Murdoch claims New World

News Corp.'s $3 billion play creates largest station group, surpasses Westinghouse/CBS

By Elizabeth A. Rathbun and Cynthia Littleton

Do n’t call Rupert Murdoch’s Fox the fourth network anymore. With last week’s $3 billion acquisition of the remaining 80% of New World Communications Group Inc., News Corp. and Fox become the nation’s leading TV station owner.

The ground-breaking stock deal also brings News Corp., within a hairbreadth of the new TV ownership cap of 35%. Its 22 stations will reach 34.83% of the nation’s TV households, using the FCC’s calculations. The deal includes producer and distributor New World Entertainment.

The addition of New World’s 10 Fox affiliates to News Corp.’s 12 gives News Corp. an O&O in every top-10 market except San Francisco (see box, next page).

"[Murdoch] has such great strength in having that block" of top-10 holdings, says broker Richard Foreman. "There’s been nobody that’s had that in our business."

The merger is "a very important and strategic move," agrees analyst John S. Reidy of Smith Barney. "The ability to reach 35 percent of the audience with owned-and-operated television stations...is a powerful weapon as Fox [moves] forward into late night, early morning, daytime, overtime and, of course, news.”

"Fox is the locomotive for creating the brand and the properties that allow us to build new [distribution] platforms around the world," says Chase Carey, chairman of Fox Television. With the merger, News Corp. and Fox also gain:

- Help in building a national news presence, both on the Fox network and on the Fox News cable channel scheduled to launch in October.
- Boosted in-pattern clearances of Fox’s non-prime-time programming, including the upcoming morning show Fox After Breakfast and its Sunday public affairs hour, Fox News Sunday.

It also could lead to the creation of an in-house unit to handle spot sales for the 22 stations. Most of Fox O&Os currently are represented by Petry Television or Telerep.

News Corp. has been looking to buy New World since May 1994, when it invested $500 million for a 20% stake in the company. As part of that deal, which also involved syndicated programming access, New World switched its stations’ affiliations (mostly CBS) to Fox.

This past April, News Corp. Chairman Murdoch and New World Chairman Ronald O. Perelman deadlocked over the price of the deal. Perelman was seeking $29 a share, while Murdoch was offering $23.

Murdoch and Perelman met again recently at investment banker Herbert Allen’s annual executive retreat in Sun Valley, Idaho. The deal came together with “lightning speed” last Monday. Fox and New World sources say. In the end, News Corp. will exchange about $2.48 billion in stock and assume New World’s debt of approximately $540 million, says Bloomberg Business News. The $3 billion total works out to a reported 15 times cash flow, or about $27 a share for New World stock, which closed last Friday at $21.75.

News Corp. has not explained why it went so far over the trading price for New World. “Perelman simply played a better poker game in the final round,” suggests Art Rockwell, media analyst with Yaeger Capital Markets.

“No World shareholders are really the winners,” says Rita Zanella of Gruntal & Co. Perelman alone could gain as much as $900 million for his 37% worth of New World’s outstanding shares.

New World stockholders must approve the deal, and the FCC also must review the proposed merger.

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