

OnLine Case 10.2

Granada/ITV

Granada's acquisition of Forte

Hostile take-overs had become relatively rare during the recession of the 1990s when Granada launched its unwelcome bid for Forte in November 1995. At this time Forte was the UK's largest hotel group, with a number of divisions and activities. The hotels included Exclusive hotels around the world, the Méridien chain (bought from Air France), the Heritage, Posthouse and Travelodge brands and White Hart hotels. Little Chef-type restaurants and airport catering were the other main activities. Forte's strategic leader was Sir Rocco Forte, son of the chain's founder. He had been chief executive since 1982 and chairman since 1992. The company had recently been growing at a slower rate than Granada and was underperforming against the FTSE index.

Granada was mainly diversified into Granada Television (based in the north-west of England and famous for its long-running *Coronation Street*), London Weekend TV, Granada Rentals and Sutcliffe contract catering. Granada also operated motorway service stations with linked lodge accommodations. The strategic leader was Gerry Robinson, an Irish-born accountant whose first job had been as a cost clerk with Lesney products. Robinson has been described as instinctive and impatient, and under his leadership Granada had outperformed the FTSE index. He was perceived as a success by Granada's institutional shareholders. Granada was run from a small, tight head office of 24 people; Forte's head office, by contrast, employed 290.

Granada stated that if the bid was successful it would seek buyers for a number of Forte businesses and that the intended retentions were Forte Posthouse hotels, Travelodges in the UK and the chain of Little Chef (364), Happy Eater (68) and Côte (30 in France) restaurants. This collection of assets was valued at £1.7 billion and it generated 80% of Forte's profits. Heritage and White Hart hotels might also be retained; a decision would be taken later. Forte's shareholding in the Savoy, a hotel that it wished to acquire but where it had so far been thwarted, would also be sold.

Forte's defence against the bid was comprehensive:

- Future profit forecasts were raised.
- The hotels were revalued at £3.35 billion – a figure higher than Granada's £3.26 billion bid.
- A share buy-back was proposed at a premium on the current price.
- A dividend increase of 20% for the next three years was promised.

Shortly after the bid, Forte also sold its wine and spirits distribution business, Lillywhite's sports retail store and 490 Travelodges in the USA. It sought buyers for its Savoy shares, the airport catering and White Hart hotels, and later agreed to sell the UK Travelodges and Little Chef-type restaurants to Whitbread if Forte's bid failed. Granada had applied to the UK Take-over Panel to restrain further asset sales during the period of the bid. Forte also announced Britain's largest ever share repurchase, again if the bid failed. Forte was looking to refocus on its core competency in hotels and retain the Exclusive, Méridien, Heritage and Posthouse brands. The company was credited with a creative and positive defence strategy, but maybe the divestments were coming too late.

Granada's initial bid was increased in January 1996 to a figure equivalent to a 35% premium on the share price prior to the initial bid. The offer was a mixture of shares and cash,

fully underwritten by a cash alternative. The additional amount represented a special dividend to be paid out of Forte's own assets. The outcome depended upon the attitude of a number of City institutions, many of whom held shares in both organizations. A key player, and one of the last to announce its decision, was Mercury Asset Management (MAM), a shareholder in Granada which also owned 14% of Forte. MAM (with Carol Galley the key decision maker) backed Granada and the bid succeeded. Three years earlier Galley and MAM had helped Granada secure London Weekend Television in another hostile bid situation.

Granada finally paid £3.9 billion to acquire Forte. Its new balance sheet showed £3.5 billion debt. Granada urgently needed to dispose of some Forte assets to raise cash and then to generate a positive cash flow from the businesses that it retained.

Sir Rocco Forte immediately announced that he was putting together a consortium to try and buy back Forte's Exclusive, Méridien and Heritage hotels; however, he later withdrew.

Granada after the merger

In 1996 it was being speculated that Granada might be split into two separate businesses: television and media (with rentals a possible disposal), and hotels and catering. This was subsequently ruled out by Granada.

Granada abandoned the Forte structure of multiple business units for the hotels. It reduced a portfolio of 11 discrete units to three geographical divisions, based on London, the rest of the UK and the rest of the world. Granada did succeed in selling some of the hotels that it had targeted for disposal, but by no means all of them. It refocused on three brands: Posthouse, Travelodge and Le Méridien, into which it incorporated all of its four-star hotels. Heritage hotels were retained, as no buyer was found. In addition, this part of Granada included Little Chef, motorway services and Sutcliffe catering.

The remaining part of the group, Granada Media, acquired additional independent UK television franchises, namely Yorkshire, Tyne Tees and Border. It also sold its stake in BSkyB in order to establish a digital television joint venture with rival independent television broadcaster, Carlton Communications.

Acquisitions and splitting up

In 2000 Granada announced that it was merging with Compass Catering, a company with a strong presence in canteen vending services and outsource catering for businesses. Compass also owned a number of restaurants. Gerry Robinson knew Compass – in the 1980s he had led a management buy-out of the business from Grand Metropolitan. Since this buy-out the company had expanded dramatically to become one of only two truly global catering businesses.

Shortly afterwards, Granada Media was spun off as a separate business, led by Charles Allen, previously deputy to Robinson. During summer 2000 the Department of Trade and Industry (DTI) relaxed its rules on the ownership of independent television franchises. It was willing to allow further acquisitions as long as at least two major players remained – this ruling recognized the increasing threat of cable and satellite broadcasters. However, an investigation between a proposed merger of the two other main players, Carlton and United News & Media, required the divestment of UNM's Meridian, the franchise for the south-east. The two abandoned their plans and Granada bid for UNM. This time the requirement would be the divestment of the strategically less important HTV, the franchise for Wales. Granada was basically acquiring Meridian and Anglia Television. The general assumption at the time

was that the DTI rules would later be relaxed further and Granada would absorb Carlton as well.

Towards the end of the year, with its shares underperforming against the FTSE index, Granada Compass announced it was auctioning off all of its hotels with the exception of Travelodge. By 2001 the programme of disposals was largely complete. Some £5 billion had been raised; just Little Chef remained. Once this amount was discounted back to a net present value for 1996, the year of acquisition, no profit had been made on the deal. The purchase and sale prices were roughly equal. The general view was that the main beneficiaries had been the various advisers and Forte's old shareholders, as Granada had paid a premium price. In the end all that had really happened was that a hotel chain had been broken up and the various parts placed under new ownership. Using the proceeds from the sale of his shares, Rocco Forte had started a new, small premium hotel chain which was performing well.

Granada and Carlton merged in 2003 to form ITV – but how much of a challenge did the new organisation face? In the event ITV struggled from the point of the merger. Between 1996 and 2005, for example, the BBC's audience share fell from 33 to 24% and ITV's from 35 to 22%. New commercial stations, including Channels 4 and 5, the continuing growth of satellite, cable and the Internet all meant greater competition for the key advertising income. ITV did not raise the levels it targeted, even after the introduction of the new free to view ITV2, 3 and 4 channels. Costs needed to be reduced and they were.

Interestingly in 2005 ITV chose to acquire Friends Reunited. It paid £175 million – but interest in Friends Reunited then started to fade and by early 2009 the business was valued at £40 million *maximum*, possibly quite a bit less. A management buy in was then proposed in 2006, with venture capital apparently available, but it did not go ahead. Greg Dyke, who had been in charge of LWT when it was acquired by Granada and who was later the Director General of the BBC, was involved. Some time later Charles Allen stepped down and was replaced by Michael Grade, another veteran of the industry and another previous DG of the BBC. Some commented that Allen had been out-manoeuvred by the BBC in respect of new creative content. Grade still faced a tough job!

In 2008 ITV was lobbying for product placement (feature promotions) to be permitted and the channel's five leading programmes were: Britain's Got Talent, Dancing On Ice, The X-Factor, Coronation Street and Champion's League Football.

In early 2009 ITV announced it had made a loss in the last financial year. Savings had to be made; 600 jobs would go. Friends Reunited was still for sale. Programme budgets would be cut. Advertising revenues were nearly 20% down on the year before.

Questions: Do acquisitions such as Granada-Forte make strategic sense – and if so, for whom?

Assume that you are a hotel manager who began with Forte before the acquisition by Granada – how do you feel your life might have changed? Do you think you would have been better off or worse off?

What was the logic behind the acquisition of Friends Reunited?

What strategies would you recommend ITV now follow?