Gannett to spin off publishing business

Roger Yu and Kim Hjelmgaard, USA TODAY *7:50 a.m. PDT August 5, 2014*

(Photo: Evan Eile, USA TODAY)

Gannett, the owner of USA TODAY, said Tuesday that it will create two publicly traded companies next year as it moves to separate its broadcasting and digital businesses from its publishing division, a strategic move similarly adopted by competitors to shield more profitable business lines from the decline in print advertising.

"The bold actions we are announcing today are significant next steps in our ongoing initiatives to increase shareholder value by building scale, increasing cash flow, sharpening management focus, and strengthening all of our businesses to compete effectively in today's increasingly digital landscape," Gracia Martore, Gannett's CEO, said in a statement.

PRESS RELEASE: Gannett to create two industry-leading companies (http://www.gannett.com/article/20140805/PRESSRELEASES2014/140805001/GANNETT-CREATE-TWO-INDUSTRY-LEADING-COMPANIES-SCALE-THROUGH-SPIN-OFF-PUBLISHING-BUSINESS-GANNETT-SHAREHOLDERS)

The broadcasting and digital company, which will be renamed and headed by Martore, will own or provide services to 46 television stations and operate several websites — CareerBuilder.com and Cars.com — that are not tied to newspapers. Gannett also said Tuesday that it will buy all Cars.com shares it doesn't already own from Classified Ventures, totaling about 73%, for $1.8. billion in cash, and the move nearly doubles its digital business.

The planned spinoff of the publishing business, including USA TODAY, 81 other daily newspapers and their affiliated websites, will be implemented through a tax-free distribution of its publishing assets to shareholders. The publishing business, which will retain the name Gannett, will be "virtually debt-free" after the separation as the broadcasting and digital company will retain the existing debt. Robert J. Dickey, currently president of Gannett's U.S. Community Publishing division, will become CEO of the publishing company.

Gannett said it anticipates the initial combined dividend of the two companies "will not be less than" Gannett's current 20 cents per share issued quarterly.

Investors, who have speculated for months on Gannett separating its print assets, cheered the move early after it was announced. Shares of the company rose more than 6% in pre-market trading Tuesday morning. But shares settled back down in regular trading, up 0.5% to $34.49.

"Gannett is separating the secularly declining newspapers from TV stations and digital," said Craig Huber, independent media analyst at Huber Research Partners. "It all originated from huge pressure from investors over the years."

In the past two years, Martore has been accumulating new businesses in Gannett's broadcasting and digital units to diversify the company and convince shareholders and analysts that it's more than a collection of newspapers.

Last year, Gannett bought competitor Belo for $2.2 billion to double the number of TV stations it owns or operates.

"We are creating two companies that will be among the largest and strongest in their peer groups, Martore said.

The move comes a day after Tribune Media announced that it completed spinning off its publishing unit while keeping its broadcasting and digital properties. The publishing unit, which was renamed Tribune Publishing and began trading publicly Tuesday, operates *The Los Angeles Times, Chicago Tribune* and eight other daily newspapers.

Several other companies, including News Corp., Time Warner, E.W. Scripps and Journal Communications, have similarly separated or announced plans to spin off their newspapers to focus on broadcasting and digital businesses.

In its second-quarter earnings report, Gannett said print advertising revenue fell 5.7% to $530.1 million. Broadcasting revenue rose 87.9% to $398.3 million, taking into account the revenues brought in by Belo's stations that were acquired late last year.

Gannett's divisions currently share content widely and use a common publishing software application. Its TV stations and local newspapers receive a large chunk of their national news content from USA TODAY. The newspapers also widely use TV stations' videos to accompany print stories. And Martore said in a conference call with analysts Tuesday that Gannett will continue its "cross-platform efforts."

In acquiring Cars.com — which is now jointly owned by Gannett, Tribune Media, Graham Holdings, A.H. Belo and McClatchy — Gannett will enter into new 5-year affiliate agreements with the other existing owners once the deal closes.

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