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# Private equity is a problem for public media

Eli Noam FEBRUARY 19 2007

When many telecommunications and television networks were privatised in the 1980s, there was much public debate. Today, a second wave of media privatisation is sweeping the world, this time without much public notice. It is the acquisition by private equity partnerships of stock market-traded "public" media companies.

In the past year or two, private equity firms have acquired big media and communications companies. These include Clear Channel, MGM, Univision and PanamSat in the US; VNU in the Netherlands; national telecom carriers Eircom and TDC in Ireland and Denmark; television companies ProSiebenSat in Germany and SBS in Luxembourg. Other companies, such as -Vivendi, EMI and parts of the Tribune Co, have been circled by private equity firms. Still others, such as Bertelsmann and Cox, were taken fully private by their majority shareholders.

Private equity has been in the ascendancy, buoyed by cheap debt, rising equity prices and high liquidity. In 2006, almost a quarter of all mergers and acquisitions were financed that way.

This trend has raised questions. Many private equity deals are fuelled by a desire to flee closer regulation and disclosure requirements of public companies. This reduces the transparency of the economy, even as it may make some companies more efficient.

There are additional considerations for media companies. On the positive side, private equity deals often lead to a break-up of media conglomeratesto reduce debt that paid for the acquisition. Thus, Clear Channel, poster boy for media concentration, isselling off almost half of its 1,100 radio stations.

On the negative side, the same cost-cutting has impacts on newsrooms, film budgets and re-search and development. Unlike start-up venture capital, this kind of private equity is basically conservative in its search for cash flows to meet debt payments and position the company for resale. It is also short-term orientated and unlikely to undertake big upgrades of communications infrastructure that have long-term benefits for the economy.

Private equity also changes the nature of media ownership. Public attention has centred on moguls such as Rupert Murdoch and Sumner Redstone, Viacom chairman. In reality, most media companies have been majority owned by institutional investors*. Just the top 10 of these institutions, such as Fidelity, together own more than 20 per cent of the 20 largest US media companies. But they rarely interferewith managers beyond pressure to keep the stock price up. Management is accountable to all shareholders and scrutinised by the public, investment analysts and the press.

But a private equity fund's management company controls the acquired media company fully and installs management with tough performance mandates. Increasingly, private equity fund partners play a hands-on operational role beyond the merely financial. In contrast to public institutional funds, the private equity fund is limited by law and strategy to deep-pocket investors whose identities are not disclosed. The funds keep a low profile.

For example, Thomas H. Lee Partners, a $20bn (£10.2bn) Boston private equity firm that has acquired singly or in partnerships the media companies Clear Channel, Univision, VNU, Houghton Mifflin and Warner Music, does not appear to maintain a website. Little information is available to the press. Securities analysts stop following the stock. Small investors and activists have no public shareholder meeting to probe management.Governments cannot evaluate the soundness of companies that may provide essential national infrastructure.

All this raises questions about openness, transparency and control. In open societies large media holdings must be in the open. Direct regulation by government of media operations is undesirable. But disclosure is another matter. For example, the managing owners and substantial investors in media companies that hold government licences or use favourable postal rates for press mailings should be part of the public record, as should their nationality and the debt burden put on essential network infrastructure.

The role of media is to inform and shine light; their own structures cannot be secretive. Otherwise accountability becomes impossible, suspicions abound and the credibility of all media will suffer.

** Eli M. Noam, Media Ownership and Concentration in America, Oxford University Press, forthcoming*

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