

Could a Viacom-CBS Reunification Be Imminent?

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In 1967, Sumner Redstone took over National Amusements, Inc., a family movie theater chain headquartered in Dedham, Massachusetts. Today, the company owns an 80 percent stake in CBS and Viacom, two of America's leading media and entertainment conglomerates. Mr. Redstone, who is now 93 years old and rumored to be in failing health, has relinquished most of the control of the company to his daughter, Shari Redstone. In May of 2016, Ms. Redstone removed Phillippe Dauman and George Abrams, two long-time Redstone confidants, from Mr. Redstone's trust in what some characterized as a "[shameful](#)" power play by Ms. Redstone. This marked the beginning of an unpleasant [legal battle](#) in which members of the Redstone family, along with longtime friends and advisors, challenged the patriarch's mental capacity.

In August 2016, a settlement agreement was reached leaving Ms. Redstone in firm control of her father's trust as well as National Amusements, making her the largest shareholder of both CBS and Viacom. In September, the board of directors of National Amusements sent a letter to the boards of CBS and Viacom, urging them to pursue a merger of the two media giants. Such a merger would not come as a surprise given that CBS was a subsidiary of Viacom just ten years ago.

Although a merger would likely shed some hope on Viacom's uncertain future, finding a deal price satisfactory to both sets of shareholders is a significant obstacle. If the more successful CBS were to pay a full premium for the "[struggling and currently leaderless](#)" Viacom, then CBS's non-Redstone shareholders will likely revolt. Even if a more modest 25 percent premium were to be paid, the synergies and cost-efficiencies to be gained from combining the businesses would still be [insufficient](#) to cover the premium. The only seemingly plausible way to appease both sets of shareholders would be for CBS to execute an all-stock purchase of Viacom at a 10 percent premium. This would leave Viacom shareholders with 40 percent of the newly-merged entity and would allow them to share in the upside of a stronger, more efficient company.

However, because both CBS and Viacom share a controlling shareholder, National Amusements, any merger of the two companies is expected to yield an extraordinary amount of shareholder litigation. Given Mr. Redstone's rumored health issues, his daughter's seemingly shrewd actions, and the fact that the Redstone family stands to earn a considerable profit from a CBS-Viacom merger, dissenting shareholders to a proposed deal will likely argue that a major conflict of interest exists.