Tribune Bulks Up In Broadcasting in $2.73B Deal

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Los Aneles (AP) — Tribune Co. on Monday announced a deal to buy Local TV and its 19 TV stations for $2.73 billion. The acquisition makes the media conglomerate the nation's No. 1 local TV broadcaster and broadens its reach to nearly half the country, or more than 50 million households.

The deal is the latest in a wave of consolidation sweeping the industry as TV station owners gird for battle in contentious fee negotiations with cable and satellite TV companies —fights that have caused dozens of blackouts in cities across the nation in recent years.

With a combined 42 TV stations — including 14 in the top 20 markets — Tribune will have greater leverage in fee disputes with cable and satellite distributors.

The increased leverage is one reason Tribune's deal follows on a string of big purchases. Last month, Gannett Co. announced a $1.5 billion purchase of Belo Corp. and its 20 TV stations. Sinclair Broadcasting Group Inc. has also been on a buying spree. This year alone, the company has agreed to acquire or is in the midst of closing the acquisition of 46 TV stations from various groups for nearly $1 billion.

Media General Inc. and New Young Broadcasting Holding Co. also announced plans last month to combine into a company that will operate 30 TV stations in 27 markets including San Francisco, Nashville, Tenn., and Richmond, Va. That came after Media General sold all its newspapers last year to focus on broadcasting.

Tribune Co. President and CEO Peter Liguori told analysts on a conference call that in addition to greater bargaining clout, more stations will help the company maximize its national and local advertising sales and give it more outlets to distribute its video and digital content.

"Our investment thesis is simple. Scale matters," Liguori said.

The deal comes six months after Tribune emerged from a four-year excursion through bankruptcy court. It filed for Chapter 11 protection from creditors in late 2008 following a buyout orchestrated by Chicago real estate mogul Sam Zell a year earlier. The deal left Tribune burdened with debt.

Liguori called the acquisition "transformational." It also clarified the company's focus on its TV assets, not the newspaper industry, which is struggling with a near-decade long plunge in advertising revenue.

Tribune currently owns 23 TV stations and the pay TV network WGN America, along with the Chicago Tribune, Los Angeles Times and other newspapers. Many observers expect the company to sell the newspapers, but Liguori said management continues to focus on running them efficiently.

"We'll operate our newspapers at the highest level possible," he said. "(Mergers and acquisitions) is our night job. We know what our day job is."

The economics of TV stations improved since the advertising downturn that lasted through the Great Recession from 2007 to 2009. Advertising has rebounded, and has historically improved in tandem with economic growth. TV stations have also become a magnet for increasing political ad spending in election years.

The broadcast TV recovery is also made possible by the increasing fees that cable and satellite distributors pay to broadcasters in order to make their stations available on pay TV services. Research firm SNL Kagan expects these fees will more than double from about $2.4 billion last year to $6 billion by 2018. And the increasing use of the Internet to show TV programming on computers and mobile devices has boosted broadcasters' ability to raise new revenue from ads.

"The business is the best it's been in a long time," said Edward Atorino, a media company analyst with The Benchmark Co. "I call it a renaissance."

While Tribune's agreement still requires the approval of antitrust authorities and the Federal Communications Commission, company executives expressed confidence that the combination would not breach longstanding rules that prevent one company from owning too many TV stations and newspapers in a particular area.

Currently, companies are not allowed to own stations that cover more than 39 percent of the nation's households, but they get a "50 percent discount" on the coverage of stations that use the higher frequency UHF band.

After the purchase, expected to be complete by the end of the year, Tribune will cover 44 percent of the nation's households, but just 27 percent after applying the UHF rule, estimates Free Press, a media watchdog organization in Washington.

Craig Aaron, the president of Free Press, worries about the greater consolidation of TV stations. When a large operator like Tribune seeks efficiencies by sharing news reports and other programming across different markets, the result could be a decline in the amount of fresh news content, Aaron said. He said some station groups already share weather reports and other programming created at a company's headquarters rather than by local reporters.

"Instead of having local competing news outlets, in market after market, we've got the same cookie-cutter content produced by the same companies," Aaron said. "That's a real loss."

An FCC spokesperson declined to comment.

Financially, the company touted the deal as a big win. Tribune said it expects it to boost its profits immediately and result in more than $100 million in annual cost savings within five years.

Tribune Chief Financial Officer Chandler Bigelow said the company aims to boost the percentage of revenue from pay TV fee payments from around 10 percent of the combined $3.5 billion in annual revenue to around 15 to 20 percent as negotiations proceed over the years. The company also expects annual revenue to get a $100 million advertising bump every other year, during major national elections.

Local TV's holdings include stations in Denver, Cleveland, St. Louis and other major cities. Markets served by Tribune include Chicago, New York, Los Angeles, Philadelphia and Seattle. Tribune also has one radio station, WGN-AM in Chicago. Tribune will get seven additional Fox stations, and will become the top Fox affiliate nationwide with 14. It will become a CBS partner for the first time, as it adds five of the network's affiliates.

Tribune said it has received committed financing of up to $4.1 billion and expects the deal will be financed through a combination of debt financing and cash on hand.