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Comcast may build a better mousetrap. The gamble on Disney was a worthwhile failure, analysts say. For now, Comcast will focus on other targets.

By Akweli Parker and Patricia Horn

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As risky as Comcast Corp.'s failed bid for the Walt Disney Co. might have seemed from the start, some observers say it was a chance worth taking - and is not likely to hurt Comcast in the long run now that it has been dropped.

Comcast withdrew the takeover offer on Wednesday after leaving it on the table for nearly three months. Initially valued at \$66 billion, the bid was quickly rejected outright by Disney's board, as the value of Disney's stock rose higher than the offer on the very day it was made.

Embattled Disney chief executive officer Michael D. Eisner and the rest of the Disney board refused to negotiate with Comcast from the start.

Yet despite the miscalculations, Comcast's reasoning - that Disney was in a troubled state because of poor performance in recent years that led to a shareholder revolt - was sound, said Robert Mittelstaedt, vice dean and director of the Aresty Institute of Executive Education at the Wharton School.

Mittelstaedt said he would not be surprised if Comcast someday revisited the idea.

With the Disney offer, Comcast was "testing the waters... fishing to see if they could pick it up cheap."

"It seems to me they went into it in a disciplined way and were not going to bid to the sky...," Mittelstaedt said.

Comcast officials declined to be interviewed for this article. Many of them are in New Orleans this week for the cable industry's annual trade show, historically an event where deals are nurtured.

But in withdrawing the bid last week, they said that, despite the setback, they would continue to seek deals in the manner that has seen the Philadelphia cable company grow from a regional cable player with about three million subscribers in the early 1990s to the largest cable operator in the nation, with more than 21 million subscribers. One possible target now: bankrupt cable company Adelphia Communications Corp., which is considering putting itself up for sale.

"We have conversations all the time about how people can grow their business, or they can partner with us, or we can do something together," Comcast chief executive officer Brian L. Roberts said in a conference call last week.

Whether the failed bid damaged Roberts' reputation as a master dealmaker

depends upon whom you ask. Some analysts have suggested that the small bounce in Comcast's stock price when the bid was pulled - its stock rose just 23 cents Wednesday - meant the company has some fence-mending to do; others, however, said it merely meant that investors expected Comcast to keep dealing.

Comcast shares closed Friday at \$30.16, still \$3.77 below their price the day before the Feb. 11 bid was launched.

How did Comcast miscalculate so badly?

In the months preceding the bid, Roberts made behind-the-scenes overtures through intermediaries that indicated at least some Disney board members would be open to talks, according to people familiar with the events.

But Comcast officials last week admitted that they erred in assuming Disney officials would negotiate, rather than reject Comcast's overture flat-out. "We thought the logic of combining distribution and content was so clear and so powerful, we'd be able to get into that dialogue," Comcast cable division president Stephen B. Burke said last week. "We were never able to do it... and that's why we withdrew."

Comcast has bowed out of high-stakes offers before with good results, noted Ted Henderson, an analyst with Stifel Nicolaus & Co. in Denver. In 2000, for example, Comcast lost a bidding contest for MediaOne Group, a transaction that would have netted it five million new customers. AT&T Corp.'s cable division won the prize for \$58 billion, and Comcast received a \$1.5 billion break-up fee.

In one of the cable industry's historic ironies, Comcast bought AT&T's cable division - with 13 million customers - two years later for \$48 billion.

"Who ended up with the assets?" Henderson asked. "I continue to applaud this management team for its vision and discipline," he said.

While Disney's high profile put the failure of Comcast's offer under a particularly bright spotlight, unconsummated business deals are the norm, not the exception, a merger expert said.

Geoffrey Cullinan, a mergers and acquisitions specialist in the London office of global business consulting firm Bain & Co., said the parties in proposed mergers often wind up walking away.

"Once you lock horns with the target, a lot of things are going to come at you: The price is going to bounce around; there may be other companies coming out of the woodwork; the rocks you're picking up and looking underneath might yield some unpleasant surprises."

And, he said, "We all know that personalities sometimes do get in the way of deals."

A Comcast takeover of Disney would have certainly put Eisner out of a job. No surprise, then, that Eisner led the Disney opposition to the offer, even

as he was dealing with a vote of no confidence from shareholders that prompted the board to remove him as chairman. He remains CEO.

Meantime, the withdrawal frees the dealmakers at Comcast to go after friendlier targets, such as Adelphia, the nation's fifth-largest cable operator, with 5.3 million subscribers. Adelphia said last month that it would consider putting itself up for sale as it emerges from bankruptcy.

"There are other acquisitions out there, and they do not want to be tied up with the Disney bid, which would have complicated those other possibilities," said Howard Alter, founder of Alter Asset Management in Princeton, whose firm has investments in both Comcast and Disney.

Comcast is more likely to pick and choose systems, perhaps in a combination bid with Time Warner Inc., than buy all of Adelphia outright. That could allow Comcast to swap its 21 percent stake in Time Warner Cable, avoiding the tax burden of selling the \$5 billion stake.

Comcast also has been mentioned as a possible bidder for the Metro-Goldwyn-Mayer Inc. television and movie studio, which Sony Corp. is angling to buy.

Mittelstaedt said that even without acquiring Disney or Adelphia, Comcast had plenty of growth possibilities, including expanding its broadband business and raising rates.

His own Comcast bill just went up from \$102 to \$110 per month for cable TV, a premium channel, and fast Internet access.

"They have been doing that every year to year and a half for the last 10 years," he said.