Buffett's print stake swap is end of era

MEDIA

Four-decade link to publisher Graham

Berkshire switches to group's TV assets

By Emily Steel in New York

It's the end of an era for an American billionaire and his four-decade ties to a US publishing dynasty.

Warren Buffett's Berkshire Hathaway has struck a deal to swap most of his 28 per cent stake in Graham Holdings, the former owner of the Washington Post, for the company's Miami-based television station, cash and Berkshire shares held by Graham.

Mr Buffett started buying shares in the parent company of the Washington Post in 1973, two years after the publisher went public. He served on its board and became a confidant of Katharine Graham, the family matriarch who led the company for nearly three decades until retiring in 1991.

He long considered the stake one of his most prosperous investments, spending just $10.6m to acquire his initial holding.

The total exchange between Berkshire Hathaway and Graham Holdings is valued at about $1.1bn, with the television station worth $364m, based on the closing price of Graham Holdings shares last Friday.

The transaction includes about $400m in Berkshire shares and about $328m in cash, according to documents filed yesterday with the US Securities and Exchange Commission. A binding agreement has yet to be signed and the exact values yet to be determined, the companies said.

Berkshire will cut its holdings in Graham from 1.7m shares to about 100,597 shares to cover the difference in value. "I am sure this is a mutually beneficial transaction for both companies," said Mr Buffett, chairman and chief executive of Berkshire Hathaway. "While this transaction will greatly reduce our position in Graham Holdings, our admiration for the company and its management is undiminished."

Donald Graham, chief executive of Graham Holdings, said: "Warren Buffett's 40-year association with our company has been extremely good for our shareholders."

The deal comes after the Graham family sold the Washington Post newspaper to Amazon founder Jeff Bezos for $250m last summer, after struggling through years of revenue declines and admitting to not having an answer for reviving the newspaper's business.

The company's remaining holdings include its Kaplan education group and six local US television stations, counting the Miami one. It also owns a cable operator, online news website Slate, a social marketing company and other ventures including a hospice operator.

Revenue in Graham Holding's television broadcasting group declined 6 per cent to $374.6m in 2013 from $399.7m the previous year because of dips in political and Olympics-related advertising revenue.

With the Miami television network, Mr Buffett is expanding his mini-media empire from print into television. He has acquired daily newspapers in smaller US communities, avoiding big city papers, writing that "delivering comprehensive and reliable information to tightly bound communities and having a sensible internet strategy will remain viable for a long time".

He will have his work cut out. Local TV advertising spending has fallen by nearly a third in the past decade, with networks challenged by declining viewership and a wave of new digital competitors, according to Borrell Associates.

Pedestrians pass the headquarters of Monte dei Paschi di Siena in the ancient Tuscan city. Mid-tier banks, such as MPS, are in a particularly precarious position Bloomberg

Italy's banks spring clean as stress tests loom

BANKS

News analysis

Institutions are providing for bad debts ahead of ECB inspections, writes Rachel Sanderson

For Italy's banks seeking to present a clean slate going into European stress tests, *così fan tutte* is the theme of the day.

After UniCredit, Italy's largest bank by assets, stunned investors with a €14bn annual loss on Tuesday in a massive clean out of its balance sheet ahead of inspection by European regulators, it was joined yesterday by a queue of smaller Italian banks following its lead.

Monte dei Paschi di Siena, Italy's third-largest bank by assets, which is the subject of a state bailout, sank to its seventh straight lossmaking quarter, reporting a €921m net loss, far worse than even the most pessimistic forecasts.

Along with UniCredit and MPS, Banca Popolare di Milano, Italy's fifth-largest bank by assets, also reported a rise in provisioning in the fourth quarter as did UBI, its sixth-largest bank by the same measure, although both also managed a small profit.

Intesa Sanpaolo, Italy's second-largest lender, is expected to follow suit when its reports later this month, underlining the pressure the Italian banking system is under to clean up its balance sheet before the probing of European regulators.

"I guess we could say that, in the past, we looked at the balance sheet as half full and we now look at it as half empty with [the stress tests] coming up which has translated into additional provisioning in the fourth quarter," said Bernardo Mingrone, head of finance at MPS, attempting to explain the Siena bank's latest round of hefty provisioning.

Some analysts also noted that the timing coincides with a spring clean mood in Italy epitomised by the arrival of Matteo Renzi, Italy's new prime minister, who is promising a wider clean-up of the Italian economy.

Alberto Gallo, credit analyst at RBS, said: "Italy is approaching a much needed spring cleaning . . . in parliament . . . and across the banking system."

The Bank of Italy had warned investors to expect "lots of provisions" from Italian banks in the fourth quarter ahead of the probing by European regulators, although the scale of the clean-up was surprising.

Nonetheless, shares in Italian banks moved higher yesterday, especially strongly at UniCredit – which on Monday ruled out a capital raising – and UBI, which is considered the strongest among Italy's midsized banks. Italian banks have underperformed European peers this year amid concerns about their exposure to non-performing loans as millions of local companies have stuttered during Italy's crippling two-year recession.

That said, analysts pointed out that UniCredit's loss also stemmed from a goodwill write-off related to a decade of frenzied acquisitions in eastern Europe before the financial crisis.

The Italian banking clean-up does not stop there. At least five Italian banks, including MPS, are preparing to raise €7bn of capital in the months ahead with more expected. Goldman Sachs estimates that the aggregate capital shortfall for the sector stands at a midpoint of €17bn.

UniCredit said it would cut 8,500 employees by 2018. MPS is cutting about 4,000 staff and shutting 400 branches as the sector seeks to scale down its total of 33,000 branches to try to offset weak profitability in a low growth economy.

Mergers of midsized banks are also on the cards in a move backed by the central bank that mirrors the consolidation across peripheral European banks in Greece and Spain.

UBI and Banco Popolare of Verona; BPM and Banca Popolare dell'Emilia Romagna; Credito Valtellinese and Banca Popolare di Sondrio, are all considered potential tie-ups, said senior bankers with direct knowledge of the discussions.

Nonetheless, there are parts of the system that the clean-up has not yet reached: weak profitability and governance especially among midsized banks.

Mr Gallo of RBS argued that Italian banks still trade at the lowest price-to-book valuations in Europe because the Bank of Italy has remained behind other policy makers on transparency measures and only recently floated the idea of a bad bank.

MPS; Carige; Banca Marche; CariFerrara; Tercas; BP Spoleto; Veneto Banca; and Banca Cividale, are only some of the many Italian banks under special supervision by the central bank as the surge in bad debts is jeopardising capital adequacy.

These banks jointly hold €300bn in assets or 7 per cent of the industry's total stock, creating a potentially systemic issue. But their peculiar governance – whereby the local community through banking foundations holds much of the shares – is representing an obstacle for their recapitalisation as the economic slump hit the finances of companies and individuals.

The situation is exemplified by MPS where the management remain on tenterhooks since the foundation which owns 30 per cent of its shares forced the bank in January to pull a €3bn capital increase demanded by Brussels as it wanted more time to find the money to defend its stake.

Andrea Filtri, analyst at Mediobanca, said recently that the IMF, ECB and Italian Treasury were all pointing to a reform of the banking foundations through a change to Italian laws.

Whether that actually happens is likely to depend on the success of Mr Renzi's spring clean.

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HVB helps UniCredit
● HypoVereinsbank provided some comfort to its Italian parent UniCredit as the Munich-based lender announced net profits of more than €1bn – but warned that 2014 would be an uncertain year. However, HVB's profitability is falling, with profit after tax 17 per cent less than 2012's result.

Ross upbeat after IPO cancelled

GENERAL FINANCIAL

By Robert Wright in New York

Wilbur Ross, the distressed debt investor, is looking "every day" at new shipping investments, despite having cancelled the initial public offering for his first and best-known investment in the sector.

Mr Ross was speaking to the Financial Times after the cancellation of the IPO of Diamond S Shipping late on Tuesday. Bankers involved in the transaction had failed to achieve the $14 to $16 price that WL Ross, Mr Ross's firm, had been seeking.

"The underwriters in today's market conditions were not able to achieve that range and we didn't want to sell stock at a lower price because we don't really need the money," Mr Ross said.

Diamond S was WL Ross's first big move into the shipping industry, in 2011. The company operates a fleet of 33 medium-range tankers for refined oil products, mostly bought in a single transaction from Cido Tanker, a Hong Kong group. The company had planned to buy 10 more vessels with the $193m it hoped the offering would raise.

Mr Ross has been at the forefront of many private equity funds into investment in shipping – an area many had previously shunned for fear of its unpredictability and long-term nature.

The offering would have valued Diamond S's shares at between $662m and $791m, depending on the number of shares sold. The company has not said whether it will go ahead with the planned fleet expansion.

Basil Karatzas, a New York shipping financier, said investors, who had been enthusiastic about the product tanker market, had grown sceptical because of fears that there were too many vessels on order and prices would be depressed.

He said there had been optimism that the US's booming oil and gas production would spur the country's exports of oil products and lift demand – and earnings – for product tankers.

> Observers suggest Mr Ross invested in Diamond S too early in the sector's boom-bust cycle

Observers have suggested that Mr Ross invested in Diamond S too early in the tanker industry's boom-bust cycle and consequently overpaid for assets whose earnings have since been lacklustre. Diamond S's net income for the nine months to December 31 was $2.27m on $134m revenue.

Mr Ross said he was "happy" with what he had paid and that most of the vessels were on stable, long-term charters. "We'll go public at some point, when the market is more receptive to paying a reasonable price for it."

Another of Mr Ross's shipping ventures, Navigator Holdings, listed in New York last year.

Nokia maps out Here's separate future

TECHNOLOGY HARDWARE

By Daniel Thomas in London

Nokia, the Finnish technology group, will invest further in developing its Here mapping software as a standalone operation in the consumer and business markets after the sale of its handset division to Microsoft this month.

Nokia's telecoms networks group, NSN, is expected by analysts to be the centre of the future business as the largest source of revenue. But the group intends to focus on its mapping business as a separate operation alongside the Advanced Technologies research unit, said Here executive vice-president Michael Halbherr.

"We will invest in Here. We have three businesses [at Nokia] and that is not going to change," he said. "The businesses need to be successful [in] their own right. They need to stand alone on their own."

But he said the three businesses could work together to profit by each other's resources and scale. Nokia has not yet revealed its future structure or strategy, or even who will be chief executive after it completes the sale of its handset business to Microsoft.

"The strategy is more important than the structure," Mr Halbherr said.

Nokia formed Here from its mapping and location services, including the Navteq business acquired for $8bn in 2008. The mapping software is among the best available for mobile devices, allowing users to download detailed maps and then to navigate without an internet connection.

Here has maps in about 200 countries and voice-guided navigation in 94 countries, with indoor maps covering about 50,000 buildings, as well as live traffic information in 33 countries.

The business could have been sold as part of the deal with Microsoft, but Nokia decided to keep the operations and instead license the software for four years to the US group for use on smartphones.

Mr Halbherr said the next stage for the consumer side of Nokia would be to integrate applications that use Here technology such as navigation, city guide and transport services.

He said the Here apps – Transit, Explore and Drive – had been useful as the software moved from Symbian, Nokia's own operating system, to Windows. Here is also available as an Android app.

There would be a "deeper integration" of social media, he added, although he declined to say whether the group was talking to any companies about using the maps.

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