Media giants strike merger deal

Time Inc. and Warner Communications Inc. agreed to swap stock and merge into what would be the largest media and entertainment company in the world. While stock market rumblings early last week sounded the possible arrival of another bidder, the market subsequently staged a restrained retreat, indicating that an unwelcome intrusion in the transaction was viewed as less and less likely.

The company that would result from the merger, Time Warner Inc., would be a vertically integrated leader in several fields. With revenue in the neighborhood of $10 billion for 1989, Time Warner would include Warner Bros., one of the top three Hollywood film studios; Warner Bros. Television, along with its recently acquired Lorimar Telepictures, the largest worldwide producer of television product; the largest magazine publisher in the U.S.; the largest record company in the U.S.; the second-largest cable operator in the U.S.; the largest pay TV programer in the U.S., and a $900-million-per-year book operation including the largest direct marketer of books in the U.S.

The companies indicated that the future of Time Warner would be built less on efficiencies and streamlining of operations and more on the opportunities open to the new venture. Emphasizing the unleveraged nature of the transaction—no cash or borrowing would be involved—Time's chairman and chief executive officer, J. Richard Munro, told employees that the merger would not require staff reductions or sale of any parts of the company. Some regulatory problems, however, may require a spin-off of cable systems (see page 31). Under the terms of the definitive agreement approved by both companies' boards of directors, Warner shareholders will exchange each of their shares, in a tax-free transaction, for 0.465 shares of Time stock. Time Inc. has approximately 56.6 million common shares outstanding, and Warner has 177.2 million common shares outstanding on a fully diluted basis. While the transaction is actually Time's acquisition of Warner, current Warner shareholders would end up with approximately 60% of the shares of the new company.

Equal numbers of directors from both companies will join Time Warner's 24-member board of directors, and senior management will be drawn evenly from Time and Warner. Thus the new company appears to be a partnership in which the two managers, no matter how the companies balance out economically, are attempting to set themselves up on equal footing.

Serving as co-chief executive officers and co-chairmen of the new company will be Munro and Warner Chairman-Chief Executive Officer Steven J. Ross. The Time Warner president will be current Time President N. J. Nicholas. Upon Munro's expected retirement in two years, he will become chairman of Time Warner's executive committee. Nicholas will succeed him as co-CEO with Ross, who would also be serving as sole chairman of the board. Five years from now, it is planned that Ross will retire as CEO and remain as board chairman, leaving Nicholas as sole CEO and president.

Along with the roles of Ross, Munro and Nicholas, the companies announced a slate of senior executives drawn from the two companies. Time Vice Chairman Gerald Levin and Warner general counsel Martin Payson will serve as co-vice chairmen of the new company. Warner chief financial officer Bert Wasserman will become CFO of Time Warner, while Time CFO Glenn Britt will become senior vice president and treasurer of the new company.

A foreshadowing of the merger appeared in a speech by Munro last fall: "[W]e believe that by the mid-1990's the media and entertainment industry will be composed of a limited number of global giants," he said. "These companies will be vertically integrated. They will be large enough to produce, market and disseminate on a worldwide scale, and smart enough to amortize the costs of doing so on an broad distribution network as possible. Time Inc. intends to be one of these companies.

In addition to the fulfillment of this vision, observers pointed to other reasons for the merger. John Reidy of Drexel Burnham Lambert pointed out that Ross, who founded Warner 27 years ago, was nearing retirement age and had to work out a succession: "This situation had to be dealt with some day at Warner," he said. Observers also said that the merger, if consummated, would reduce the threat, however unlikely, of a hostile takeover. Dennis McAlpine of Oppenheimer & Co. called the formation of Time Warner a "whale defense," explaining, "Somebody's got to have a real big mouth to swallow it." One arbitrageur, calling the new company a "monster," said while the new company's size is not an absolute bar to a takeover, "it is not true that size is irrelevant. The two companies estimated the public market value of the new company at $18 billion. Time Warner would have pro forma revenue of $9.6 billion, estimated Lisa Donneson of County NatWest USA.

But before the new company forms, both