MEDIA GENERAL INC
Form DFAN14A
April 07, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

(RULE 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

PROXY STATEMENT PURSUANT TO SECTION 14(a) OF

THE SECURITIES EXCHANGE ACT OF 1934

(AMENDMENT NO.)

Filed by the Registrant o

Filed by a Party other than the Registrant x

Check the appropriate box:

o Preliminary Proxy Statement

o Confidential, for Use of the Commission Only (as permitted by Rule

14a-6(e)(2))

o Definitive Proxy Statement

x Definitive Additional Materials

o Soliciting material Pursuant to Rule 14a-12

MEDIA GENERAL, INC.

(Name of Registrant as Specified In Its Charter)

HARBINGER CAPITAL PARTNERS MASTER FUND I, LTD.

HARBINGER CAPITAL PARTNERS SPECIAL SITUATIONS FUND, L.P.

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

PAYMENT OF FILING FEE (Check the appropriate box):

x No fee required.

o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined): ______________________________
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The presentation entitled "Rebuilding Value at Media General" attached hereto as Exhibit 1, is filed herewith as additional solicitation materials by Harbinger Capital Partners Master Fund I, Ltd. and Harbinger Capital Partners Special Situations Fund, L.P.

Exhibit 1

Rebuilding Value at

April 7, 2008

HARBINGER CAPITAL PARTNERS

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Agenda

-- Opening Remarks

-- Media General Today: Failing Its Shareholders

-- Prescription For The Company

-- Our Nominees

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Harbinger’s Investment

-- Harbinger is Media General’s second largest shareholder, with an 18.2% stake

-- We invested because we believed MEG was undervalued and an attractive investment, and that management would act quickly to address the company's declining share price

-- The stock has declined 59% since we first invested ten months ago

-- We're here today, nearly a year after we first became a shareholder, because we believe now is the time to elect independent Class A directors to address the company’s performance and rebuild value for all shareholders

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Summary of Our Views

-- Media General:

- has been falling behind its peers for years

- has a flawed strategy and poor execution

- has made and continues to make major mistakes

-- We believe the unchallenged domination of the board by the Class B directors has allowed these things to occur

-- We believe the board's failures are attributable to both a lack of relevant experience and an apparent lack of accountability to the company's owners, the public shareholders

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Summary of Our Views

-- Fixing Media General and re-focusing it on rebuilding shareholder value is possible and doesn't require a silver bullet – requires only an independent and credible voice for owners in the boardroom

-- We have nominated three outstanding individuals who will work with the other directors and help re-focus the board and management on the company's core mission of maximizing value for all shareholders

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Notes About the Data

-- For comparisons to peers we used three sets of comparables

-- All data for comparables is taken from their <u>fiscal year end 2007</u> annual reports unless otherwise noted

Washington Post

Young

Scripps

Sinclair

Meredith

Nexstar

Journal Communications

McClatchy

Lin TV

Gannett

Lee Enterprises

Hearst-Argyle

Belo (pre-split)

Journal Register

Gray

Combined media

Pureplay newspapers

Pureplay broadcasters

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Media General Today:

Failing Its Shareholders

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Structured for Failure

-- To date, 100% of the board has been elected either by holders of a 2% economic interest in the company or nominated by directors they have chosen

-- Public shareholders representing a 98% economic interest have never elected directors independent of Class B control

Elected by Class A shareholders
but nominated by Class B-
controlled nominating committee

Elected by Class B shareholders

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Structured for Failure

-- ISS's Corporate Governance Quotient for Media General is 23.1% as measured against the S&P 400 at April 1, 2008

-- The Corporate Governance Library noted concerns about the company's governance structure and CEO compensation in downgrading it from a B to a C

-- We believe the Media General board has proven ineffective in holding management accountable in a way that benefits the public shareholders

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Structured for Failure

-- The three current Class A directors were all nominated by the Class B-controlled nominating committee

-- Two current Class A directors are lifelong academicians with no stated business, finance or public board experience except for the Media General board, and have never purchased MEG shares personally

-- The third has financial and board experience, but is the longest serving non-executive director on the board (19 years) and has no stated non-Media General media experience – whether as an executive, investor, board member or consultant

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The Company's Stated Strategy

"The Company is committed to … successfully executing its convergence strategy through diversification, forging new partnerships, and through strategic plans to sell non-core assets and operations."

"The Company seized strategic opportunities in 2006 which included the acquisition of four NBC owned and operated television stations as well as the disposition of several CBS stations in markets which were not strategically aligned with the Company's vision."

"The Company recognizes the challenges facing its Publishing Division not only from Internet competition, but also … from a generally soft economy and from a sharp downturn in Florida's economy…. While speculation continues to exist regarding the pace and intensity of a shift away from traditional print advertising, the Company has taken steps to reposition its newspapers to embrace this change."

– Media General Inc. 2007 Annual Report

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Other Company Statements

"…we have a strong story to tell about what we're doing, how we're doing it… we have the right strategic focus and the right tools to succeed."

"…every week, we reach nearly 80% of that Tampa market with our information. No competitor or peer even comes close to that."

"…we are an industry in transition. I think Media General has done a better job than most in recognizing that early, in adopting a successful Web-first approach."

"…we're very comfortable with where we are strategically and operationally – and so is our Board of Directors… and we believe we're headed in the right direction…"

"…our stock has been in the middle of the pack."

– CEO Marshall Morton, April 1, 2008

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The Board Is Failing The Shareholders

In reality, consolidated net free cash flow (EBITDA less capex less interest) has fallen 65% since 2005 and 80% since 2004…

-80%

-65%

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…hurting the company's stock price, which has fallen steadily for the last four years…

The Board Is Failing The Shareholders

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…and has substantially underperformed both the broader market...

The Board Is Failing The Shareholders

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…as well as its peers among combined media companies.

The Board Is Failing The Shareholders

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Dismal Performance & Excessive Spending

-- In 2007, on a consolidated basis, Media General reported nearly the lowest EBITDA margin within all three of its peer groups

-- But the company outspent all of its peers, reporting the highest ratio of capital expenditures to revenues

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Poor Segment Performance – BCF/OCF

-- In 2007, Media General also reported nearly the lowest broadcast cash flow (BCF) margin among all of its broadcasting peers

-- The company reported publishing operating cash flow in line with the average of its publishing peers

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<u>Poorer</u> Segment Performance – FCF

-- As a result, the company's free cash flow (FCF) margin for broadcast was less than half of the peer average

-- The company's publishing FCF margin was also less than the peer average

Average = 33%

Average = 17%

-- However, the company also outspent all of its peers in capex in both broadcast and publishing

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Poorest Segment Performance – FCF/Assets

-- In addition, the company produced only a 4% free cash flow return on broadcast assets

-- And only an 8% free cash flow return on publishing assets

8%

4%

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-- In April 2006, the company announced the acquisition of four NBC owned and operated affiliate stations for approximately $600 million

-- The stations were located in Birmingham AL, Raleigh, NC, Columbus, OH, and Providence, RI

-- Within weeks of the announcement in April 2006, the company's stock fell more than 10% as we believe the market concluded that the company had substantially overpaid and had lost geographic focus by buying large stations outside the southeast

-- We believe the acquisition also left the company exposed to excessive risk from network affiliate concentration with NBC

2006 NBC Station Acquisition:
Company Substantially Overpaid

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-- The company has made conflicting statements regarding the BCF multiple paid in the acquisition

-- Based on our estimates, actual forward multiples were substantially higher than company's statements then and now

2006 NBC Station Acquisition:
Company Substantially Overpaid

Sources: (1) Media General press release dated 4/6/06; (2) Media General press release dated 6/26/06; (3) Media General letter dated 3/19/08 attached to 14A proxy materials;
(4) Estimates based on: reported full-year 2005 operating income before depreciation and amortization of $30.3 million for stations acquired; reported full-year 2006 revenues of
$111 million for stations acquired and reported 2006 broadcast segment operating cash flow margin of 33.6% for Media General consolidated; and reported full-year 2007
revenues of $90 million for stations acquired and reported 2007 broadcast segment operating cash flow margin of 25.6% for Media General consolidated

Reported

2004-5 (1)

Reported 2004-5

Assumes synergies

(1)

Reported 2004-5

Assumes synergies

and tax savings (2)

Reported

2004-5 (3)

Est. 2005-6

(4)

Est. 2006-7

(4)

Reported by company

Harbinger estimates

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Very Limited Use of Broadcast Duopolies

-- Unlike most of its broadcast peers, Media General has not exploited duopoly opportunities

-- Use of TV broadcast duopolies is correlated to higher BCF margins among Media General's peer group

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No Material Retrans Revenues

-- Also, unlike many of its broadcast peers, Media General appears not to have pursued opportunities to secure retransmission consent revenues in the past

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Florida Broadcast Market Not the Problem

-- BCF margin is uncorrelated to exposure to the Florida broadcast market

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Ill-Conceived NTN Buzztime Investment

-- In May 2003 and again in January 2004, Media General made investments in NTN Buzztime Inc., a loss-making public company that produces interactive electronic entertainment, and placed a representative on the NTN board

-- To date, the investment has lost 71% of its value

MEG invested

MEG invested

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Ill-Conceived Internet Acquisitions

-- In July 2005, Media General acquired BlockDot Inc. , an online advergaming and game development company. In February 2008, the company acquired DealTaker.com , an online social shopping portal and couponing website.

-- Media General could have purchased online game and coupon features for its websites rather than spend shareholders' capital to buy the BlockDot and DealTaker.com businesses

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Excessive Leverage and Dividend Yield

-- Media General has accumulated the highest net leverage of all its combined media peers

-- This condition will persist even pro forma for the company's debt reduction initiatives

-- The company also has the highest dividend yield on its stock, which restricts the company's ability to deleverage

Note: Belo dividend yield based on weighted average of BLC and AHC.
Dividend yields based on stock prices as of 3/28/08.

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Solutions Exist

-- We believe the problem is in Richmond, not Tampa

-- Straightforward solutions exist and can be implemented with the benefit of independent and experienced new perspectives at the board level

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Prescription For The Company

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Change Must Start at the Board

-- The Class A shareholders must ensure they are represented by truly independent directors, and should elect individuals who do not owe their nomination to the Class B directors

-- The Class A directors should bring a mix of perspectives and expertise that match the specific challenges the company faces, in particular:

- **Dismal performance**
- **Poor capital allocation decisions**
- **Turnaround management in a changing environment**

-- The board must be open to new ideas and initiatives and must re-dedicate itself to the company's core mission of rebuilding value for its owners, the public shareholders

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Practical Solutions: Restart Broadcast

-- Implement substantial increase in management attention and higher standards given its severe underperformance relative to peers

-- Pursue duopolies

-- Pursue cable retransmission consent opportunities

-- Reduce spending and apply more scrutiny to cost/benefit and payback analysis

-- Be opportunistic but disciplined with future acquisitions and divestitures

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Practical Solutions: Improve Publishing

-- Cut costs more aggressively

-- Implement higher standards given its underperformance

-- Reduce spending and apply more scrutiny to cost/benefit and payback analysis

-- Be opportunistic but disciplined with future acquisitions and divestitures

-- Urgently consider alternatives for Florida market properties

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Practical Solutions:
Refocus the Online/Interactive Strategy

-- Exit non-core businesses, including BlockDot and DealTaker.com, and sell stake in NTN Buzztime

-- Avoid further acquisitions of non-core online ventures that require national platform or brand to maximize value or that don't provide unique strategic synergy

-- Focus instead on enhancing the websites of the company's core television and newspaper properties to directly leverage and magnify their content, reach and value and produce meaningful incremental cash flows

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Practical Solutions: Geographic Focus

-- Regain geographic focus, for example through the sale of the NBC stations in Columbus, OH and Providence, RI

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Improve Capital Allocation Decisions

-- Be more disciplined on acquisitions and more conservative regarding projections to avoid a repeat of the NBC acquisition mistake and other ill-fated transactions

-- Tie transaction-related management compensation to achieving projected performance for assets acquired, and in general tie management compensation more directly to creation of shareholder value

-- Apply more rigorous analysis to determine the impact of capital allocations on shareholder value

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Consider Full Range of Strategic Options

-- As a routine matter in the normal course, continually consider the full range of strategic options (acquisitions or divestitures, financing transactions, spin-off transactions, mergers, joint ventures, etc.) available to the company in order to preserve, rebuild and maximize value for all shareholders

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Aggressively Reduce Debt and Rethink Dividend

-- Redouble efforts to reduce leverage

-- Consider reducing the company's dividend to enable further debt reduction

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Accountability and Relevant Experience

-- We believe the board should rededicate itself to being a strong and effective voice for owners in order to address Media General's chronic underperformance

-- Class A shareholders must elect directors who bring both accountability and the perspectives and experience that address the specific challenges the company faces, in particular:

- **Dismal performance**
- **Poor capital allocation decisions**
- **Turnaround management in a changing environment**

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Our Nominees

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Our Nominees

-- J. Daniel Sullivan: veteran broadcasting executive with 35 years of experience and an active senior broadcasting consultant and media investor

-- Eugene I. Davis: chief executive officer of Pirinate Consulting Group, a privately held consulting firm specializing in turn-around management, M&A consulting, and strategic planning advisory services

-- F. Jack Liebau Jr.: president and founder of Liebau Asset Management Company and portfolio manager with over two decades of investing experience

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J. Daniel Sullivan

<u>Extensive broadcast experience</u>

-- Over 30 years experience as an executive and has held four C-level positions in the last two decades

-- Started at the ground level in 1973 as an account executive at WTVK in Knoxville, TN

-- Ultimately rose to operate, manage or own more than 60 TV stations over his career and has bought or sold more stations than Media General now owns

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J. Daniel Sullivan