

Vault Holds Vivendi's Reel Value

'Film is a product that never dies,' one analyst says. Accurately assessing the worth of the movie and TV library is key in negotiating the sale.

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The trail to uncover the wealth of **Vivendi Universal** winds through a vault in Universal City, past reels of "Frankenstein" and "E.T." to "American Graffiti" and "Apollo 13."

With more than 4,000 titles, Universal has one of Hollywood's largest and most eclectic film libraries. It boasts Alfred Hitchcock's thrillers — "Rear Window," "Psycho" and "The Birds" — alongside Steven Spielberg's gems such as "Jaws," "Jurassic Park" and the Oscar-winning "Schindler's List."

The shelves also are filled with chapters of television history: "Leave It to Beaver," "Woody Woodpecker," "The Munsters" and "Magnum P.I."

Vivendi's directors are meeting today in Paris to vote on how to proceed with the sale of these assets, along with the rest of their U.S. entertainment empire, which they value at \$14 billion. The board could decide whether to enter into exclusive negotiations with **General Electric Co.**'s NBC or opt for a cash-rich proposal by Vivendi Vice Chairman Edgar Bronfman Jr.

For buyers, figuring out the value of Vivendi's entertainment properties comes down to determining how much money the core assets — including the film library — will generate in the coming decades.

So while Vivendi directors are mulling over their bids, half a world away in Los Angeles, teams of investment bankers hired by NBC are busy combing through the Universal catalog.

NBC has proposed combining its broadcast and cable networks, including CNBC, MSNBC, Bravo and the Spanish-language Telemundo, with Vivendi's entertainment operations to form a new company. The merger would create an international media colossus, valued at more than \$45 billion, and would rival **Viacom Inc.** and **News Corp.**, which both have a portfolio of properties including broadcast and cable networks and movie studios.

The move is a stark departure for GE, which under former longtime Chairman Jack Welch had been leery of the boom-or-bust film business.

The proposed venture with Vivendi illustrates that Welch's successor, Jeffrey Immelt, and NBC Chairman Bob Wright have slowly warmed to the idea of making movies. The change, top executives say, stems in large part from the belief that the Universal film library is a deep well that could be tapped to even out the studio's profit peaks and valleys.

"A film library is a one-of-a-kind asset," said Lloyd Greif, president of Los Angeles investment banking firm Greif & Co. "Most assets depreciate over time, but not film assets. Film is a product that never dies."

Studios in recent years have mined billions of dollars by releasing movies on digital videodiscs. These DVD releases oftentimes are little more than repackaged versions of laserdisc or videocassette releases, gussied up with special features. Home video divisions have be-

Treasure chest

Universal Studios' vast film and TV library will be an important component of its proposed sale. Some samples:

Films

- About a Boy
- All Quiet on the Western Front
- American Graffiti
- Animal House
- Apollo 13
- Back to the Future
- A Beautiful Mind
- The Birds
- The Blues Brothers
- The Breakfast Club
- The Bride of Frankenstein
- Bruce Almighty
- Cape Fear
- Car Wash
- The Creature From the Black Lagoon
- The Deer Hunter
- Dracula
- 8 Mile
- Erin Brockovich
- The Fast and the Furious
- Field of Dreams
- Harvey
- High Plains Drifter
- Jaws
- Jurassic Park
- King Kong
- Meet the Parents
- The Mummy
- Pillow Talk
- Rear Window
- Scarface
- Spartacus
- The Sting
- To Kill a Mockingbird
- Vertigo

Animated characters and TV shows

- Woody Woodpecker
- Dragnet
- Kojak
- Leave It to Beaver
- Magnum P.I.
- The Munsters
- Xena: Warrior Princess

Seabiscuit Universal Studios

American Pie Universal Studios

Psycho Associated Press

E.T. the Extra-Terrestrial Universal Studios

Los Angeles Times



CANNED ENTERTAINMENT: Universal's film vault holds thousands of motion picture titles and television shows.

Vivendi Universal

come studio workhorses.

"Profit margins for home video activities — DVD and VHS sales and rentals — are far superior to the margins for the theatrical release," said David W. Miller, a Los Angeles-based media analyst for investment banking firm Sanders, Morris, Harris.

"It's almost to the point," Miller added, "where theatrical releases have become a promotional mechanism for a film's video release."

NBC could leverage the library by using it as a foundation to build new cable channels or video-on-demand subscription services, analysts say. Within a few years, Universal films and TV shows could be packaged and offered to viewers to download for a small fee, allowing the company to wring more money from films and shows that have been paid for many times over.

"You can continue to refresh the revenue potential," said David Goldhill, president and chief operating officer of Universal Television Group. "And there are a lot of opportunities for cross-promotion."

For example, Goldhill said, when Universal released "The Hulk" this summer, it simultaneously offered a DVD collection of the 1970s TV show "The Incredible Hulk." And Universal's feature film "Out of Sight" was retooled into a TV drama that will premiere on the ABC network this fall as "Karen Sisco."

Although known for its feature films, Universal is no slouch in the TV business. It operates three cable channels: Sci Fi, USA Network and Trio. Already in the vault, meanwhile, are more than 34,000 hours of television — including plenty of hits that aired on none other than NBC.

The relationship goes back more than 40 years to one of NBC's first big shows, "The Virginian," which was produced by Universal.

This fall, the studio will provide five programs for NBC's prime-time lineup, including the three popular "Law & Order" shows produced by Dick Wolf. By some estimates, the "Law & Order" franchise is worth more than \$1.5 billion — and NBC would face costly renegotiations next year if the proposed merger with Vivendi were to fall apart.

Internationally, Universal is also a force. Revenue from foreign distribution of films and TV programs exceeds \$250 million a year, with nearly half that amount coming from television shows.

According to Universal, episodes of "Miami Vice" reel in nearly a million viewers each week in both France and Italy. "Columbo" can be seen weekly in four different time slots in Britain, each delivering nearly 3 million viewers. And "Quincy" is the second-most popular U.S. television show in Germany.

Analysts say the studio, which includes the film library, could be valued at \$3.8

billion to more than \$5 billion. Much of the variance comes from different projections of how much revenue the studio will be able to squeeze from the library's thousands of titles.

"There's probably a lot of room for interpretation in what certain titles could produce," said Drew Borst, an analyst with Sanford C. Bernstein & Co. "You ask, 'What kind of cash flow will be produced going forward?' and for some films, such as 'Coal Miner's Daughter,' probably very little."

The investment bankers who are assessing the studio's value are looking at nearly all the titles in the library, trying to trace their revenue streams and project future income possibilities. Part of that involves researching who owns the rights to the films and shows and seeing whether

there are any legal restrictions.

For example, a composer who wrote a theme song for a show might own some rights that could stymie the studio's plans for a video release or add more costs to the venture.

Other restrictions are more far reaching. AOL Time Warner Inc.'s HBO cable network and Liberty Media Corp.'s Starz Encore have agreements that give them the first TV runs of recent Universal releases. The pact with Starz Encore extends through 2005, and HBO's lasts until 2010 and includes video-on-demand rights.

"All of these things flow from the films, from the library," said Greif, the L.A. investment banker. "Even the Universal Studio theme parks, every new ride relates to some movie release. It always comes back to the films."