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Democracy Dies in Darkness

A CBS-Viacom merger is a logical step, but probably only a first one

By Steven Zeitchik

NEW YORK — CBS and Viacom are inching closer to a deal that would join the one-time siblings after a three-year dance.

But whether the reunion will solve their problems or simply kick them down the road remains one of the media world's biggest questions.

The CBS and Viacom boards, under controlling shareholder and vice chairwoman Shari Redstone, are negotiating to bring the companies together to create scale and better compete with larger media players.

According to two people familiar with the discussions who were not authorized to talk about them publicly, the sides are making progress, with several hurdles still to overcome. Price remains among the largest of these sticking points,



(Lucy Nicholson/Reuters)

as board members for each side negotiate the valuation for the all-stock deal, which hovers around six CBS shares for every 10 Viacom shares. CBS has a market capitalization of about \$18 billion while Viacom's sits at just under \$12 billion.

Neither a CBS nor Viacom spokesman would comment for this story.

The executive suite of a combined company would likely have Bob Bakish, the Viacom CEO who Wall Street views as a strong steward since taking the role in 2016, serving as chief executive of the combined company. Joe Ianniello, who became CBS' acting chief executive after disgraced former chief Leslie Moonves left

in September in the wake of sexual-assault allegations, would remain in a more circumscribed role focusing on aspects of CBS' operations.

But equally important as the financial and executive arrangements are what a merger would — or won't — do for the combined firm.

Each side of a rejoined CBS-Viacom would focus on a different part of the media world. CBS is in the broadcast business via its highly watched flagship network and the premium game via Showtime; Viacom is in the film industry with Paramount Pictures and holds a wide range of basic-cable networks such as MTV, Nickelodeon and Comedy Central. Together, the wisdom goes, the two would create a content well deep enough to hold their own against Disney, Comcast, WarnerMedia and a slew of Silicon Valley players selling content directly to consumers.

That well would in turn allow the combined CBS-Viacom to offer content via their own platforms — either existing ones like CBS All-Access, Showtime and Pluto TV or a new entity that would draw from the CBS-Viacom roster.

Michael Nathanson, a veteran media analyst, echoed the

thoughts of some of his colleagues when he said in a note that the "initial separation of these companies made zero sense" and also said that the reunion will help both CBS and Viacom compete with Netflix, WarnerMedia and others.

But whether scale alone is enough to do that remains to be seen.

"I don't know that it does much, honestly," said Doug Creutz, a managing director and senior research analyst at Cowen who has long covered the media and entertainment sector.

"The businesses I guess are complementary. But I don't know that owning both gives you a ton," he said. "We're talking about the content business, not widgets where more scale lowers your marginal cost. It's about the quality of the content."

Experts say that at the very least CBS and Viacom would need a major strategic initiative or acquisition beyond simply combining to make this move pay off.

"To me, a combination is just a first step," said Lloyd Greif, president and chief executive of Los Angeles investment bank Greif & Co. "If there isn't a next step, they're toast." He said the combined company would need even

more high-quality content or a viable streaming option to realize any advantage from combining.

That would be necessary, in part, because neither CBS nor Viacom has a significant streaming presence on its own. It would also take years — and a loss of revenue — to unwind deals each company has made with competitors. CBS, for instance, produces the buzzy series "Dead Like Me" for Netflix, while MTV Studios has been generating revenue making shows for Facebook and Jeffrey Katzenberg's Quibi.

Skeptics of the deal also say that the combination would mean each side would be saddled with the other's problems — CBS, for instance, would take on all the cord-cutting challenges Viacom has faced.

Investors seemed to feel this way, sending both stocks down Monday on the news — Viacom 5 percent to \$28.53 and CBS 2 percent to \$48.03.

Even a combined company would still be relatively small by media standards — a market capitalization of about \$35 billion. Disney currently has a market cap of \$244 billion, while Comcast's is at \$192 billion.

Even those who are optimistic about the reunion admit it will take years for the company

to pull out of existing deals and build a consumer presence to compete with Netflix and Disney+.

“It makes sense to have a combined entity; it will provide CBS and Viacom with more leverage as they go into [cable-distributor] negotiations and make them a more formidable player in direct-to-consumer,” said Tuna Amobi, a senior equity analyst at CFRA Research. “But no one is saying this is going to be an overnight success.”

Patrice Cucinello, a director in the media and entertainment team in U.S. corporate ratings for Fitch, noted that “I think it’s fair to say this is the first part of a longer-term strategy.”

She said that she believed combined CBS-Viacom is likely to again be a player on the Mergers & Acquisitions front. A larger firm could result in the company buying another outfit, such as Lionsgate, to get bigger.

Or it could make the new company attractive enough to be sold to a larger player, like a Silicon Valley outfit or a cable-distribution company looking to boost its content offerings.

There would be some savings — \$500 million, according to one estimate — to the deal. While there is little overlap between the firms’ content

lanes, there are significant backoffice redundancies, with robust publicity, marketing, human-resources and other departments at both firms. The savings would likely come with heavy layoffs.

A CBS-Viacom reunion would be the latest move for a company, or companies, that has at times seemed to be a microcosm of the corporate world’s larger cycle of expansion and contraction.

The two sides came together in 2000 as part of the turn-of-the-century merger mania that joined together many business (AOL-Time Warner, anyone?), as Viacom bought CBS’ parent company, Westinghouse. Sumner Redstone, who for years controlled both companies, split them in 2006, in the belief that empires could expand and flagging stock prices revived with more specialty-focused firms.

Now they are coming together again as part of the late-decade push for scale, this time driven by the entrance of Silicon Valley players and the Disney-Fox combination it inspired. “This is a reflection of the times,” Amobi said.

Shari Redstone had been pushing for a reunion for about three years as the two boards have haggled over price. The talks hit a further snag in the

form of Moonves, who fiercely opposed uniting with the smaller Viacom and even sued Shari Redstone to stop the deal in May 2018. His departure cleared the way for talks to begin again.

As for a combined company becoming more attractive for a sale, Creutz points out that Silicon Valley players like Netflix or Apple could have bought one — or both — of the companies already if they wanted to, without the need for a merger.

And the Redstones have historically preferred to hold on to their assets in any event.

“Then again,” Greif said, “Rupert Murdoch wasn’t really a seller either, until he was.”