

Relativity Media sale could attract rival Hollywood moguls and far-flung billionaires

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Relativity Media is for sale, but who's buying? Rival Hollywood moguls and far-flung billionaires are expected to take a peek at Ryan Kavanaugh's battered movie and TV studio as it goes on to the auction table.

Kavanaugh tried to shake up Hollywood with bold claims that he could reduce the risk of making films by focusing on smaller pictures and using mathematical techniques to avoid ruinous flops. He made a name for himself among the movie business establishment by co-financing winners such as "The Social Network" and "Bridesmaids."

But a string of box-office failures and mounting debt have driven the studio to Bankruptcy Court, kicking off what's sure to be a closely watched quest for buyers.

Relativity is hoping for multiple players to explore bids on all or part the entertainment company that filed for Chapter 11 bankruptcy protection last week after failing to pay down \$320 million in debt.

One leading theory is that competitor Metro-Goldwyn-Mayer will consider buying the 11-year-old venture. But there are others who may be poised to kick the tires, including private equity titans, foreign business magnates and digital media companies. Even Kavanaugh himself is said to be readying a play.

Analysts, bankers and film studio insiders have expressed doubts about the value of the firm, whose few hits include "Limitless," "Immortals" and "Safe Ha-



Ryan Kavanaugh has been actively meeting with potential investors regarding a bid, according to a person familiar with his thinking. (Paul A. Hebert/Invision/AP)

ven." No one has publicly made a pass at Relativity yet, and the company declined to comment for this story.

Court documents filed last week in New York revealed a studio with its back against a wall.

The filings listed the company's total liabilities at \$1.18 billion at the end of last year, more than double the \$560-million book value of its assets. A group of senior lenders, which will be the first in line to get its money back, is owed \$361 million, according to filings. And then there are those who are least likely to get paid — Relativity's long list of unsecured creditors that includes Hollywood production companies, film marketing firms and technology giants.

But Relativity's difficulties haven't stopped Tinseltown from guessing who

will hold the keys to the Beverly Hills company when the auction is over.

"I think there will be a buyer, but I don't think it's going to be pretty," said Lloyd Greif, chief executive of Los Angeles investment banking firm Greif & Co. "This is not an easy business to get your hands around in an accelerated time frame. You want to know what you're getting."

MGM, the studio behind the James Bond franchise and "The Hobbit" movies directed by Peter Jackson, is part-owned by Anchorage Capital Group, a New York hedge fund that holds a large chunk of Relativity's senior debt. Analysts said Anchorage could help combine Relativity with MGM, which emerged from its own Chapter 11 bankruptcy in 2010.

Anchorage and MGM declined to comment.

Relativity's small TV unit could be attractive to a larger studio, especially one with a tenuous foothold in the television industry, experts said.

Kavanaugh's TV division consists mostly of reality TV programming such as MTV's "Catfish," which has limited appeal to buyers because of the lack of demand for syndicated reruns. However, Relativity does have an upcoming scripted show for CBS based on the 2011 Bradley Cooper movie "Limitless."

An acquisition could help fill out MGM's lean TV business, which includes recent successes such as "Teen Wolf" on MTV and " Fargo" on FX.

Analysts aren't counting out Lionsgate, the Santa Monica studio behind the "Hunger Games" and "Divergent" film series. The company, which declined to comment, has said it wants to expand its own already-burgeoning TV production arm, which boasts shows such as Netflix's "Orange Is the New Black" and the WGN America's "Manhattan."

Most studios have so far been content to scour Relativity's slate of completed films and in-the-works projects to see what might be worth picking off. Burbank start-up studio STX Entertainment has already secured one movie from the beleaguered firm. Distributors such as Focus Features, IFC Films and the Orchard are also looking at Relativity's schedule in hopes of getting an inexpensive gem.

Relativity has said publicly it plans to move ahead with its two biggest movies: "Masterminds" and "Kidnap," leaving virtually everything else in flux.

One problem weighing on Relativity's potential value is the lack of a robust film library, which for other studios means steady profits from DVD sales and licensing deals for television and on-demand streaming. Relativity sold the bulk of its library to investor Elliott Management, a New York hedge fund, in 2012.

And things could get worse for Relativity if the process drags on longer than expected.

"The longer these things sit around, the more they devalue," said bankruptcy lawyer Steve Gubner of the Woodland Hills firm Ezra Brutzkus Gubner.

Others expected to consider a bid for Relativity are not traditional film industry players but have made key investments in the entertainment business. Hollywood and all its trappings have long proved alluring to moneymen, despite the long list of ventures that have failed.

Among the buzzed-about names is supermarket magnate Ron Burkle, who has been in business with Kavanaugh for years. He anchored a \$350-million debt-financing round for Relativity in 2012 and is a member of the studio's board of directors. Burkle, or another buyer, could use the bankruptcy as an opportunity to buy out Relativity's minority stake in its healthy sports agency business.

Relativity Sports, which manages athletes, is not part of the Chapter 11 filing. Another possibility is Catalyst Capital Group, a Toronto investment firm that acquired \$130 million of Relativity's debt in July and committed \$170 million in badly needed working capital, only to have its stake later bought out by Anchorage.

Catalyst's portfolio includes Sonar Entertainment, a maker of TV movies and miniseries that changed its name from RHI Entertainment in 2012 after it came out of bankruptcy.

"They may look at this as a way to get some assets on the cheap," said Jude Gorman, general counsel for the firm Reorg Research.

Outspoken hedge fund billionaire Carl Icahn is reportedly interested as well. He approached Kavanaugh about taking over Relativity and installing his son in the top job during the days just before it went under, according to the New York Post.

Neither Catalyst, Icahn nor Burkle responded to requests for comment.

Through a spokesman, Sonar declined to comment.

Others who could play a part include private-equity billionaire Alec Gores and Platinum Equity chief Tom Gores, according to some analysts.

There's also a chance that an outside company or billionaire could swoop in. One person reportedly interested is Carlos Slim, the Mexican mogul who according to Forbes is the world's second-richest person. Chinese companies, including conglomerate Dalian Wanda Group and e-commerce giant Alibaba Group, have shown an appetite for working with U.S. studios.

Netflix, which has been quickly beefing up its stable of original shows, could also make a play.

Kavanaugh has been actively meeting with potential investors regarding a bid, according to a person familiar with his thinking.

The media mogul's public statements have indicated that he wants to remain in charge of the company after it emerges from bankruptcy, but analysts say that is unlikely. After the ordeal he and his company have gone through over the last few weeks, he could have trouble persuading investors to back him.

"People perceive Ryan as being part of the problem, not part of the solution," Greif said. "The person least likely to come out of this in the director's chair is Ryan Kavanaugh."

Relativity has sought \$45 million in debtor-in-possession financing to remain in business during the proceedings. Relativity's lawyers asked for an auction timeline that would get a sale closed by early October.

At a Friday hearing in Manhattan, a bankruptcy judge approved just \$9.5 million in interim financing, citing questions about whether the proposed sale timeline would be long enough to attract bids. A follow-up hearing is set for Aug. 14, at which the judge may still approve the full \$45 million and the October closing target.