


# Hiatus after Packer's bombshell

Terry McCrann | [The Australian](#) | March 05, 2011 12:00AM

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**TWO weeks ago, Australia's last media mogul, Kerry Stokes, moved to merge the two arms of his media empire. Nine days later, James Packer abruptly and shockingly resigned from the Ten Network board.**

The day before, it had been revealed that only competition tsar Graeme Samuel -- or his successor -- now stood between a merger of Australia's two pay-TV groups, Foxtel and Austar, once the detail and price had been worked through.

That was two weeks in the media down under, two weeks that captured the near totality of the broad dynamics of the media in Australia and those of the individual major media groups. Only Fairfax and the Nine Network were absent.

It was two weeks that pointed to the future and the players that will create it.

None of those events were specifically linked, beyond a seemingly talented but, in the bigger scheme of things, insignificant television executive -- and in his case, only in bizarre and almost literally unbelievable circumstances.

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Yet they were bonded, more fundamentally and pervasively. These events both capture current pressures and dynamics that transcend any one company or deal, and both point to future change while sowing the very seeds of that change.

All of pay-TV, two of the three free-to-air networks, Australia's biggest media group in News Limited, publisher of this paper, the country's soon to be biggest listed media group, Australia's canniest and most reluctant media player. All were very definitely in the building over those two weeks.

From the day Stokes seized control of the West Australian Newspapers boardroom three years ago, it was always a case of when, not if, he would move to join it with his Seven Network.

There was the sheer irresistibility of the gains to be extracted from such a merger -- one that would replay in a fashion the sort of value created by tipping his privately owned Caterpillar tractor franchise into his listed Seven holding company, albeit in a more conventional corporate marriage of

related businesses.

There was also the requirement to provide an exit to Stokes' putative partner and munificent benefactor in, and in relation to, Seven -- the KKR private equity group.

The merger gets KKR halfway out of the building. Its 45 per cent stake in the Seven Network goes down to 12.6 per cent in the merged WAN-Seven. It will be sold into the market in due course.

There was also the need, and indeed opportunity, to solve a couple of Stokes' tax issues. The merger will enable a \$600 million tax liability to be -- legitimately -- deferred via the scrip-for-scrip rollover.



Another \$200m potential liability is avoided if Stokes stays below 30 per cent of the merged company for a period. That 30 per cent marker was extraordinarily significant.

It prevented a deal between Stokes and KKR that would have taken out the equity group in full, upfront. That would have boosted the Stokes holding to 40 per cent.

It also preserves liquidity in the enlarged WAN-Seven, which becomes the premier listed media vehicle in Australia. That will enable KKR to be taken out in due course and, when it does, further cement the stock's appeal.

The clear presumption is that, just as he did with WAN and Seven before it, Stokes will be sitting in the market, underwriting the share price through creeping acquisitions.

It also highlights -- and partly explains -- a missing piece in the Stokes media set. The merger doesn't bring together all of the Stokes media interests.

Left out is the Stokes holding company's 23 per cent stake in -- what do you know -- Packer's Consolidated Media Holdings. And it has linkages into the Packer partnership with Rupert Murdoch's News Corporation in Foxtel and Foxtel Sports.

Its absence could be explained by the complication it would have brought to the merger proposal. Also, its inclusion would have given Stokes more shares in the merged entity. That would have rendered the new company less tax and investment efficient.

But it's an absence that raises the question of whether there is a Stokes shuffle part deux -- or trois if you count the Seven-WesTrac deal. And that brings Packer and his partnership with the other Murdoch, Lachlan, back into the building.

He walked out of the Ten boardroom because Lachlan poached budding TV star James Warburton from Stokes' Seven to be chief executive of Ten. In the most public, and indeed shocking, way Packer signalled his disagreement with that, and to Stokes that it was not his doing.

In the context of media events in Australia over the past 40 or 50 years, this, taken on its own, wouldn't even rate a footnote. Packer went ballistic with Murdoch. Stokes went ballistic with Packer. Give it a week, maybe a month, and they will be back dealing, if the need arises.

But Packer was clearly concerned at the potential for this spat not so much to derail future deals but to undermine the trust which would work to transcend specific events and battles. In this he is revealing himself as very, very different to his late father, Kerry.

Packer's stake in Foxtel and Fox Sports is pivotal to the major players in media in Australia today. It sits between the two biggest local media groups and the two most dynamic -- Murdoch's News Limited and Stokes' WAN-Seven.

It sits between pay and free-to-air TV. Between the potentially life-threatening challenges of today and the growth opportunities of tomorrow. Packer clearly wants to build creatively out of all this.

But he wants do so, crucially, within a sustained competitive environment. He would recognise that the crude free-to-air cartel of his father's day is not simply unacceptable, but unsustainable, in the volatile media flux of tomorrow.

The events of these nine days of late summer have been interesting and significant in their own right, but they have also lit a probably relatively slow-burning fuse on bigger and more dramatic change to come.

One future sees Packer ceding the field to Stokes and News Limited. The other sees him at the very centre. Both would be interesting in their own ways.