



Newspapers

Zell Takes The Wheel

Louis Hau, 12.20.07, 8:00 PM ET

Sam Zell completed a leveraged buyout and got the keys to Tribune Thursday. Time to raise a pertinent question: Does he have any idea what he's doing?

The newspaper industry is tanking. The brightest minds in the business can't staunch hemorrhaging losses in advertising revenue and print circulation.

But Zell doesn't lack for confidence. In a statement confirming Thursday's completion of the buyout, the Chicago real-estate mogul set an iconoclastic tone for his new tenure as chairman and chief executive of one of the nation's largest media companies.

"Tribune, along with the newspaper industry, has been mired in its monopolistic origins, and we intend to create a fresh, entrepreneurial culture that is fast and nimble, and which rewards innovation," he said. "Our goal is to provide a sustainable, relevant product for our customers and communities."

Sounds exciting. But reshaping troubled Tribune into the thriving enterprise Zell envisions will be a daunting and at times traumatic undertaking. He declined requests for an interview ahead of the deal closing, but here are some things you can expect the now-private company to do:

Reduce costs immediately. All the talk about growing revenue instead of attacking overhead is hard to swallow given the heavily leveraged structure of the buyout.

Shareholders get \$34 a share, and all of the company's outstanding shares will be transferred to an employee stock ownership plan, or ESOP. Zell is investing \$315 million in Tribune and has received a warrant that gives him the right to acquire up to a 40% stake in the company.

To finance the deal, Tribune issued \$4.2 billion in new debt and refinanced \$2.8 billion in existing obligations, bringing its total debt burden to a staggering \$13 billion. One bright spot: As an ESOP-owned "S" corporation, Tribune won't be paying federal income taxes, allowing it to use more of its free cash flow for debt repayment or capital expenditures.

But annual interest expenses alone are expected to approach \$1.1 billion, matching what some analysts expect the company to generate in 2008 in earnings before interest, taxes, depreciation and amortization.

In other words, costs must come down, fast. **Expect buyouts and layoffs. Also likely: shrinking the circulation footprint of some newspapers to save on newsprint and delivery costs and outsourcing more business functions.**

Tribune newspapers already outsource circulation customer service calls to a call center in the Philippines operated by APAC Customer Service of Deerfield, Ill. Other U.S. print publications have begun farming out advertising production and basic word-processing tasks to contractors in India (See: "[Dateline: Bangalore](#)").

Sell assets. Tribune already confirmed it plans to sell the Chicago Cubs baseball team, Wrigley Field and its interest in Comcast SportsNet Chicago during the first half of 2008.

Zell insisted for months that he has no plans to sell any other assets. But if you read between the lines, all he has really said is that he has no deals in place. Have no doubt: Shedding assets to help pay down debt remains on the table.

What might Tribune sell? Some of the company's TV stations could find buyers (See: "[Who Will Tune In Tribune's TV?](#)") But Zell's decision to recruit long-time business associate and former Clear Channel Radio head Randy Michaels as a Tribune executive vice president, suggests that large-scale broadcast asset sales may not happen.

What about the company's newspapers? Here things turn more problematic: Continued erosion in circulation and advertising have triggered a plunge in newspaper valuations. Consider the case of McClatchy. The company sold the *Star-Tribune* of Minneapolis in March for \$530 million and a tax benefit of \$160 million, which added up to only about half of what the company paid for the paper in 1998. And in November, McClatchy revealed that it had slashed the estimated value of its 49.5% stake in *The Seattle Times* from \$102 million at the end of 2006 to a startling \$19 million at the end of September.

Nonetheless, there is one Tribune newspaper that might attract enough bidders to make a sale interesting: the *Los Angeles Times*. The paper faces serious challenges, including a years-long slide in circulation, although it managed to eke out a 0.5% increase in average weekday circulation during the six months ended Sept. 30.

When Tribune was mulling its strategic options last year, entertainment mogul David Geffen, supermarket billionaire Ron Burkle and developer-philanthropist Eli Broad had all expressed interest in the paper. One possible hitch for the latter two: They reportedly annoyed Zell when they sent a letter to Tribune earlier this year complaining that he was being given preferential treatment in preparing his buyout bid.

Reinvent the wheel. During a press conference Thursday, Zell boasted that "our bet is that we can significantly increase revenue" across Tribune's businesses. A brave statement considering Tribune's publishing segment, accounting for nearly three-quarters of revenue, posted a 7% revenue drop and a 30% decline in operating profit during the first three quarters of 2007.

"I'm sick and tired of listening to everybody talk about and commiserate over the end of newspapers," he said. "They ain't ended and they're not going to end, and I think they have a great future. I think they need to be repositioned. I think they need to be incorporated with the other media sources. But they represent an extraordinary opportunity, and we're going to take advantage of it."

So how exactly does he plan to jump-start a business that continues to lose readers and advertisers to the Internet? Zell didn't provide specifics, probably because he genuinely has no idea yet what to do. He's not alone--no one else in the industry does either.

Like other newspaper companies, Tribune has taken the usual bevy of baby steps to adapt to the new media environment, such as pushing reporters to file early versions of their articles for their paper's Web site or adding front-page ads to the *Chicago Tribune*. More useful: It has thriving online properties, like its MetroMix entertainment information Web site, and CareerBuilder, an online classified advertising joint venture with Gannett, McClatchy and Microsoft.

Zell will go further. Given his maverick reputation, and the need to generate revenue growth to meet massive debt obligations, count on a Zell-led Tribune to try just about anything to drum up

business. Expect two things: He'll offend traditional sensibilities and blur the division between the editorial and business interests of the company's newspapers. He'll put the pedal to the metal. He'll have to.

Fasten your seatbelts.