Gannett splits publishing, broadcasting in two (Update)

August 5 2014, by Mae Anderson

This July 14, 2010, file photo, shows Gannett headquarters in McLean, Va. Gannett is spinning off its publishing business from its broadcasting and digital operations. The company is also acquiring full ownership of Cars.com for $1.8 billion., the company announced Tuesday, Aug. 5, 2014. (AP Photo/Jacquelyn Martin, File)

The game of survival is on for newspapers, as USA Today owner Gannett on Tuesday became the most recent major media entity to say it will divide its print and broadcast divisions into separate companies.

As consumers continue to gravitate toward online sources of news and entertainment, newspapers are increasingly being asked to fend for themselves.

Gannett said its separation will leave the newspaper unit debt free and let both companies pursue growth and acquisitions more efficiently. But some observers see the rush to split less profitable print businesses from growing TV and digital operations as an ominous sign for the newspaper industry.

"To take a draconian view, over next 10 years a lot of newspapers could disappear or be much smaller print products," said Edward Atorino, an analyst with Benchmark Co.

As part of the move, Gannett also announced Tuesday that it will take full ownership of Cars.com for $1.8 billion, another sign of the increasing importance of digital properties.

Gannett's spinoff follows similar maneuvers by major operators such as Time Warner Inc. and News Corp. Earlier this week, the Tribune Co. completed a split with its division that publishes The Los Angeles Times and other newspapers.

The spinoff trend takes place amid a backdrop of declining newspaper revenue. As consumer tastes for digital content grow, advertisers continue to shift more of their spending online. Over the past eight years, annual print newspaper ad revenue has fallen 64 percent to $17.3 billion in 2013, according to the Newspaper Association of America.

Gannett's publishing arm will retain the Gannett name and include USA Today, 81 local U.S. daily publications and Newsquest, a regional community news provider in the U.K.

The company touted the publishing unit as a debt-free company and said both entities will have "increased opportunities to grow organically across all businesses," as well as pursue strategic acquisitions.

CEO Gracia Martore said the "bold actions" will help increase value for shareholders "in today's increasingly digital landscape."

Benchmark Co.'s Atorino said the newspaper unit was "holding back the Gannett stock." But many other analysts say the recent rush to spin off print assets paints a dark picture for newspapers.

"Now, these stand-alone print companies won't have the profits to depend on from the broadcast companies," said Ken Doctor, a media analyst for consulting company Outsell. "For them, it's life without a parachute. They have to figure out how to make it completely on their own."

None of the spinoff print companies have very much debt, which is a positive, but they don't have any source of strong revenue growth either, Doctor added.

"Their only route is to continue to manage decline at the same time they're trying to find growth," he said.

Gannett acquired Belo Corp. last year for about $1.5 billion, nearly doubling the number of TV stations it controls. The deal raised talk of a split almost immediately as the broadcast division's dominance grew over the publishing wing.

Gannett's broadcasting and digital arm, which has yet to be named, will operate the company's 46 television stations and websites such as CareerBuilder. It will also include Cars.com.

Both companies will remain headquartered in McLean, Virginia. The broadcasting and digital company will trade on the New York Stock Exchange. The publishing business is also expected to trade on the NYSE.

Gracia Martore will serve as CEO of the broadcasting and digital company. Robert J. Dickey, currently president of Gannett's U.S. Community Publishing division, will become CEO of the publishing company.

If approved by the company's board, Gannett anticipates that the distribution of the new publishing business' shares will be completed by the middle of 2015.

Gannett is buying the 73 percent interest in Classified Ventures LLC, owner of Cars.com that it doesn't already own. Cars.com lets people compare vehicles online and connects them with sellers and dealers. The web site displays about 4.3 million new and used cars from nearly 20,000 dealers.

Gannett will finance the Cars.com transaction with available cash, approximately $650 million to $675 million in new senior notes and borrowings under its revolving credit agreement. The deal is expected to close in the fourth quarter.

Gannett's stock slipped 45 cents to $33.87 in late day trading. The stock is up about 16 percent this year.

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