

Star-Ledger

A spurned Comcast drops bid for Disney Cable company said it may seek smaller acquisitions

By Jeff May

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The Mouse Hunt is over, at least for now.

Comcast yesterday withdrew its unsolicited bid for Walt Disney, and said it might be in the market for smaller prizes.

The nation's largest cable company made a surprise \$62 billion offer for Disney on Feb. 11, which the entertainment company's board rejected as too low. Even though its stock price suffered, Philadelphia-based Comcast doggedly stuck by the bid for more than two months.

In the end, however, it became obvious Disney's board had no interest in a deal, Comcast Chief Executive Brian Roberts said on the company's earnings call.

"Being disciplined means knowing when it is time to walk away," Roberts said. "That time is now."

Comcast's retreat does not mean embattled Disney Chief Executive Michael Eisner can rest easy. The withdrawal of Comcast's bid and its planned repurchase of up to \$1 billion in stock is expected to lift the cable operator's stock substantially, giving it a stronger currency to go after Disney in the future.

Many analysts think Roberts will continue to track the fortunes of Disney -- the nation's premier, standalone entertainment company -- and wait for another opening.

"Comcast is likely to hang around and come back," said Howard Alter of Alter Asset Management, a Princeton investment firm that owns stock in both companies. "But it will do one of two things: have a deal done and then announced, or it will step things up and do a more hostile offer."

The next few months are a critical time for Disney. Eisner has promised strong results for the year, and there are signs of life in the company's theme parks and its flagship cable channel, ESPN. But lackluster performances by the ABC broadcast network and Disney's movie studios have left little margin for error.

"One way or the other, Disney will either right its wrongs or be the subject of a successful merger," Alter said. "Right now, given the management depth they have in place and given their current business model, it's doubtful they would be as successful on their own as they would be in a combination."

Roberts said Comcast may look at buying some cable systems owned by Adelphia Communications, the scandal-tarred cable company expected to be on the block soon. It's also possible Comcast could look at a smaller

entertainment company, although Roberts did not name any names. "We are always going to look for opportunities for growth," he said, but added the company does not feel pressure to make acquisitions.

Roberts said he wanted to clear up any misperception that the Disney bid signaled a lack of faith by Comcast in the growth prospects for cable. "I'd like to make one critical point: We love the cable business," he said. The company's first-quarter results reinforced Roberts' upbeat assessment: Comcast said it had \$397 million in free cash flow and expects to have \$2 billion for the year. Sales came in higher than analysts expected at \$4.9 billion, a 10 percent increase compared to a year ago.

High-speed Internet sales increased 42 percent, and company officials said they expected the heady growth trends to continue next year. On-demand movies and television shows have proven to be more popular than expected, and Comcast is talking about a big push into Internet phone service next year.

The company said it plans to ready 50 percent of its network to accommodate phone service by the end of the year.