

TPG bid for Fairfax: what usually happens when private equity meets media?

Written by The Conversation

TPG Capital, the US private equity firm leading a consortium bidding for some of the assets of troubled Australian media company Fairfax, has a reasonable track record in media acquisitions. Judging by its past performance, a sale to the group might not be all bad news for Fairfax shareholders and staff.

The [A\\$2.2 billion bid](#), lobbed over the weekend, is subject to regulatory review, including from the Foreign Investment Review Board.

The proposal essentially involves splitting Fairfax into two parts. The consortium, which includes the Ontario Teachers' Pension Plan Board, would obtain lucrative assets such as real estate section Domain. It would also obtain the core mastheads and digital assets. Existing Fairfax shareholders would retain the New Zealand business, regional newspapers, the stake in Macquarie Media and the 50% share of Stan. These would be housed in a new ASX-listed entity that would also have all of Fairfax's current debt.

What might motivate the deal and how might the consortium obtain value?

The bid comes after a difficult time for Fairfax. The company recently announced it would cut [1 25 editorial jobs](#), which resulted in a week long strike. This was part of an attempt to [cut costs by A\\$30 million](#).

Rumours have abounded of a Fairfax plan to [spin off](#) its lucrative Domain subsidiary. Given Fairfax's recent turmoil, it [has been argued](#) the bid is opportunistic and the price, at effectively 95 cents per share, might be too low.

The consortium would look to ways to maximise value from the acquisition. In the portions it would retain, there are two separate entities: Domain, and the other media holdings. Prior deals by TPG, and other private equity firms in the media sector offer some insight into how this might proceed.

The Domain assets

The consortium could spin off Domain as a separate entity. Deutsche Bank suggests that Domain's equity value is around [A\\$1.7 billion](#) . Given that Domain is the most lucrative asset in the package, it is not clear that the consortium would want to precipitously spin it off.

Assuming the consortium retains Domain, TPG has a reasonable track record in the real estate space. TPG acquired PropertyGuru.com in 2015, which claims to be ["Asia's leading online property group"](#), with 1.3 million property listings. TPG also [acquired PRIMEDIA \(now RentPath\) in 2011](#), which is based in the US. Since then, there have been [bolt on acquisitions](#) to increase RentPath's reach and growth.

In this sector, the consortium could continue Domain's expansion and revenue growth, especially online. There's [evidence to suggest](#) that helping companies to conduct acquisitions is one way private equity funds can contribute to their portfolio companies. It could also arguably link these online real estate holdings to grow Domain's international reach.

The media assets

The media assets have a less clear value path. One possibility is that the consortium could seek a buyer for these. In Fairfax's case, this is more viable given [recent relaxations in media concentration laws](#) . In this case, the consortium would retain the Domain assets while selling the news business to another media entity.

If the consortium retains the media assets, private equity has a more mixed record with media companies.

TPG has prior experience [acquiring Univision](#) in 2007 for US\$13.7 billion, including debt.

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Univision was [saddled with significant debt](#), which was subsequently [downgraded](#). Its [aim to list](#) on the market in 2015 was scuttled.

TPG has however shown a tendency to grow its media acquisitions. For example, Univision recently [acquired a 40% stake](#) in The Onion, and [paid US\\$135 million for Gawker Media](#). This implies that TPG might not precipitously cut more jobs from Fairfax.

One other bright area for growth is ad tech. Private equity firms have recently [increased acquisitions of such companies](#), albeit with a [reduction in money spent on media](#) companies more broadly. The prospect of bolting on ad tech companies to the newspaper business, with its rich database of subscribers, could provide Fairfax with an additional source of revenue.

Private equity-led acquisitions of newspapers do happen. They tend to involve industry consolidation owing to the decline in online advertising revenue. For example, New Media Investment Group [has been buying](#) newspaper assets in the US, especially relatively small assets. These are partially driven by relatively low valuations. The acquirers appear to be aiming for consolidation and economies of scale. This implies greater shared editorial content and lower costs. New Media has also been focusing on its digital marketing business Propel, which would evidence some synergies with the newspaper business.

What does the bid mean for shareholders and employees?

The proposal is still subject to regulatory and shareholder approval. At this stage Fairfax shareholders must evaluate whether they believe the consortium's offer represents fair value for their shares, or whether it might be better to hold out for a higher premium.

Shareholders appear to have responded positively to the takeover bid. Fairfax shares have increased around 3% on the announcement, on a day when the broader ASX 200 increased around 0.5%. However, UBS [has argued](#) the consortium is paying too little, and that Domain is

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underpriced compared to its main rival, REA Corp.

Employees face an uncertain future under the bid. It is too early to say whether there will be significant job cuts, if any. If the consortium seeks to consolidate media holdings, it could potentially seek cost savings and focus more on shared editorial content. However, there is no indication that the consortium would be worse for jobs than Fairfax's current cost cutting regime. Further, TPG has a record of growing its investments through bolt on acquisitions, linking into the recent trend for private equity companies to invest in ad tech and digital agencies.

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