

Viacom chief nears Paramount deal that investors doubt will get past Redstone

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Embattled Viacom Inc. Chief Executive Philippe Dauman is moving closer to clinching a deal to sell a 49% stake in movie studio Paramount Pictures, possibly for as much as \$5 billion, to the Chinese entertainment and real estate conglomerate Dalian Wanda Group.

With his job in peril, Dauman has been working feverishly to pull off a transaction that he hopes would restore luster to Viacom's stock and demonstrate that he has the mettle to continue to lead the media company that also boasts MTV, VH1, Nickelodeon, Comedy Central and BET.

But investors on Thursday let out a collective yawn, signaling Wall Street's skepticism that Dauman will be able to complete the Paramount transaction in light of its ongoing, bitter boardroom battle.

Viacom shares were unmoved at \$44.80 on Thursday, a day after the deal was first reported. Some investors also question whether it makes sense to sell nearly half the legendary but struggling



A deal is in the works to sell a 49% stake in Paramount Pictures to Chinese firm Dalian Wanda Group. (Anne Cusack / Los Angeles Times)

film studio in light of the Redstone family's longer-term goal of trying to recombine the two companies they control, Viacom and CBS Corp.

"It's a desperate gamble, one designed to put the heat on Shari and Sumner Redstone," Los Angeles investment banker Lloyd Greif said. "If you are in Philippe's position, what do you have to lose? Right now he's walking a tight-rope."

Dalian Wanda's pursuit of a stake in Paramount underscores

the company's desire to become a global entertainment juggernaut. Hollywood studios have proved to be a difficult, capital-intensive business that's nearly impossible for new entrants to replicate on their own.

A purchase would represent by far China's most significant entry into the U.S. entertainment industry.

"It's a scarce asset with high visibility in an industry that Wanda is already a big player in," said Marc Ganis, co-founder and man-

aging director of Jiaflix Enterprises, which helps studios distribute movies in China. "They're not making any more of these."

For those reasons, Wanda may be willing to pay a hefty price for a piece of Paramount, Ganis said. Wall Street analysts have estimated the overall value of the studio at \$8 billion to \$10 billion.

In recent years, Chinese companies have been investing heavily in Hollywood. Alibaba Group, Tencent and Huayi Bros. have made incursions in Hollywood by investing in production companies, movies and film slates. Beijing-based entertainment firm Perfect World in February agreed to invest in 50 movies from Universal Pictures over five years.

Wanda, run by Chinese billionaire Wang Jianlin, owns the largest theater chain in China and has been swiftly bulking up its holdings in the U.S. entertainment industry. The company bought Burbank production firm Legendary Entertainment for \$3.5 billion this year. It also owns AMC Entertainment, the second-largest U.S. theater chain.

Meanwhile, U.S. studios are trying to do a better job of tapping in the Chinese box office, set to surpass the U.S. and Canada as the world's biggest film market by the end of this decade.

Movies that fail at home can find a new life abroad. Legendary's big-budget video game adaptation "Warcraft" was a bomb in the U.S. and Canada. But the effects-heavy adventure grossed \$220 million in China ticket sales, or roughly half its global tally.

"Wanda is in a unique position to leverage the assets they already

have, being the largest theater owner in the world," Ganis said. "They can leverage this kind of acquisition better than any other Chinese company by a wide margin."

But Dauman will have to persuade Viacom board members -- and a judge in Delaware -- that he has the legal authority to sell a piece of Paramount.

Ailing Sumner Redstone, the controlling shareholder, opposes the Paramount deal. Earlier in his career, Redstone operated a small movie theater chain and buying Paramount in 1994, after a hard-fought battle, elevated his status to a major media mogul.

The Redstone family investment vehicle, National Amusements Inc., last month changed Viacom's bylaws to require a unanimous vote by Viacom's board for any sale of an interest in Paramount. Presumably Sumner Redstone and his daughter, Shari Redstone, who both are board members, would block the deal.

The Redstone family controls nearly 80% of the voting shares of Viacom and CBS Corp.

"Unless Viacom's board presents a concrete plan that convinces him otherwise, Mr. Redstone continues to believe that it is in the best interest of Viacom that Paramount Pictures should remain wholly owned by the parent company," a spokesperson for Redstone said in late May.

Viacom last week asked a judge in Delaware to expedite his review of National Amusements' action to remove five Viacom board members, including Dauman. Viacom's independent director, Frederic Sa-

lerno, also sued in Delaware to block that move -- putting on hold any board changes or major business initiatives.

Dauman and his team appear eager for a sale to boost Viacom's share price in advance of the company's earnings report next month. Some Wall Street analysts have trimmed estimates for Viacom after the Paramount movie "Teenage Mutant Ninja Turtles: Out of the Shadows" turned in a disappointing box-office performance. Comedy Central and MTV continue to struggle to improve their low ratings.

Wanda invested in the "Teenage Mutant Ninja Turtles" film and previously worked with Paramount to promote movies in China.

Viacom's plan to sell a piece of Paramount generated much interest, but several parties balked at the idea of owning a minority stake. Analysts said Thursday that Wanda probably is negotiating a path to full control of the studio. Another sticking point may be whether Brad Grey, Paramount's chairman for the last decade, would remain in charge.

Late Thursday, a Viacom executive close to the situation denied that Grey's chairmanship was a factor in discussions with any potential bidders.