

CBS-Viacom merger may be closer to reality, thanks to Redstones and National Amusements

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The oft-foretold reunification of CBS Corp. and Viacom Inc. may be moving closer to reality.

National Amusements Inc., the theater chain operator and investment vehicle of media mogul Sumner Redstone, is poised to call on the two companies to consider merging, two people close to the matter said Wednesday.

National Amusements, which controls nearly 80% of the voting shares of Viacom and CBS, is preparing a letter to send to the two companies' boards this week, according to the two people, who declined to be named because the proposal is private.

Analysts have long expected the Redstone family to try to put CBS and Viacom back together again. Since the two media giants split in 2006, CBS and Viacom have followed starkly different trajectories, with CBS building a broadcast ratings juggernaut while Viacom's stock fell sharply.

Reuniting the two could create a more powerful and stable con-



CBS Chief Executive Leslie Moonves, left, with Sumner Redstone at a gala in Beverly Hills in 2012. (Brian To / WireImage)

glomerate that would allow Viacom to better weather the challenges of the digital age and compete with the likes of Walt Disney Co., Comcast Corp.'s NBCUniversal and 21st Century Fox.

The latest development comes shortly after a major shake-up in Viacom's executive ranks. Viacom's interim chief executive, Thomas Dooley, announced last week that he would step down Nov. 15, leaving a vacuum at the top of the company.

Just days later, Rob Moore, vice chairman of Viacom's struggling Paramount Pictures studio, was ousted from his position. Moore had supported a plan to sell 49% of Paramount to a Chinese investor to secure cash and find a strategic partner, but Viacom scuttled that idea. Paramount is on track to lose \$450 million in the current fiscal year.

The continued struggles at Viacom and lack of obvious CEO candidates may have accel-

ated National Amusements' efforts to spark merger talks, said media analyst Tuna Amobi at S&P Global.

"The handwriting has been there," Amobi said. "It seems to me they have no choice so far in terms of where the companies are and the difficulty of attracting a CEO for Viacom. Ultimately, if you're National Amusements, you have to look at the best scenario to create value at both companies as a whole."

Many experts have said that a merger was the ultimate goal of Redstone's daughter Shari Redstone, who has risen in power amid an intense battle for control of her 93-year-old father's \$40-billion media empire. That fight saw the ouster last month of Chief Executive Philippe Dauman, who presided over years of struggles at Viacom, along with multiple board members.

Shari Redstone has a strong relationship with CBS Chief Executive Leslie Moonves, who is widely respected as one of the most savvy programmers in Hollywood. Should CBS take over Viacom, Moonves probably would run the combined operation, giving him oversight of a cable TV empire and a major Hollywood studio. It's well known that Moonves has long wanted to run a major movie studio.

Viacom, which owns cable channels such as MTV and Comedy Central as well as Paramount, stands to benefit most from a recombination, given its sagging stock price, declining cable ratings

and struggling movie studio. It would likely be up to Moonves to return the company's assets to their former glory.

It's a delicate matter for Moonves, however. Investors in CBS, which has enjoyed a strong run as one of the few freestanding media companies still in existence, may be less inclined to welcome such a transaction given the stiff challenges facing Viacom. The broadcaster owns the premium cable network Showtime, a small film unit and 50% of the CW network, and airs popular shows such as "The Big Bang Theory."

Indeed, Moonves has downplayed the merger speculation, saying at a recent investor conference that there were no direct discussions underway between the two companies.

Nonetheless, National Amusements had been expected to encourage the companies to consider a deal, said Marci Ryvicker, senior analyst for Wells Fargo Securities who follows the media industry.

"We view this as a pretty reasonable thing for NAI to do as a CBS-Viacom merger is a possible option," Ryvicker wrote in a Wednesday report. "Not one that we like at the moment, but the fact that it is being explored is reasonable and not surprising to us."

She cautioned that even the encouragement of the controlling shareholder wouldn't necessarily guarantee a deal. Sewing the companies together would be a tricky financial maneuver, with Viacom's valuation as one obstacle for CBS.

Viacom's current market value is about \$14.5 billion.

Analysts said CBS would be unlikely to pay much of a premium, if any, to take over Viacom.

"There's greater risk for CBS, so there has to be a greater reward," said Los Angeles investment banker Lloyd Greif. "It has to be on Les Moonves' terms. He holds all of the cards."

Redstone split his media empire a decade ago in part to appease two strong-willed executives — Moonves and then-Viacom CEO Tom Freston, though Freston was forced out nine months after Viacom became a standalone operation. Viacom was on a stronger financial footing then than it is today.

Amobi cautioned that merging the two wouldn't be a cure-all for Viacom's woes.

"It doesn't take away from the major challenges Viacom faces," he said.

Viacom is expected to form a special committee to review a possible merger in light of the coming National Amusements letter. CBS has not yet convened such a committee.

Viacom's shares rose 3% on Wednesday to close at \$36.56 after Reuters first reported the letter was in the works, while CBS' stock rose 4% to \$54.15. Representatives for Viacom, CBS and National Amusements declined to comment.