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Disney's Bob Iger aims for a 'knockout punch' to Comcast with $71.3-billion bid for Fox

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Walt Disney Co. Chief Executive Bob Iger has spent more than a decade orchestrating blockbuster moves — building a $5.5-billion theme park and resort in China and buying such trophies as Pixar Animation and Marvel studios — to shape Disney into the world's preeminent entertainment company.

On Wednesday, Iger revealed just how much he wants the biggest prize yet — much of 21st Century Fox. Disney surprised Wall Street by increasing its earlier bid for the Fox assets by 36%, offering $71.3 billion to Rupert Murdoch and other Fox shareholders in a proposal that was designed to be a devastating blow to rival Comcast Corp.

"This deal is supposed to be [Iger's] swan song," Tuna N. Amobi, a media analyst with CFRA Research, said in an interview. "It's incredibly important for him. This goes to the core of how he wants to leave his mark on the company."

Iger had planned to retire next year after 14 years in the top job, but he pushed his retirement date to the end of 2021 so that he still would be at the helm as his company absorbs the Fox assets. Those include Fox's prolific television and movie studios, cable channels FX and National Geographic, and a growing international presence in Europe, India and Latin America.

Disney raised its bid for 21st Century Fox assets.

So Iger didn't take kindly to Comcast's $65-billion offer last week for the same Fox assets. He reportedly met with Murdoch in London on Tuesday, less than 24 hours before the Murdochs and other Fox board members were scheduled to meet to mull over the Comcast proposal. Iger raised Disney's bid by $19 billion.
The offer also was $6 billion more than Comcast's bid.

Lloyd Greif, a Los Angeles investment banker, said the new agreement indicates Murdoch favors a deal with Disney rather than Comcast. "Disney is going for the knockout punch, and they just may have delivered it," Greif said. "It also makes it crystal clear who Rupert wants as his go-forward partner. Bob didn't come up with this counter-offer in a vacuum. He had help."

The stakes are high. Traditional media companies, such as Disney, Fox and Comcast, have recognized that the playing field is starting to tilt in favor of tech giants, including Netflix, Facebook and Apple, which have deep pockets, global businesses and direct relationships with consumers.

That's why Murdoch last year concluded that Fox, one of the biggest media companies around, may not be large enough to compete in the future. Those same concerns drove AT&T Inc. to acquire Time Warner Inc. — which owned CNN, HBO and the Warner Bros. film and TV studio — in a deal that closed last week.

Worries about the growing clout of tech companies also are driving Disney to bulk up. With the Fox assets, Disney could double the size of its TV and movie production so that it will have an arsenal of programming to compete against Netflix, which is spending $8 billion this year on content. Disney has its own plans to offer streaming services to take on Netflix — and would benefit from Fox's deep library of content.

"This is the last media asset of scale that is available to buy," Doug Creutz, a media analyst with Cowen & Co., said in an interview.

Also attractive to Disney are Fox's international properties, which maintain key sports rights, including Star in India and the Sky broadcast service in Europe. Those assets would instantly turn Disney into a bigger international force. Disney already is a household name and has a trove of beloved characters, including Winnie the Pooh; Woody and Buzz Lightyear from the "Toy Story" franchise; and Marvel's Iron Man and Captain America.

"Disney has a great track record for combining creative cultures to drive innovation and growth across our businesses, from Pixar, Marvel and Lucasfilm to ESPN and ABC, and we expect the 21st Century Fox acquisition will be just as successful," Iger said in a conference call with analysts Wednesday.

Fox's board compared the two bids and quickly approved Disney's $71.3-billion offer, which includes an equal mix of cash and stock.

Disney's offer is designed to appeal to a range of investors: Fox shareholders could get cash as well as the long-term value of owning Disney shares. Fox shareholders would receive $38 a share.

Investors could decide whether they want to take a bigger percentage of stock, an option that would be appealing to the Murdoch family because it would give them a sizable stake in Disney. Fox shareholders would own 19% of Disney.

Disney also has offered to absorb $13.8 billion in Fox's debt, which would mean that the company that Murdoch and his son, Lachlan, plan to cobble together with the remaining assets would begin operations with a strong balance sheet. The Murdochs plan to hold on to Fox News Channel, Fox Business Network, the Fox broadcast network, Fox Sports 1 and Fox Sports 2 and the company's chain of TV stations, including KTTV-TV Channel 11 in Los Angeles.

Comcast's all cash-offer does not provide such long-term upside, and its proposal would have significant tax implications for Murdoch and his family.

And now Comcast and its tenacious CEO, Brian Roberts, will have to come up with more money. Its investors are already jittery over the prospects for a bidding war.

"Comcast is going to have a tough time going that much higher," said Mary Ann Halford, a former Fox executive who is now a senior advisor with OC&C Strategy Consultants.

Fox, in its statement, said Disney's amended deal is "superior" to the offer made by Comcast. Although the Fox board accepted Disney's offer, the deal is subject to shareholder approval.

"We … firmly believe that this combination with Disney will unlock even more value for shareholders as the new Disney continues to set the pace at a dynamic time for our industry," Rupert Murdoch, Fox's executive chairman, said in a statement. "We remain convinced that the combination of 21CF's iconic assets, brands and franchises with Disney's will create one of the greatest, most innovative companies in the world."

The higher Disney offer prompted credit ratings agency Moody's to say that it may downgrade the company's debt. The agency said Wednesday it will take Disney more than two years to pare down its debt.

Several analysts said they don't think the bidding war is over. Moody's analyst Neil Begley cautioned that Disney may end up paying even more than the offer on the table. John Janedis, managing director at Jefferies & Co., said he expects Comcast to come back to Fox with a per-share bid in the low $40 range.

Fox shares on Wednesday climbed $3.37, or 7.5%, to $48.08, nearly twice their value in October, just before Disney's interest became public. Disney rose $1.05, or 1%, to $107.15 and Comcast ticked up 58 cents, or 1.8%, to $33.39.

In the call with analysts, Iger said that Disney already has made headway in its effort to gain regulatory approval for its Fox acquisition. The Murdochs have long worried that regulators might frown on a deal with Comcast, which owns NBCUniversal and cable and high-speed internet distribution. However, the Disney-Fox deal also is expected to draw regulatory scrutiny because the two companies have overlapping assets such as movie studios that account for nearly half of this year's box office receipts.

"We're confident that we have a clear path," Iger said. "We've been working with regulatory authorities not just in the United States but in jurisdictions across the world now for six months, and we've made a lot of progress toward obtaining the regulatory approvals that are necessary."

Beyond cementing his legacy, Iger may have other reasons to keep the spoils away from Comcast.

"Iger may be concerned that if he doesn't do something, then Disney may be acquired by some even larger company — and that's a legitimate fear," Creutz said. "He wants the company to stay independent — he wants Disney to be Disney."