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Get Mickey II: The Plot Thickens; Comcast may well make a fresh bid for Walt Disney -- and throw in some cash

Ronald Grover in Los Angeles and Tom Lowry in New York. **Business Week**. New York: Mar 8, 2004. , Iss. 3873; pg. 38

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Section: *News: Analysis & Commentary: TAKEOVERS*

Publication title: Business Week. New York: Mar 8, 2004. , Iss. 3873; pg. 38

Source Type: Periodical

ISSN/ISBN: 07398395

ProQuest document ID: 570890021

Text Word Count 705

Article URL: http://gateway.proquest.com/openurl?url_ver=Z39.88-2004&res_dat=xri:pqd&rft_val_fmt=info:ofi/fmt:kev:mtx:journal&genre=article&rft_dat=xri:pqd:did=000000570890021&svc_dat=xri:pqil:fmt=text&req_dat=xri:pqil:pq_clntid=9269

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Don't count Comcast CEO Brian L. Roberts out just yet. Walt Disney Co. (page 92) may have slapped down Comcast Corp.'s \$54 billion hostile bid for the House of Mouse. And Comcast's stock may be off 11.3% since the Feb. 11 offer, even as Disney's share price has risen 8.6%. Sure, that shows little incentive for Comcast or Disney investors to do a deal. But while Roberts says he is prepared to "walk away," Comcast insiders say they've "had expressions" of support from Disney board members. Disney denies that, but Comcast also is banking on a growing campaign to vote against Michael D. Eisner's reelection at the Mar. 3 annual meeting. The movement got a big boost on Feb. 25, when the giant California Public Employees Retirement Systems said it would withhold its vote against Eisner.

The upshot: Or Comcast could raise its bid above the original offer, which valued Disney at \$26.47 a share. Roberts & Co. are keenly aware that raising the bid could enrage Comcast shareholders, many of whom, just 15 months after Comcast's \$54 billion purchase of AT&T Broadband, are against further dilution. Comcast execs also know that stock alone will not entice Disney shareholders. So any new bid would probably include a cash carrot.

How much higher is Roberts prepared to go? Analysts reckon Comcast could come back with an offer that values Disney at close to \$30 a share, or \$61 billion, excluding Disney's \$12 billion in debt. That would give Disney shareholders about 50% of the combined company. But to further entice Disney shareholders, Comcast could enrich its \$30 offer by making part of it cash -- to the tune of \$3.50 or more per share, or about \$7.5 billion, according to UBS Securities. Paying more could make sense, according to Merrill Lynch & Co., since Comcast stands to boost its projected free cash flow in the first year from \$2.2 billion to at least \$3.2 billion.

What's more, Comcast can probably afford to raise the bid. In addition to its strong cash flow, the company has holdings in Liberty Media, Time Warner, and other cable partnerships. If sold, those properties could garner \$15 billion, estimates Merrill Lynch analyst Jessica Reif Cohen. "This is a company that can raise \$10 billion and not hurt its credit rating," says UBS analyst Aryeh B. Bourkoff.

'SHOW US THE MONEY'. Still, upping the bid carries risks. It could infuriate Comcast shareholders, who have chafed each time the giant has neared profitability only to make another acquisition that dilutes their stakes. "It's time to show us the money," says Glenn Greenberg, managing director of Chieftain Capital Management Inc., which owns nearly 1% of Comcast, or 20 million shares. He wants Comcast to use its free cash flow to buy back stock. And if Comcast execs are unsuccessful, their credibility will take a hit, which could hamper their ability to do more deals.

Still, as his past string of deals shows, Roberts isn't easily deterred. Remember, Roberts upped his bid twice before winning

AT&T Broadband. More important, Roberts is committed to the vision of marrying content -- movies, TV shows, and sports - - with Comcast's 22 million cable subscribers. Besides, Comcast may have little choice: By 2006, many analysts figure its subscriber growth could start to plateau, and margins from customers who added data and phone service will slide under competitive pressure from the phone companies.

Until it makes a move, Comcast is in what Merrill Lynch's Cohen calls "deal limbo." As a result, its stock is now trading at lower multiples than smaller counterparts such as Cox Communications Inc. or Cablevision Systems Corp. With all the uncertainty dragging its stock down, Comcast may feel pressure either to pull out or make another bid sooner rather than later. Disney's upcoming annual meeting in Philadelphia could tell the tale: A hefty "No" vote for Eisner could force the Disney directors to replace him, according to people close to the board. And that, combined with a sweetened offer from Roberts, could send Disney into the arms of Comcast.

[Illustration]

Photo: Photograph: ROBERTS: How high could he afford to go? PHOTOGRAPH BY DANIEL ACKER/BLOOMBERG NEWS

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