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Knight Ridder exploring sale

Big shareholders pressure newspaper chain

Knight Ridder News Service

Facing mounting pressure from two large shareholders, Knight Ridder Inc. said Monday it will explore a possible sale of the company along with other strategies to "enhance shareholder value."

It was the strongest indication yet that the nation's second-largest newspaper company and owner of the Pioneer Press could soon go on the auction block, in part or in whole. And it set off a flurry of speculation about who might bid and how much.

In a press release, the company stressed that its announcement did not guarantee such a sale would occur. But it did confirm it was working with its longtime investment banker, Goldman Sachs, to study the possibilities.

Analysts said the latest news was expected and may buy the company some time with dissident shareholders who last week showed signs of growing impatient over the lack of a response from Knight Ridder's executives and board.

"The fact that the company will potentially or possibly include a sale in its bag of options makes it more formal," Morgan Stanley analyst Douglas Arthur said. Arthur owns no stock in Knight Ridder, though his company has done some investment banking business with Knight Ridder in the last 12 months. "I would think things would slow down here for a while because Goldman is going to have to send some people out and put the numbers together."

Monday's statement was Knight Ridder's most detailed response since two large shareholders earlier this month demanded the company put itself up for sale.

San Jose, Calif.-based Knight Ridder publishes 32 daily newspapers in 29 U.S. markets, with 8.5 million readers daily and 11 million on Sunday. Its holdings also include the Duluth News Tribune, the San Jose Mercury News, the Philadelphia Inquirer and the Miami Herald.

Also Monday, a brief letter and Q&A from Chairman and CEO Tony Ridder were sent to Knight Ridder employees.

On Nov. 1., Private Capital Management of Naples, Fla., sent a letter to the Knight Ridder board demanding the company put itself up for sale to increase its value to shareholders. PCM owns 19 percent of Knight Ridder. The company's third-largest shareholder, Harris Associates, subsequently joined the call for Knight Ridder's sale.

Until Monday, Knight Ridder had issued only a brief statement on the matter. That prompted PCM last week to threaten to run a slate of candidates at Knight Ridder's annual meeting in April.

In its statement on Monday, Knight Ridder said, "There can be no assurance that the exploration of strategic alternatives will result in any transaction." Knight Ridder said it would not make any further statements until its board "has approved a specific transaction."

Analysts remain split about how likely such a sale might be. But estimates on how much the company might get in a sale have ranged from \$70 to \$100 per share. The company's stock rose 60 cents to \$63.10 in unusually heavy trading Monday.

Uncertainty for Knight Ridder's future also means uncertainty for each of its daily newspapers, including the Pioneer Press. Few analysts expect a single buyer will acquire and operate the chain in its entirety; many are betting that the company, if sold, will go in pieces to several buyers.

In the Twin Cities, one of the few remaining markets with two competing daily newspapers, there is an additional scenario: that McClatchy Co., owner of the Minneapolis-based Star Tribune, acquires the Pioneer Press and closes it.

If McClatchy wanted to make that deal, it "unquestionably would raise serious antitrust concerns," said Andrew Schwartzman, president of the Media Access Project, a nonprofit telecommunications and Internet advocacy group in Washington, D.C. "These are not failing newspapers, which would come into play in making the case for a joint operating agreement."

Some observers aren't so sure.

The Justice Department will use a complex formula to determine whether a merger or acquisition would create "unacceptable increased consolidation" in the market, said Gregg Skall, a Washington D.C.-based counsel to the Minnesota Broadcasters Association. A lot depends on how you define the market, he said.

Staff writer Sheryl Jean contributed to this story.

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