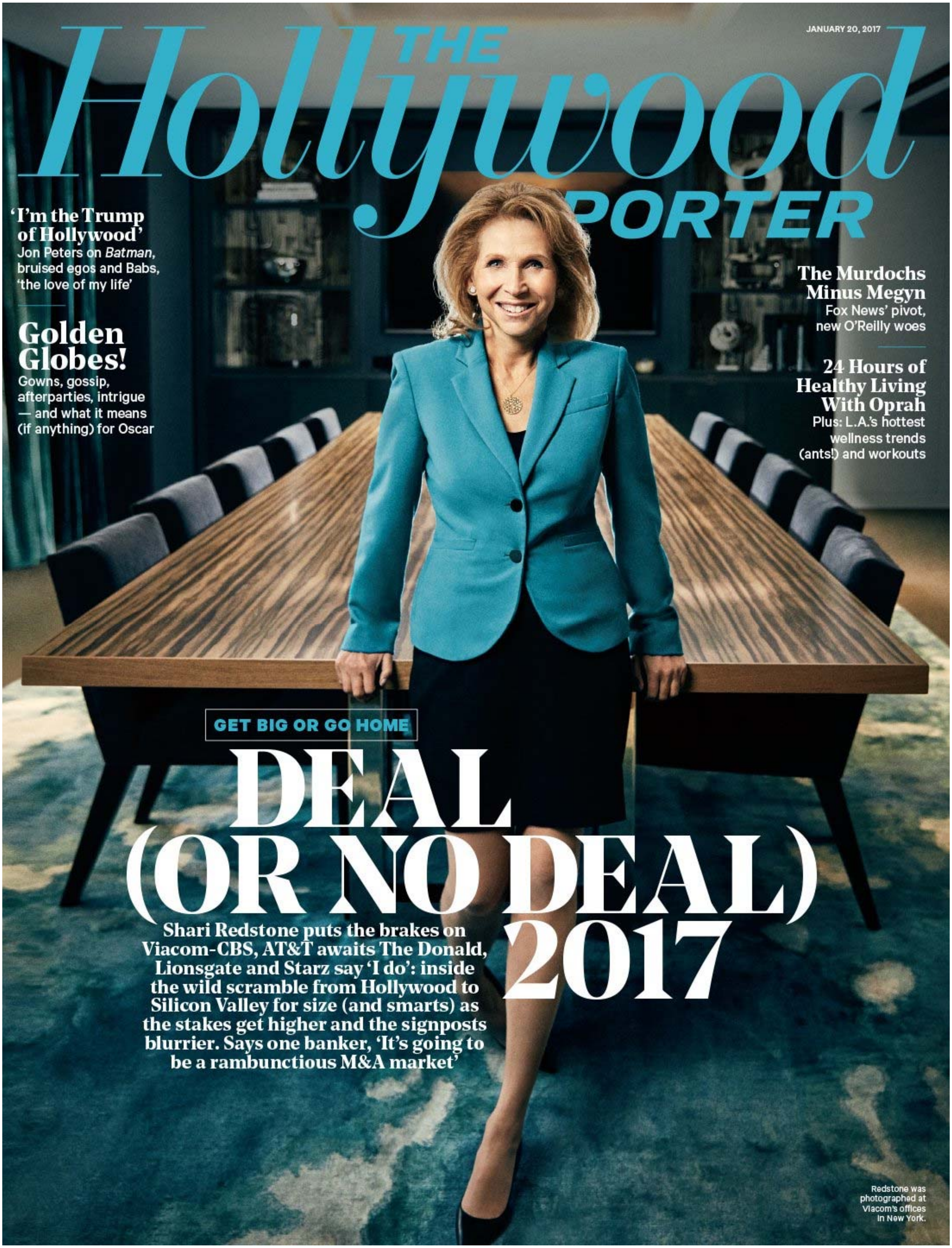
JANUARY 20, 2017

THE Hollywood REPORTER



'I'm the Trump of Hollywood'
Jon Peters on *Batman*, bruised egos and Babs, 'the love of my life'

Golden Globes!
Gowns, gossip, afterparties, intrigue — and what it means (if anything) for Oscar

The Murdochs Minus Megyn
Fox News' pivot, new O'Reilly woes

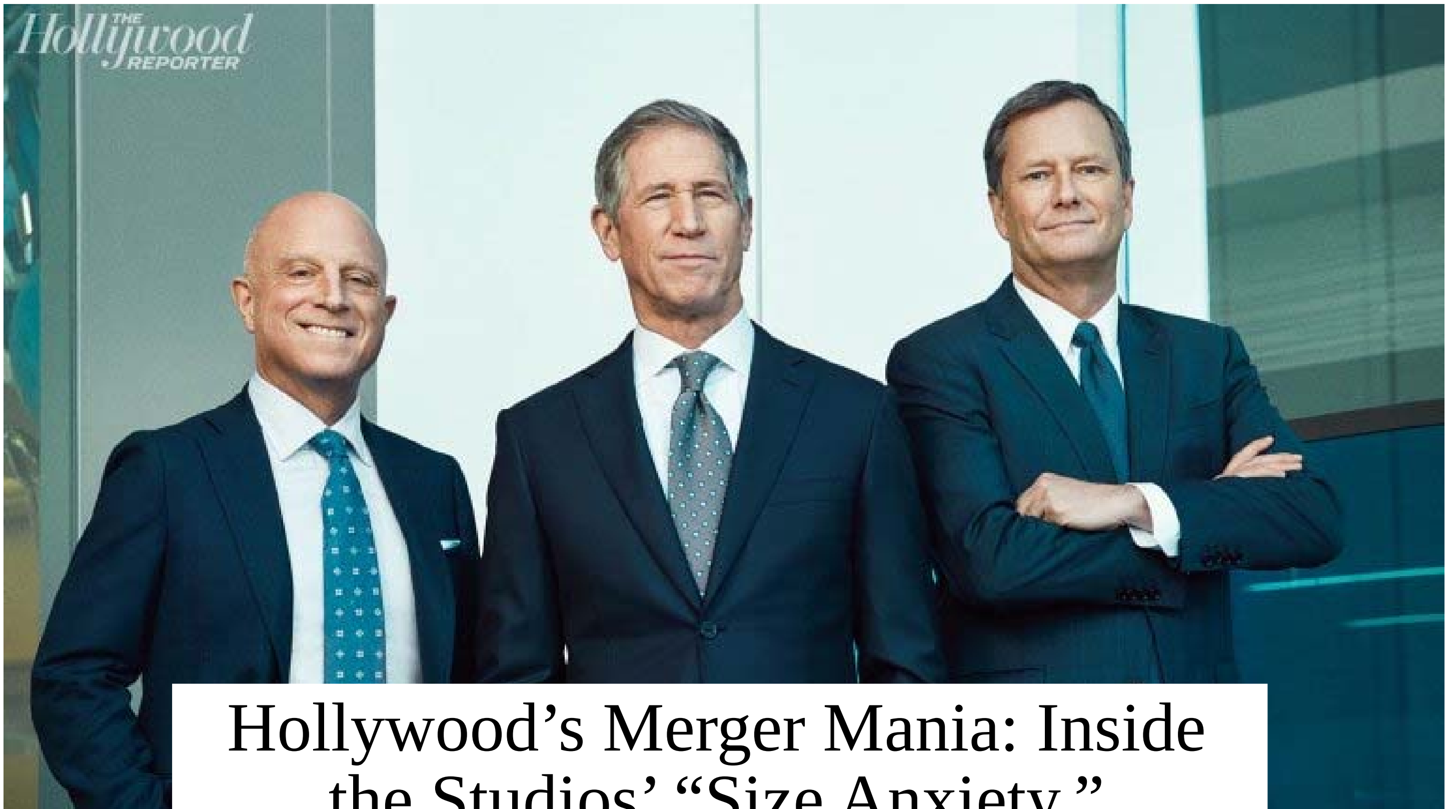
24 Hours of Healthy Living With Oprah
Plus: L.A.'s hottest wellness trends (ants!) and workouts

GET BIG OR GO HOME

DEAL (OR NO DEAL) 2017

Shari Redstone puts the brakes on Viacom-CBS, AT&T awaits The Donald, Lionsgate and Starz say 'I do': inside the wild scramble from Hollywood to Silicon Valley for size (and smarts) as the stakes get higher and the signposts blurrier. Says one banker, 'It's going to be a rambunctious M&A market'

Redstone was photographed at Viacom's offices in New York.



Hollywood’s Merger Mania: Inside the Studios’ “Size Anxiety,” Scramble to Match Silicon Valley

by **Dawn Chmielewski** January 11, 2017

Top execs worry about digital titans like Apple and Facebook muscling into TV and film as they maneuver for leverage and "scale."

When John Malone's Liberty Media announced plans to spin off Starz as a standalone company in 2012, Hollywood insiders began speculating that the pay television rival to HBO and Showtime would become an acquisition target. The opportunity wasn't lost on Lionsgate CEO Jon Feltheimer and vice chairman Michael Burns. "Jon and Michael were almost the first phone call to say, 'You guys are now in a structure where we can talk about things that weren't possible before,'" recalls Starz CEO Chris Albrecht. "'Let's sit down and talk about it.'"

Lionsgate's $4.4 billion acquisition of Starz, which was finalized in December, would take about four years of dramatic starts and stops to complete. Albrecht was furious after a poor Lionsgate earnings report in early 2016, and at one point, CBS conducted such a thorough financial review that Starz executives joked Leslie Moonves' staff knew more about the network's operations than they did. But to Feltheimer and Burns, the value of the combination was obvious and the need urgent: To compete in the new digital media world dominated by Silicon Valley titans and with ever-larger Hollywood studio conglomerates, Lionsgate, with its $6 billion market capitalization, had to get bigger. And Starz, with its 25 million paid subscribers and a 1 million-sub streaming service, was a perfect fit.

"Chris and his team have turned Starz from frankly an old-school company into a company that's much more suited to the digital age," says Feltheimer in his and Burns' first interview since the acquisition closed. "So this was simply an asset that Michael and I thought was a tremendous opportunity."

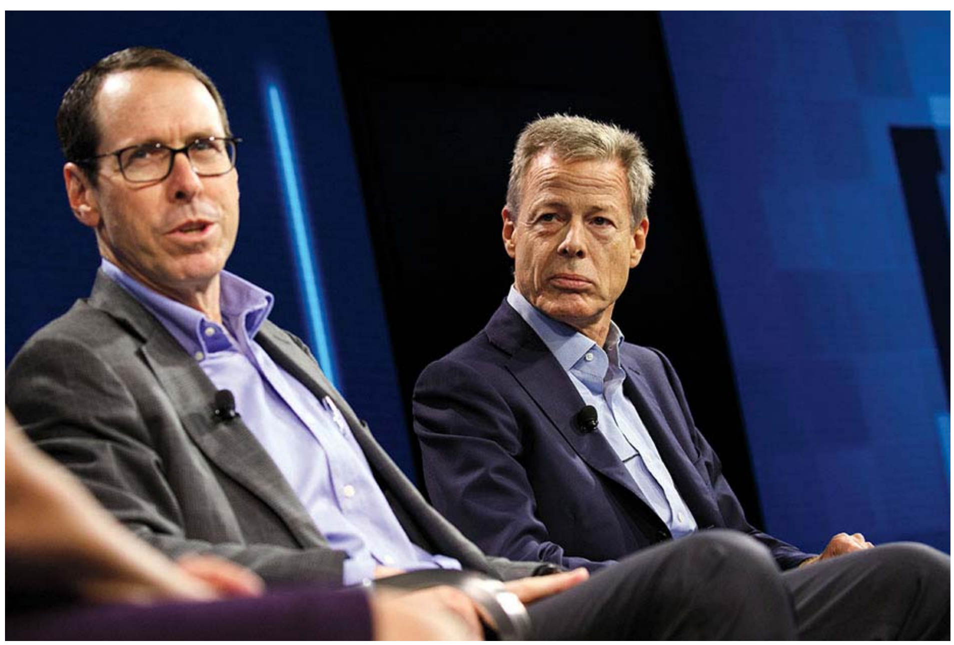
The Lionsgate deal offers a preview of the mergers and acquisitions to come in 2017 as media companies rush to combine to gain leverage in their negotiations with such digital distributors as Amazon, Apple and Google parent Alphabet. Bigger studios will snap up smaller ones as they look to amass a must-have collection of movies and TV shows that distributors can't ignore when assembling new packages of programming — no matter how skinny the bundle. (Generational shifts at 21st Century Fox, where Rupert Murdoch is transitioning power to sons James and Lachlan, and at Viacom and CBS, where Sumner Redstone's daughter, Shari, has taken a hands-on role, are adding to the sense of change in the wind.)

And distributors that have direct relationships with consumers will hunt for studio acquisitions that ensure access to the desirable content. AT&T's $85.4 billion bid for Time Warner could open the floodgates if approved by regulators.

"I see it sailing through, and that in turn will send the signal that other megamergers will receive a friendly reception in Washington," says top media investment banker Lloyd Greif, brushing aside a recent report that President-elect Donald Trump remains opposed to the deal. "I think 2017 is going to be a rambunctious M&A market."

In fact, Greif says "dealmaker-in-chief" Trump's promises of tax cuts and deregulation portend an unprecedented period of M&A — one that could well sweep up MGM or Sony Pictures Entertainment, which repeatedly has tamped down speculation about a possible sale. Even Viacom, whose proposed merger with CBS was scrapped before the new year, could be in play. "When you look at what's going on in the industry today, scale really matters," Shari Redstone, vice chair of both Viacom and CBS boards, told THR in December. "It matters to the consumer, who wants to choose an array of content. It matters to the advertisers, who are looking for one-stop shopping. And it matters for leverage when you're negotiating deals."

Malone, whose Starz sale to Lionsgate spun the premium cable TV programmer out of his Liberty Media orbit, appears to be thinking about his next moves. Sources say high-level talks at Liberty Media contemplate an ambitious, Comcast-like colossus that could sweep up some or all of a constellation of assets including Viacom, CBS, Lionsgate, Discovery Communications and possibly AMC Networks — all under a single corporate umbrella, according to people familiar with these preliminary discussions. Liberty Media declined comment. Lionsgate, meanwhile, has its eye on MGM or Viacom's Paramount Pictures, though bankers say the studio may well attract a buyer first. "Scale has never been more important in the media sector," says Tuna Amobi, senior equity analyst at CFRA Re-



Getty Images

AT&T chairman and CEO Stephenson (left) with Time Warner chairman and CEO Jeff Bewkes in October.

search. "We're seeing leverage being exercised in negotiations between content providers and [pay TV providers]. Both sides are really racing to get more leverage."

Bankers say Apple or South Korean giant Samsung Electronics might soon begin rolling up media assets after years of selectively striking deals for exclusive access to content. Apple reportedly approached Time Warner about a possible combination in 2016, though talks didn't progress. Wall Street's rumor mill continues to speculate about whether The Walt Disney Co. may make a bid for Netflix — a subject Disney CEO Bob Iger was asked to address during a recent earnings call. "We think there's some really interesting opportunities, given what's going on from a technological perspective, to both improve our businesses and also improve the consumer experience by selling directly to consumers," Iger told analysts while declining to speak specifically about Netflix. "And we're considering and exploring various ways to accomplish this."

Iger cited Disney's $1 billion investment in BAMTech, the streaming media unit created by Major League Baseball, as one way the entertainment giant is working to create a more direct relationship with the consumer (in this case, through a subscription sports streaming service).

Privately, top executives speak about their "size anxiety," about fears their companies may be left to atrophy if Apple decides to buy a studio or if AT&T-Time Warner creates a content distribution juggernaut. Already, the film business is dominated by vertically integrated, franchise-rich studios (Disney, Universal, Warner Bros. and, to a lesser extent, Fox) and the hangers-on (Paramount and Sony). Like the rest of the country, Hollywood is becoming a community of one-percenters … and everyone else.

Getty Images

Dalian Wanda Group chairman Wang Jianlin (left) with Legendary Entertainment CEO Thomas Tull. Wanda acquired Legendary for $3.5 billion in January 2016.

Lionsgate, the scrappy, independent studio fresh off La La Land's unprecedented sweep at the Golden Globes, is looking to carve out a distinct path as an entrepreneurial company that seeks to do more with less.

"No one is saying that they're comfortable with where they are right now, and CEOs are looking into how to evolve their models," says Aryeh Bourkoff, founder and CEO of LionTree, the investment bank that advised Starz on its sale to Lionsgate. "The shifting pattern of consuming media forces business models to change in reaction to that and to try to get some scale at the same time."

Even the talent agencies are in an arms race to grow bigger, as CAA continues to diversify and WME-IMG jump-started its effort to own rather than simply represent content creators with its $4 billion purchase of the UFC martial arts circuit. "More players want more content," says WME-IMG co-CEO Ari Emanuel, noting that the number of original scripted TV shows has nearly doubled from 2009 to 2016, driven by the scale and ambition of the digital players. To Emanuel and most sellers, what matters is not necessarily which buyers are bigger but which are willing to commit resources to quality content: "Who's spending more money? Netflix is spending more money. Amazon's coming to market."

Longtime media executive Jon Miller, whose career includes stints running AOL and as chief digital officer of News Corp., notes when he negotiated with Comcast on behalf of Fox, it was a meeting of peers. The conglomerates were roughly the same size, and their fortunes were linked. That's not the case now. Even the most successful media companies, such as Disney or Comcast, with market caps of $173 billion and $169.8 billion, respectively, have a fraction of the market valuation of Apple ($635 billion), Google ($562 billion) or Facebook ($360 billion). "Media companies don't have the leverage or the underlying relationship with consumers that tech and telecom companies have at scale," says Miller. "It's a huge and unprecedented imbalance."

Of course, Hollywood has seen this movie before. Waves of consolidation have rippled through the industry since the 1920s, when Paramount, MGM and the other major studios recognized the value of controlling all facets of film production, down to the theaters where the pictures were shown. The Justice Department (and ultimately the Supreme Court) intervened and forced the studios to divest ownership in movie theaters. Another surge of mergers began in 1985, when Capital Cities acquired ABC for $3.5 billion and General Electric swept up RCA and its NBC division for $6.3 billion. The dealmaking would accelerate through the 1990s as film studios combined with broadcast and cable television networks in multi-billion-dollar deals. Now, the rise of digital distribution is forcing media's hand again.

It's no surprise that modern distributors who are closest to consumers, and who have sunk billions into their technological infrastructure — AT&T and Verizon, among others — would seek to buy up content. If 60 percent of the data flowing across AT&T's mobile networks today is video, why not give subscribers more of what they want — and pick up a little advertising revenue in the process?

"When you combine Time Warner's content with our scale and distribution — we have 100 million-plus TV, mobile and broadband subscribers," said AT&T's Randall Stephenson during a recent earnings call. "You put that with our customer insights and the addressable advertising opportunities that flow from that, we think we can build something here that's really special."

What perhaps is different about the latest round of dealmaking is the outsized role of Chinese investors. Dalian Wanda Group's $2.6 billion acquisition of the AMC Entertainment theater chain in 2012 marked the beginning of a series of investments by the real estate firm that would include the purchase of Legendary Entertainment for $3.5 billion and a $1 billion deal for Dick Clark Productions, formerly owned by THR's parent, Eldridge Partners. Meanwhile, China's richest man, Jack Ma, invested in Steven Spielberg's Amblin Partners, among others, in a move to ensure his Alibaba online commerce company has a wealth of future movies for its Youku Tudou online video service.

While Alibaba's top entertainment executive has promised billions more in investments, insiders predict the next overtures may come from Chinese internet giant Tencent, a digital media company in its own right with close to 900 million users of its QQ instant messenger application and nearly as many monthly active users for its social networking app WeChat.

Amir Malin, co-founder and managing principal of Qualia Capital, an investment management firm that focuses on the media and entertainment space, predicts the rate of such deals may slow because some in Congress have expressed disapproval at the impact of Chinese companies owning American entertainment firms and because China's government has grown concerned about the flight of capital overseas — which, according to one report, totaled $290 billion from January 2016 through October.

But Josh Grode, a partner in the law firm of Irell & Manella who represented Dalian Wanda in its purchase of Legendary, is bullish. And he thinks Hollywood's studios will begin looking beyond the borders of the U.S. for their next acquisition targets.

In 2016, 21st Century Fox snapped up the part of European broadcaster Sky it didn't already own. Malone's Liberty Global acquired Caribbean cable operator Cable & Wireless Communications in a deal that increased its presence in Latin America. And Viacom announced a deal for Telefe, one of Argentina's main broadcast networks. It's all about growth and achieving scale.

"This year we will see some of these companies say: 'OK, I have for the first time competition from international players who are my size or bigger. Maybe I need to start thinking of myself as a global media company,'" says Grode. "That's going to spur some interesting M&A."