CBS agrees to buy Internet media firm CNET

CBS Corp. announced Thursday that it would buy Internet media company CNET Networks Inc. for $1.8 billion. The work sees the acquisition as an opportunity to expand its advertising reach on the Web, but critics citing the lack of overlap between the companies' assets say the broadcaster is spending too much on the deal.

The network hopes the deal will greatly expand its advertising reach on the Web. Critics say the broadcaster's $1.8-billion offer is too high.

By Thomas S. Mulgigan and Meg James, Los Angeles Times Staff Writers
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NEW YORK -- In its biggest and boldest move onto the Web, agreed Thursday to buy the Internet media company CNET Networks Inc. for $1.8 billion in a deal that drew flak from critics for its high price and its daunting management challenges.

Flush with cash and hoping to vastly expand its Internet advertising reach in a single stroke, CBS announced that it would pay $11.50 a share in an all-cash tender offer for CNET.

That is a 45% premium over Wednesday's closing price and turns CBS into a white knight for CNET, which is embroiled in a proxy fight against a dissident shareholder group.

"There are very few opportunities to acquire a profitable, growing, well-managed Internet company like CNET Networks," CBS Chief Executive Leslie Moonves said in an interview Thursday, adding that the move "pushes the clock forward" on the New York company's goal of becoming a bigger Web player.
San Francisco-based CNET owns the technology-oriented news sites CNET.com and ZDNet.com, the online gaming site GameSpot.com, and TV.com, UrbanBaby.com, Chow.com and TechRepublic.com. CNET reported cash flow of $79 million last year on revenue of $406 million, and it is projecting cash flow of $92 million and revenue of $450 million for 2008.

The deal, expected to be completed in the third quarter, would vault CBS into the top 10 U.S. Internet companies, with a combined 54 million unique visitors monthly, and about 200 million visitors worldwide.

Moooves said in a statement that CNET would "add a tremendous platform to extend our complementary entertainment, news, sports, music and information content to a whole new global audience."

CBS has aggressively expanded on the Internet by buying such outlets as Last.fm, an Internet radio firm. The broadcaster broke barriers by making streams of its NCAA basketball coverage available immediately online, sacrificing TV viewers in an effort to improve Internet traffic.

It has made its TV content available to Internet titans, including AOL, Google and its YouTube site. CBS’ most popular dramas, including "CSI," "CSI: Miami" and "Without a Trace," are not big draws for the younger Internet crowd, who prefer their entertainment in short bursts.

"This shows that CBS is serious about expanding their business to become a true digital company," said consultant Larry Kramer, who used to head CBS’ Internet operations. Noting the lack of overlap between the companies’ assets, he said: "It's going to be somewhat of a management challenge for them. CBS can make itself into a big Internet player, but it is going to take a lot of work."

Thursday’s joint announcement by CBS and CNET capped weeks of secret negotiations conducted while CNET was trying to fend off a challenge led by Jana Partners, a New York hedge fund that is CNET’s biggest shareholder, with about a 20% stake.

Jana, which is seeking to install a new slate of directors, has said that CNET has failed to keep up with tremendous changes roiling the online world and that the current board and management are unequipped to get it moving in the right direction. CNET stock has languished under $10 a share for the last two years.

"All we’re saying today is that we’re reviewing the transaction," said Jana spokesman Charles Penner.

CNET shares leaped on news of the offer and closed at $11.41, up $3.46. CBS stock, meanwhile, slipped 59 cents to $24.23.

"It's an interesting move, but not a revolutionary one," Forrester Research analyst Sarah Rotman Epps said. "It's a very logical and efficient way for CBS to extend its advertising network."

Although CBS could distribute its video content, including CBS News, on CNET, Epps doubted that there would be much use for CNET's content on CBS, CBS television stations and CBS radio.

"It's a valuable buy but I am not sure it is worth $1.8 billion," Epps said. "I do think that CBS is overpaying."

Citigroup analyst Jason Bazinet said CBS shareholders might not want the broadcaster to spend aggressively because they were satisfied with the dividend and a slow-growth, low-risk investment.

Moooves said CBS had told investors it would invest in content, the Internet and outdoor advertising. The CNET deal addresses the first two of those goals, he said. As for returning cash to shareholders, Moooves added, "The dividend is sacrosanct."

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