

## Update Reach: Potential takeover by media veteran Montgomery

<b>Company:</b>	Reach (RCH LN)	<b>Market Cap:</b>	£350mio
<b>Industry:</b>	Media/Newspaper	<b>Net Cash:</b>	£43.8mio + £69.1mio pension deficit
<b>Country:</b>	UK	<b>Revenue:</b>	£600mio
<b>Date:</b>	4 <sup>th</sup> November 2022	<b>Net Income:</b>	£50mio (8.3%)
<b>Dividend:</b>	£23.6mio (9.5%)	<b>Free Cash Flow:</b>	£23mio (3.8%)
<b>Entry:</b>	£273mio	<b>Target Market Cap:</b>	£400mio

### David Montgomery

Today, I was meant to speak with Reach's outgoing CFO, Simon Fuller, to understand the pension deficit better and whether it is not a good idea to de-risk it now. This call was cancelled with short notice amid the takeover approach of the much smaller National World news outlet run & founded by David Montgomery. National World was not even on my radar (embarrassingly), as it is a small local news provider with just £50mio in market cap. However, David Montgomery is a media legend, as he used to be the Mirror Group's (Reach) CEO in the 1990s before being ousted by the board<sup>1</sup> and also having been editor and founder of various media outlets.

#### David Montgomery



<sup>1</sup> <https://www.theguardian.com/business/1999/jan/25/6>

## Montgomery's CV

Timeline	Newspaper	Role	Significant events
1973	Daily Mirror	Staff	
1978	Daily Mirror	Sub-editor	
1980	The Sun	Editor	
1985	News of the World	Editor	
1987	Today	Editor	
1992	Mirror Group	CEO	Was ousted as CEO in 1999
2000	Mecom Group	Founder	Purchased German Berliner Verlag and ran debt 4x EBITDA before it got dissolved/merged into De Persgroep
2012	Local World	Founder	Sold to Trinity Mirror (Reach) in 2015 for £187.5mio (260% return)
2019	National World	Founder	Failed to take over the Telegraph in 2019. Purchased local news assets from JPI Media in 2021 for just £10mio

Source: Guardian, FT

### How realistic is a takeover?

The market capitalization of Reach is around 7x (£350mio) of that of National World (£50mio). Can this takeover therefore be taken seriously? My first thought was no... but looking into Montgomery's history and leverage of as much as 4x EBITDA with his Mecom Group, could a takeover of Reach actually be feasible? Reach's EBITDA is currently running at around £110mio annually. However, around half of that EBITDA is being paid to lower the pension deficit. In a prior [note](#), I have questioned whether the pension deficit payments can be eliminated altogether now that Reach might end up with a pension surplus. However, having looked at other pension surpluses, such as the one of Sainsbury's, they continue to pay into the pension pot despite the surplus. Hence, there is no guarantee that the surplus enables Reach to stop its payments (something I'm still trying to figure out and wanted to discuss with Simon on today's call). Let's assume a takeover of £400mio market cap (125 pence a share) is agreed. The new group would have ~£120mio EBITDA and around £60mio EBITDA post pension deficit payments. Given that the acquisition will be paid by issuing debt, the combined group would then have a debt/EBITDA ratio of 3.3 or 6.6 post pension deficit payments. This just doesn't look feasible. Therefore, the only thing that makes sense to me is that Montgomery is trying to be taken over by Reach and with this takeover proposal Reach shareholders (like me) become aware of the threat of the growing competition between National World and Reach, such that Reach shareholders are approving a takeover of National World. This, at least, is the feedback I have given Reach's management with a takeover proposal of National World of £70mio market

cap. So far, I have achieved a return of over 30% with my investment in Reach, and therefore might look to monetize the holding soon. Beforehand, I will try to get clarity of the pension deficit and whether it can be de-risked, eliminating future payments.



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