionaire by turning around distressed steel and textile businesses, said this month he's now ``looking at" bond insurers. MBIA Inc. and Ambac Financial Group Inc., the world's largest bond insurers, each lost more than half of their value last year because of a decline in the value of subprime-mortgage securities they guarantee.

Funds run by foreign governments agreed to buy stakes in U.S. banks including Merrill Lynch & Co., Citigroup Inc., Morgan Stanley and Bear Stearns Cos. as their subprime-related losses mounted.

Yahoo, based in Sunnyvale, California, rose \$9.20, or 48 percent, to \$28.38 at 4:08 p.m. in Nasdaq Stock Market composite trading. Microsoft dropped \$2.15, or 6.6 percent, to \$30.45.

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