

Investor revolt torpedoed Swiss Sunrise Group's \$6.4bn Liberty Global deal



Sunrise Communications Group bowed to investor pressure yesterday and scrapped its 6.3bn Swiss franc (\$6.39bn) acquisition of Liberty Global's Swiss cable business UPC.

The number two Swiss telecommunications group had battled to save the deal in the face of opposition from its biggest shareholder, Germany's Freenet, which holds 25% of its stock, and activist investors including Axxion and AOC.

"This is a missed opportunity to promote competition in the Swiss market," said Sunrise chief executive Olaf Swantee, who had planned to bundle mobile, broadband, TV and fixed-line products to close the gap to market leader Swisscom.

Sunrise will now focus on going it alone, top managers said, stressing that its dividend was not at risk from transaction costs and a 50mn Swiss franc break fee it owes Liberty Global, a firm set up by US cable pioneer John Malone.

The company cancelled an extraordinary shareholder meeting (EGM) planned for today to approve a 2.8bn franc cash call needed to finance the UPC deal, avoiding an embarrassing defeat on the measure.

Freenet and other investors had opposed the rights issue even in its scaled-down form, saying the takeover was too expensive, improperly financed and strategically flawed.

Influential proxy adviser ISS helped doom the deal by recommending shareholders oppose it.

"We regret cancelling the EGM. We have spent a significant amount of time engaging with our shareholders and continue to believe in the compelling strategic and financial rationale of the acquisition," Sunrise chairman Peter Kurer said.

Not even support from investment banks UBS, Deutsche Bank, Morgan Stanley, Credit Suisse and Goldman Sachs was able to help Sunrise get the deal across the finish line.

Although the share purchase agreement technically remains in force until late February, Sunrise made clear the deal was effectively dead.

"Management is now really focused on implementing the standalone strategy. We respect the decision of the shareholders," Swantee told Reuters, adding he did not expect to resume negotiations with Liberty Global.

Asked about his future after championing a deal that went awry, Swantee said only: "Our priority is stabilising Sunrise."

Kurer, who has said he would likely be voted out of office if the deal failed, was also under fire. "We expect that he will now draw the consequences and immediately resign as chairman," activist AOC said.

Sunrise shares, which had fallen more than 10% this year, gained 2.7% by 1230 GMT. Freenet boss Christian Vilanek saw more room for them to rise. "If we all pull together the stock can rise significantly over the next 12 to 24 months," he said, adding Freenet had no plans to divest its Sunrise stake. Analysts said the collapse would ease pressure on prices in the Swiss market. "Swisscom receives a 'get out of jail free' card," Berenberg analyst Usman Ghazi said.

The future of UPC remained in limbo.

Ghazi said he doubted UPC would join forces with Salt, the third big Swiss player, but an investment banker involved in the deal said this was clearly a possibility, if not in the immediate future.

Liberty Global, which is exiting several European markets, was unlikely to change course and become a buyer, analysts said.

UPC Swiss head Severina Pascu said her operation remained a

successful company with a strong standalone strategy.