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TOP OF THE WEEK

Capcities + ABC

A bold $3.5 billion media marriage electrifies industry and nation

The old order changed last week. One of the Fifth Estate's big three, American Broadcasting Companies Inc., accepted the $3.5-billion blandishment of Capital Cities Communications Inc., another prominent media company but—until last Monday (March 18)—one of conspicuously less eminence. At 1:16 p.m. that day, a new media giant was announced to the world.

The deal—which came as a shock to most in media, financial and political circles—was variously described as a "merger for cash," "Leonard Goldenson's retirement," "a friendly takeover" and "the minnow swallowing the whale." It was the first merger/acquisition of a television and radio network since Goldenson, the current ABC chairman and chief executive officer, took over that same network 32 years ago and combined it with United Paramount Theaters. The 1953 American Broadcasting/Paramount Theaters merger was valued at $25 million.

At separate Monday morning meetings, the boards of both Capcities and ABC approved a plan whereby Capcities would pay a minimum of $118 cash and one-tenth warrant for each share of ABC. The per-share package has a minimum value of $121, which could increase to over $130, depending on how long it takes to complete the deal and how the stock market reacts.

In the new company, to be called Capital Cities Communications/ABC Inc. (CCC/ABC), Thomas S. Murphy, Capcities' chairman and chief executive officer, and Daniel Burke, Capcities' president and chief operating officer, will keep their respective titles. ABC will become a subsidiary of CCC/ABC, and Fred Pierce, ABC's chairman and chief operating officer, will report to Burke. His title will be vice chairman of the board of CCC/ABC and chairman and chief executive officer of ABC Inc. Goldenson will be chairman of the board's executive committee.

CCC/ABC will have a 19-member board of directors composed of the current 12-member Capcities board and seven from ABC's current 15-member board. In addition to Goldenson and Pierce, five outside directors will also serve with the new company.

The financing for Capcities' purchase of ABC's stock is expected to come primarily from loans made by a consortium of banks led by Chemical Bank. Capcities will also issue additional stock, both to service the warrants that are exercised and to obtain $517.5 million—three million shares at $172.50 each—from Berkshire Hathaway Inc., an Omaha-based company headed by Warren Buffett (see story, page 34). Other funds will be raised from the sale of properties the company has to divest to comply with FCC regulations (see story, page 33).

Monday's midday announcement of the ABC sale served notice once again to the stock market that there is a wide discrepancy between Fifth Estate stock prices and what buyers are willing to pay for the companies, either in whole or in part. The price Capcities agreed to pay was nearly double the price at which ABC stock had been trading before the deal was made.

Individuals profited proportionately. Goldenson's ABC stock, if still held in the quantity reported in the company's latest proxy statement, is worth nearly $20 million under the proposed transfer. Pierce, who told BROADCASTING that his ABC stock holdings are the same as previously listed, should receive nearly $2.5 million from his new employer.

Berkshire Hathaway certainly comes away a winner. In five days, it had already realized $103.5 million in potential profits (the jump in Capcities' stock price over what Buffett agreed to pay for his three million shares) and obtained close to a controlling interest in the new company, and Buffett earned a seat on the board—all of that, without having yet to put up any cash.

Said Jeff Epstein, an associate at First Boston (ABC's financial adviser in the transaction): "Today in the United States, there is a billion-and-a-half more dollars of wealth because of this deal." And this is in anticipation of a company which, because of spin-offs, will be smaller (see chart).

A sale may not have been Goldenson's first choice. According to one source who is close to Goldenson, the 79-year-old chairman and chief executive officer of ABC was under pressure to find a successor, and Pierce was not seen as the person to pick up the reigns: "That is no slight on Fred," said the source. "If he had three or four more years, he might have grown into that job, but there was still a question as to whether he ever would have. It is one thing to come out of research and sales and run a broadcast division, and another thing to be CEO of a $3.5-billion corporation, fighting hostile takeovers and the rest of it. At CBS, Bill Paley also went outside the company, after several tries with people inside."

Both Murphy and Goldenson denied that their agreement stemmed from threats of hostile takeovers of ABC. There had been rumors that somebody, variously Gulf + Western, the Bass Brothers or others, was getting ready to make a move for the company's shares. Pierce told BROADCASTING that during the last year, there had been "feelers" put out to the company.

Several years ago, ABC put on retainer a law firm considered the premiere takeover-defense specialist: Skadden, Arps, Slate,