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# L.A. billionaire's investment could sink Gannet bid for L.A. Times

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In the battle for control of Los Angeles Times parent Tribune Publishing, two health tech investors look to be the likely winners, while a massive newspaper company may walk away empty-handed.

After a month of public sniping and acrimony, an unexpected $70.5-million investment from L.A. billionaire Patrick Soon-Shiong could force USA Today publisher Gannett Co. to drop its hostile buyout bid even though it appeared to have the upper hand last week.

The investment was engineered by Tribune Publishing Chairman Michael Ferro, who -- in less than four months since becoming the company's top shareholder -- has ousted Chief Executive Jack Griffin, installed a hand-picked team of executives and announced a tech-driven plan to turn the company around.

The deal with Soon-Shiong-controlled Nant Capital, announced early Monday, makes the billionaire biotech entrepreneur and part-owner of the Lakers the second-largest Tribune shareholder. Soon-Shiong edges out downtown L.A. investment firm Oaktree Capital Management, which had grown increasingly critical of Ferro's plan and vocal in its support of a sale.

That creates a united front among the company's two largest shareholders, who together now control 27% of Tribune stock -- and have the ability to buy up to a combined 50%.

Patrick Soon-Shiong (Danny Moloshok / Associated Press)

"I think what we just saw playing out over the last week was a game of chess, and I think this is checkmate in Ferro's favor," said Lloyd Greif, chief executive of downtown L.A. investment bank Greif & Co. "With Patrick coming in, it effectively neutralizes not just Gannett, but Oaktree."

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> — Patrick Soon-Shiong

Tribune also on Monday said it had rejected Gannett's most recent buyout offer of $15 a share, a deal valued at $864 million, including $385 million in debt. Though Tribune said it is open to further discussions with Gannett -- under terms Gannett is unlikely to accept -- the Virginia company said it is now considering dropping its bid.

Investors, too, seemed to think a deal might be off the table. Shares of Tribune, which also owns the Chicago Tribune, San Diego Union-Tribune and several other newspapers, fell 15% Monday to close at $12.09. It's the first time shares have traded so far below Gannett's offer price since the company went public with its takeover bid April 25.

Still, the Tribune board's vote to reject Gannett's latest offer was not unanimous -- as its first rejection vote had been -- and media industry analyst Ken Doctor said he doesn't think Gannett is out of the running just yet. But he also said Gannett might wait to see if Ferro's plans pan out.

"The alternative is for Gannett to say it's too much work and the price is getting unreasonably high," he said. "And they believe Tribune will be in worse shape six months from now, and they'll get a lower price then."

That would leave Chicago-based Tribune Publishing, at least for now, in the hands of two newcomers who plan to use technology to bolster the flagging newspaper company.

Ferro, who made hundreds of millions as a tech investor and entrepreneur, approached Soon-Shiong last week amid mounting pressure from Gannett, which upped its buyout offer from $12.25 to $15 a share and sent a letter to Tribune shareholders accusing Ferro of self-dealing.

Last week, Oaktree, which rarely wades into public skirmishes, laid the groundwork for a shareholder lawsuit and publicly questioned the likelihood that Ferro's turnaround plans would succeed.

Oaktree had been pushing for a Gannett deal for weeks, and Soon-Shiong's investment appears to have been designed to fend off the investment firm, said Hamed Khorsand, an analyst at BWS Financial.

"It's a maneuver to resist this takeout offer," he said, noting that Tribune, which already has $96 million in cash, has no immediate need for Soon -Shiong's money.

Correspondence between Oaktree and Tribune over the weekend back up that idea. The letters show that Ferro offered to have an unnamed outside investor -- sources familiar with the deal confirm it was Soon-Shiong -- buy Oaktree's nearly 4.7 million shares for $15 apiece, matching Gannett's offer.

Oaktree said it declined to entertain that proposal, saying it believed Tribune could get more if it "engaged constructively" with Gannett. Tribune instead sold Soon-Shiong 4.7 million new shares, just 4,053 more than Oaktree, according to SEC filings.

Soon-Shiong now controls 12.92% of Tribune shares, while Oaktree holds 12.91%. Ferro remains Tribune's largest shareholder, with 14.4% of the company's stock.

The investment from Soon-Shiong would likely force Gannett to offer much more than $15 a share, Greif said. And it comes one day after Institutional Shareholder Services, a firm that advises institutional investors, issued a report that said Tribune's board could have good reason to turn down Gannett's offer.

That report could make it harder for investors to win the kind of shareholder lawsuit threatened by Oaktree last week.

Despite the obstacles, Gannett said Monday that it would continue its campaign to ask Tribune Publishing shareholders to withhold votes for Tribune's slate of board nominees.

That's a symbolic gesture that, if taken up by enough shareholders, could push the company to negotiate with Gannett.

Gannett said it would review whether to proceed with its offer following Tribune Publishing's June 2 shareholder meeting, when votes will be tallied.

While Greif called the deal a victory for Ferro, he said it's also a move that could backfire.

Ferro bought into Tribune in February at the behest of Griffin, who had planned to use Ferro's $44.4-million investment to help finance a purchase of the bankrupt owner of the Orange County Register and Riverside Press-Enterprise.

But before the bidding for those papers even opened, Ferro orchestrated a shakeup at the company, replacing Griffin with longtime associate Justin Dearborn.

Though Ferro controls a larger stake than Soon-Shiong, both are allowed to keep buying stock until they each own as much as 25% of the company. Ferro has not bought additional shares so far, and Soon-Shiong did not express interest in doing so, but Greif said the situation could turn into a game of one-upsmanship.

"Ferro's just brought on board anything but a puppet," Greif said. "Patrick is nobody's fool. Tribune selling this minority position to him is like letting the fox into the hen house."

Soon-Shiong, who had been rumored years ago to be part of a group of wealthy Angelenos interested in buying The Times, said Monday that he would play an active role as Tribune's vice chairman and that he believes he and Ferro will work well together.

"I've come to know Michael," he said. "I trust Michael. I put a lot of trust in his energy and vision."

Part of that vision now includes a partnership between Tribune and NantWorks, a Soon-Shiong company that has developed technology for use in healthcare and other fields.

Along with the investment from Nant Capital, Tribune said Monday that it has reached an agreement with NantWorks to license more than 100 technology patents and to produce video at that firm's subsidiary, NantStudio. NantWorks will get 333,333 Tribune shares up front, plus royalties later on.

Among the NantWorks technologies Tribune might use, Soon-Shiong said, is a system that would allow readers to hold their smartphones or tablets over a story in the print edition of The Times and instantly be shown video and related stories -- a system Soon-Shiong likened to the interactive newspapers seen in the "Harry Potter" films

"We're completely aligned in transforming the company from a newspaper company into a technology and content company," Soon Shiong said. "That's the only way this entire industry can survive."