MEDIA GENERAL INC
Form DFAN14A
April 01, 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.

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1) Amount Previously Paid:____

2) Form, Schedule or Registration Statement No.: _____________________________

3) Filing Party: ____

4) Date Filed: ____

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 1, 2008

HARBINGER CAPITAL PARTNERS

2

Introductions

-- Thank you

-- Attendees from Harbinger

-- Class A nominees

-- Presentation available on EDGAR

3

Agenda

-- Opening Remarks

-- Media General Today: How Did We Get Here?

-- Prescription For The Company

-- Our Nominees

4

Opening Remarks

5

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 the time is appropriate to enhance the composition of the board in order to rebuild value for all shareholders

6

Summary of Our Views

1. We believe Media General has been falling behind its peers for years, has a consistent but consistently flawed strategy, and has made some major mistakes

-- We believe the composition of the board and the exclusive presence of directors nominated solely by the Class B-controlled nominating committee have allowed these things to occur

-- Moreover, we don't believe the company feels accountable to its majority public shareholders

7

Summary of Our Views

2. Fixing the company and re-focusing it on rebuilding shareholder value is possible and doesn't require a silver bullet

-- In this presentation, we've set forth a series of strategic and operational principles and initiatives that we believe will get the company back on track

3. 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

8

Notes About the Data

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

-- All data for comparables is taken from their fiscal year end 2007 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

9

Media General Today:

How Did We Get Here?

10

Board Composition

-- To date, 100% of the board has been elected exclusively by holders of a 2% economic interest in the company or nominated exclusively by the Class B-controlled nominating committee

-- The majority 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

11

Board Composition: Class A Directors

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

-- Two of them 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

12

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

13

The Board Has Failed Its Shareholders

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

-80%

-65%

14

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

The Board Has Failed Its Shareholders

15

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

The Board Has Failed Its Shareholders

16

…as well as its peers among combined media companies.

The Board Has Failed Its Shareholders

17

Poor Consolidated Performance

-- 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

18

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

19

Poor 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

20

Poor 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%

21

-- 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 Overpaid Substantially

22

-- 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 Overpaid Substantially

<u>Sources</u>: (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)<u>Estimates based on</u>: 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)

<u>Reported by company</u>

Harbinger estimates

23

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

24

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

25

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

26

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.

-- The acquisitions of BlockDot and DealTaker.com put Media General in the business of sponsoring non-core internet ventures and put it into direct competition with the global internet giants, creative agencies, better-capitalized online gaming companies and dozens of online coupon sites in a very crowded market

-- We believe 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

27

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.

28

Solutions Exist

-- Despite the challenges the company faces, we believe straightforward solutions exist and can be implemented with the benefit of new perspectives at the board level

29

Prescription For The Company

30

Change Must Start at the Board

-- The Class A shareholders need to 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 that match the specific challenges the company faces, in particular poor broadcast performance, what we believe have been questionable capital allocation decisions and turnaround management in a changing media environment

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

31

Restart Broadcast Division

-- 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

32

Improve Publishing Division

-- 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

-- Most urgently, consider alternatives for Florida market properties

33

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

34

Regain Geographic Focus

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

35

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

36

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

37

Aggressively Reduce Debt and Rethink Dividend

-- Redouble efforts to reduce leverage

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

38

Change Must Start at the Board

-- In order to achieve these changes, we believe the Class A shareholders should elect directors who bring the right mix of perspectives that match the specific challenges the company faces, in particular:

- **Poor broadcast performance**
- **Questionable capital allocation decisions**
- **Need for an operational turnaround**

39

Our Nominees

40

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

41

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

42

J. Daniel Sullivan

<u>Extensive broadcast experience</u>

-- Founded and was CEO of three substantial broadcasting companies starting in 1987

- Clear Channel TV (eventually sold to PEP)

- Sullivan Broadcasting (sold to Sinclair)

- Quorum (merged with Nexstar)

-- Teamed with private equity partners to bid for the New York Times TV station group, Clear Channel TV, and the Fox group

-- Currently a director at KDOC-TV in Los Angeles and a senior consultant there

43

J. Daniel Sullivan

<u>Broadcast-related Internet experience</u>

-- Led the internet strategy at each of his last three companies as CEO and has been at the forefront of creating an online presence for his stations since the emergence of the internet as a commercial medium

-- Led internet strategy at Quorum

-- Was an early adopter of websites at Sullivan Broadcasting in the 1990s

-- Launched online strategy at Clear Channel and was one of the earliest clients of WorldNow

44

J. Daniel Sullivan

Financial successes

-- Created well over $1 billion of shareholder value in his last three positions as CEO

-- At Clear Channel TV, Dan started with $120 million in equity capital and built over $1 billion of equity value over 8 years by the time he left

-- With Sullivan Broadcasting, Dan generated a 300% return for his private equity backers over two years

-- Quorum was clipped by 9/11 but Dan converted challenge to success by merging with Nexstar, which then went public

45

Eugene I. Davis

Career working for companies in transition

-- Chairman and CEO of Pirinate Consulting Group, which specializes in turnaround management, strategic planning and board advisory services

-- Extensive public board experience

-- Previously held CEO, COO, and CFO positions for various public companies in transition across a range of industries

-- Originally a partner and head of corporate and securities at a Dallas law firm

46

Eugene I. Davis

<u>Relevant media experience</u>

-- Gene has served on the boards of Granite Broadcasting and Ion Media and serves on the board of a book publisher

47

Eugene I. Davis

<u>Financial successes</u>

Gene has helped facilitate increases in shareholder value during his tenure on many boards where the companies undertook substantial strategic transactions or operational turnarounds

-- American Commercial: 14x increase in share price

-- Atlas Air: 3x increase in share price

-- Chembulk Tankers: 1x increase in TEV

-- Choice One Comms.: 4x increase in share price

-- Contifinancial: 4x increase in asset value

-- Flag Telecom: 30x increase in share price

48

Eugene I. Davis

Financial successes

Gene has helped facilitate increases in shareholder value during his tenure on many boards

-- General Chemical: 7x increase in TEV

-- Metals USA: 7x increase in share price

-- Metrocall: 150x increase in share price

-- Oglebay Norton: 2.5x increase in share price

-- TelCove: 12x increase in TEV

-- Tipperary: 7x increase in share price

49

F. Jack Liebau Jr.

<u>Portfolio manager with over 20 years experience</u>

-- President and founder of Liebau Asset Management, an investment manager for individuals, foundations and corporations established in 2003

-- Previously, Jack was a top-rated portfolio manager at Primecap Management Company from 1986 to 2003, and prior to that was ananalyst at Capital Research Company

-- Jack is often quoted in the national media regarding the broadcast and newspaper sectors

50

F. Jack Liebau Jr.

Lifelong focus on media companies

-- Has covered Media General and its peers for more than two decades as an investor, wrote a profile of Media General for *Barron's*

-- Covered media and entertainment as portfolio manager at Primecap and an analyst at Capital Research Company

-- Worked as a reporter and assistant to the publisher of the *Los Angeles Times* early in his career

-- Is a MEG shareholder

51

Our Nominees' Commitment

-- Work together. Our nominees commit to work actively and constructively with the other board members to provide guidance and perspective to management

-- Personal financial commitment. If elected, each of our nominees commits to personally acquire at least 5,000 shares in the first year of service

-- Two of the three current Class A directors have never bought a share of the company's stock

52

Comparison of Slates

-- Harbinger's slate brings unmatched experience and perspective

X

Extensive knowledge of newspaper sector

X

Deep firsthand broadcasting expertise

X

All candidates commit to purchase shares

X

Extensive public board experience

X

All candidates have business experience

X

Substantial turnaround experience

Harbinger slate

Company slate

Rebuilding Value at

HARBINGER CAPITAL PARTNERS

54

Disclaimers

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements. These statements may be identified by the use of forward-looking terminology such as the words "expects," "intends," "believes," "anticipates" and other terms with similar meaning indicating possible future events or actions or potential impact on the business or stockholders of Media General, Inc. ("Media General" or the "Company"). These forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties that could cause actual results to differ materially. These risks and uncertainties include, among others, the ability to successfully solicit sufficient proxies to elect Harbinger's nominees to the Company's board of directors, the ability of Harbinger's nominees to influence the Class B directors and the management of the Company and to improve the corporate governance and strategic direction of the Company, and risk factors associated with the business of the Company, as described in the Company's annual report on Form 10-K for the fiscal year ended December 30, 2007, and in other periodic reports of the Company, which are available at no charge at the website of the Securities and Exchange Commission at http://www.sec.gov. Accordingly, you should not rely upon forward-looking statements as a prediction of actual results.

IMPORTANT

On March 19, 2008, Harbinger filed a definitive proxy statement with the SEC to solicit proxies in connection with the 2008 Annual Meeting of stockholders of Media General, Inc. to be held on April 24, 2008. Company stockholders are encouraged to read the definitive proxy statement and other proxy materials relating to the 2008 Annual Meeting because they contain important information, including a description of who may be deemed to be "participants" in the solicitation of proxies and the direct or indirect interests, by security holdings or otherwise, of the participants in the solicitation. Such proxy materials are available at no charge on the SEC's website at http//www.sec.gov. In addition, stockholders may also obtain a free copy of the definitive proxy statement and other proxy materials by contacting our proxy solicitors, Innisfree M&A Incorporated, toll free at (888) 750-5834.