

SINCLAIR BROADCAST | TRIBUNE MEDIA

HOW CONSOLIDATION CAN SAVE LOCAL BROADCASTERS – by Sylvia Blount



In a Netflix world, local television broadcasters appear to be only a small grain in the sand. An increasing number of consumers are watching not only movies and TV-shows but also news on streaming platforms. So why pursue acquisitions in a space that appears to be in strong decline? That is the question we should ask Sinclair Broadcast Group (NasdaqGS:SBGI) pertaining to its deal with Tribune Media Company (NYSE:TRCO).

On May 8th, 2017, Sinclair and Tribune finalized their agreement to pursue a powerful combination, valued at approximately \$7 billion. With the addition of Tribune Media, Sinclair will cover approximately 72% of the country with new presence in New York, Chicago, and Los Angeles. Tribune stockholders will receive \$35 in cash plus 0.23 of one share of Sinclair. The transaction has been under careful scrutiny from both boards with also great attention from preoccupied employee unions on Tribune side, due to traditionally divergent political views of the two TV channels. The consummation of this transaction would definitely bring Sinclair and Tribune to compete with the big players in the broadcasting industry; although, a battle in equal terms with streaming groups would still be implausible.



Master Control Room - Sinclair Broadcast Group.

To sell or not sell, that is the question. If both companies want to survive in the industry, consolidation could be a way to help coping with the challenging dynamics in the industry and dodge the bullet at least for now. However, the offer made to Tribune shareholders implies only a tiny control premium of 5.9% as we speak (May 25th), suggesting low synergies expectations. This premium is only slightly down from the day of the announcement when it was at about 7.5% (May 8th). Although the incentive to sell for Tribune shareholder appears to be small, we suspect that in the case where the two parties would not be able to reach an agreement, both the

stock price and the companies' multiples will continue to slide. As a matter of fact, Tribune has high multiples right now with a 10.9x Ebitda multiple and an industry median of 8.3x; while, Sinclair has a 7.4x Ebitda multiple.



Tribune Tower in Chicago, IL.

As of May 25th, the spread between the offer price and the current price is around 10%, which implies an annual return of approximately 31%. Needless to say, this is an unusual and very enticing merger arbitrage opportunity. We wonder whether this spread is justified by the fact that the market views the Sinclair-Tribune deal as not achievable and that Tribune shareholders will vote against it. At the same

time, this transaction embodies a good opportunity for both entities to survive the natural selection and consolidation that the industry still has to endure in the next several years.

It is difficult to predict whether this acquisition will be consummated, but a merger arbitrage could definitely offer a substantial return to those who are willing to bet on this deal in an industry where consolidation rimes with survival.

Sylvia Blount is associate at Bardi Co. LLC, an investment bank based in Los Angeles, CA. She is part of the M&A department where she specializes in sell-side transactions and M&A arbitrage. Sylvia is a graduate of Loyola Marymount University where she earned a degree in finance.

Disclaimer

Copyright © 2017 Bardi Co. LLC, investment bank. All rights reserved. Redistribution or reproduction in whole or in part are prohibited without written permission. This document does not constitute an offer of services in jurisdictions where Bardi Co. LLC or their respective affiliates do not have the necessary licenses. All information provided by Bardi Co. LLC is impersonal and not tailored to the needs of any person, entity or group of persons.

These materials have been prepared solely for informational purposes based upon information generally available to the public and from sources believed to be reliable. No content contained in these materials or any part thereof ("Content") may be modified, reverse-engineered, reproduced or distributed in any form or by any means, or stored in a database or retrieval system, without the prior written permission of Bardi Co. LLC. The Content shall not be used for any unlawful or unauthorized purposes. Bardi Co. LLC does not guarantee the accuracy, completeness, timeliness or availability of the Content. Bardi Co. LLC is not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content. In no event shall Bardi Co. LLC be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the Content even if advised of the possibility of such damages.