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Walt Disney Co. to claim 21st Century Fox entertainment assets after Comcast drops out of the bidding war

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The Walt Disney Co. has prevailed in the bidding war for much of Rupert Murdoch's empire after Comcast Corp. said Thursday that it was dropping out of the fight for 21st Century Fox's entertainment assets to instead focus on its bid for European pay-TV giant Sky.

Comcast says it is focusing on its bid for European pay-TV giant Sky. (Matt Rourke / Associated Press)

Comcast's early morning announcement hands a key victory to Disney Chief Executive Bob Iger, who has agreed to spend $71 billion for the Fox assets, which include the company's prolific television and movie studios, cable channels FX and National Geographic, the controlling stake in streaming service Hulu, and international properties in India and Latin America.

For Comcast, continuing to pursue the Fox assets just became too expensive — and a big stretch for wary shareholders. Comcast would have had to offer more than $80 billion to stay competitive with Disney's sweetened $71-billion bid and it has separately bid $34 billion for Sky.

What's more, each additional offer for Fox also raised the price of the London-based Sky satellite-TV service because Fox owns 39% of Sky, which Murdoch co-founded in the late 1980s. Comcast decided to fold in the Fox fight so that it could claim the international prize it really wants — Sky, according to a person familiar with the company's thinking.

"I'd like to congratulate Bob Iger and the team at Disney and commend the Murdoch family and Fox for creating such a desirable and respected company," Comcast Chairman and CEO Brian L. Roberts said in a statement.

The Disney-Fox transaction is expected to transform Hollywood into a land of fewer giants. Disney is taking the big swing because it feels it needs greater scale — and more entertainment firepower — to compete with tech titans such as Netflix, Google, Facebook, Amazon.com and Apple Inc., which have deep pockets, global businesses and direct relationships with consumers.

Disney Chief Executive Bob Iger and Mickey Mouse look on before ringing the opening bell at the New York Stock Exchange in November. (Drew Angerer / Getty Images)

"Our incredible enthusiasm for this acquisition and the value it will create has continued to grow as we've come to know 21st Century Fox's stellar array of talent and assets," Iger said in a statement. "We're extremely pleased with today's news, and our focus now is on completing the regulatory process and ultimately moving toward integrating our businesses."

In mid-day trading, Disney shares gained 3% to trade around $114. Comcast's shareholders breathed a small sigh of relief, with shares up 3% to $35; Fox shares slipped about 2% to around $45.90 with the end of the bidding war.

For Murdoch, the sale of key assets signals a retreat after half a century of empire building. However, the mogul from Australia plans to hold on to the assets that have been core to his company: Fox News Channel, the Fox broadcast network, two national cable sports channels and a string of television stations, including KTTV Channel 11 in Los Angeles.

The Justice Department gave a quick OK to Disney's bid as long as it sells Fox's 22 regional sports networks, including Prime Ticket and Fox Sports West in Los Angeles. Disney has agreed to sell those networks. Fox shareholders are set to vote on Disney's sweetened offer on July 27.

Most analysts have long speculated that Disney had the edge mainly because its deal posed fewer regulatory hurdles than a Comcast-Fox merger. The Disney-Fox merger review lasted just five months.

After the Justice Department rendered its speedy decision, it was "game, set and match," said Los Angeles investment banker Lloyd Greif, "particularly since the DOJ has appealed the AT&T-Time Warner ruling."

Although Disney and Fox have a similar asset mix, Comcast has the complication of owning pay-TV and high-speed internet services. Comcast is the nation's largest provider of broadband internet service — a fact that has troubled the Justice Department before. When antitrust regulators said last week they would appeal the merger of AT&T and Time Warner, the door slammed on Comcast's chances of persuading Murdoch and his executives that a regulatory review of a Comcast-Fox tie-up would go fast and smooth.

Comcast Corp., which owns NBCUniversal, ultimately concluded that it had little chance of wresting Murdoch's entertainment assets away from Disney. In late June, Disney upped its ante with an offer of $71.3 billion — or $38 a share — for the Fox businesses. Comcast had made a $65-billion all-cash bid.

In the end, Comcast could not overcome the huge head start enjoyed by Iger, who began courting Murdoch last summer over wine at Murdoch's vineyard above Bel-Air. Talks heated up in the fall and, in December, Fox agreed to sell to Disney.

Murdoch twice rebuffed Roberts' advances. He preferred Iger's stock-and-cash proposal that would allow the Murdoch family to become major shareholders in Disney.

The stakes were high. Fox offered a unique blend of assets, including a fast-growing portfolio of international channels that both companies wanted, and the jockeying came at a time when media executives are nervous about the future.

It was Murdoch who last year concluded that Fox, one of the biggest media companies around, may not be large enough to thrive in the digital age. Those same concerns drove AT&T Inc. to acquire Time

Warner Inc., which owned CNN, HBO and the Warner Bros. film and TV studios. That deal was finalized on June 14, but now the government is challenging that transaction. Similar concerns about adequate scale drove Discovery to purchase Scripps Networks Interactive, the longtime home of HGTV and Food Channel, in March.

Both Comcast and Disney viewed acquiring Fox as an efficient way to bulk up. The winner would be able to double the size of its TV and movie production to add to its arsenal of programming to compete against Netflix, which is spending more than $10 billion this year on content, according to an estimate by Goldman Sachs.

For Disney, taking over Fox would provide an even deeper trove of top movie franchises and children's titles, including Disney's hit Pixar Animation titles such as "Toy Story," "Finding Nemo" and "Cars"; most of the Marvel comic book universe (although not Spider-Man); "Star Wars" characters; "Ice Age"; "Avatar"; and "Alvin and the Chipmunks." Disney — which already boasts such well-loved gems as Mickey Mouse, Elsa and Olaf from "Frozen," and Winnie the Pooh — wanted to bulk up on titles for a streaming service it plans to launch next year in hopes of getting a competitive edge over Netflix.

This is the third time that Roberts has been forced to retreat from a major acquisition. Comcast in 2004 abandoned its hostile takeover of Burbank-based Disney amid a Comcast shareholder revolt.

Rupert Murdoch is flanked by sons Lachlan, left, and James in 2016. (Leon Neal / AFP/Getty Images)

Then, in 2015, the company pulled the plug on a deal to buy Time Warner Cable after the Justice Department indicated that it would sue to block the merger. Charter Communications bought Time Warner Cable (now Spectrum) the following year.

In the last two decades, Roberts has been the force behind his company's seemingly insatiable growth. He relishes complicated financial deals and has orchestrated highly successful media mergers as well as bids that backfired. He was particularly eager to combine the Fox assets with NBCUniversal. But he faced formidable competition from Iger, who dug in last month when he added $19 billion to Disney's earlier offer to keep the Fox businesses just out of Comcast's reach.

Comcast originally planned to use its shares to buy the Fox assets, but shareholders got skittish. Comcast's stock has dropped nearly 20% this year. Because of that volatility, Comcast changed its approach and offered cash, which offered Murdoch and his family less upside long-term.

Using cash also made Comcast's deal highly leveraged: The company was going to have to shoulder more than $100 billion in new debt to finance the purchase because of the separate bid for Sky.

Doug Creutz, a media analyst with Cowen & Co., questioned both companies' willingness to pay so much money for assets that might have already peaked, and why two media giants needed even more content to battle Netflix and Amazon.

"In our view, arguing that acquiring Fox will help win the war in the fight for the direct-to-consumer market is similar to Bob McNamara arguing in 1965 that he could win in Vietnam if he had more troops," Creutz wrote in a research note earlier this month. "We think both are fundamental misreads of the nature of the conflict."