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Shari Redstone Faces Tough Choice as Paramount Seems Ripe for Asset Sale, Break-up | Analysis

The company's controlling shareholder is open to a deal, but Wall Street says selling off Paramount in pieces is inevitable

By Lucas Manfredi | December 12, 2023

Paramount may be up for sale. Or it may not be. But in the wake of new reports that the company is on the block, analysts and media experts seem convinced that the celebrated entertainment brand is likely to be sold off for parts to get the highest value — making it the latest victim of consolidation in Hollywood.

(L to R) Skydance Media CEO David Ellison, Paramount's non-executive chairwoman Shari Redstone and RedBird Capital Managing Partner Gerry Cardinale (Getty Images)

Shari Redstone, Paramount Global's non-executive chair, is reportedly in talks to sell either the entire company or her controlling stake through her holding company, National Amusements Inc., to Skydance Media CEO David Ellison and RedBird Capital's Gerry Cardinale. Skydance and Redbird have signed NDAs with Paramount to explore a possible acquisition, though any potential deal is still far off, according to numerous insiders and media reports.

Representatives for Paramount, National Amusements, Skydance Media and RedBird Capital declined to comment for this story.

It's been a tough year for Paramount's stock price, which is down 17.4% in the past year and 4.8% year to date, though deal speculation sent the stock up last week. The company faces a complex set of challenges: Advertising revenue tied to its linear businesses is in steep decline, including for CBS and cable channels like MTV and Nickelodeon; its streaming operation continues to operate at a loss, and has more ground to make up than its legacy media rivals' platforms.

Analysts who spoke to TheWrap believe that regardless of who owns Paramount, selling off its assets is inevitable.

"You have a brand name and production-capacity studio that is in distress right now, that has breakup value," Sanjay Sharma, a USC adjunct professor and former investment banker, told TheWrap. "Nobody wants the baggage outside of [its] production." Sharma sees 20% to 30% upside to Paramount's stock in the event of a potential breakup.

Lloyd Greif, CEO of the Los Angeles-based investment banking firm Greif & Co., agreed that a sale of Paramount's parts is likely: "It'd be like a supermarket, with certain major media companies grabbing shopping carts and going down the aisle to pick what they want and to bid for certain pieces of it," he said.

Parting with Paramount

Speculation that Redstone is looking to part ways with Paramount, which has been in the Redstone family since 1987 when National Amusements became majority owner of Viacom, began last month when the company filed a change-of-control and severance plan, also known as a golden parachute, for certain "global senior executives."

"Golden parachutes certainly signal that there's increasing thought being given in the boardroom at Paramount about divesting the business," Greif explained. "You wouldn't need a golden parachute if you were just selling assets…you only need a golden parachute if you sell the entire company."

Less than a month later, Ellison and Cardinale reportedly expressed an interest in Paramount either through an acquisition of the whole company or National Amusements' majority stake. Redstone owns roughly 10% of Paramount's equity capital. National Amusements owns 77.3% of Paramount Global's Class A (voting) common stock and 5.2% of its Class B common stock.

Selling the National Amusements stake to Skydance and RedBird could be a "pretty deft strategic move" that would be cheaper than buying the entire company and "certainly eliminates any antitrust risk," Greif said.

"It's a way for Skydance and RedBird to get the prize without paying for the prize," he added. "You can now pull the levers to increase the value of your controlling stake by increasing the value of the business, and you're also in a position to control your destiny without having to take the financial risk of buying the entire company."

Though Skydance was only valued at more than $4 billion as of October 2022, Greif argued that the co-producer of "Top Gun: Maverick," "Mission: Impossible" and "Jack Reacher" has had the "midas touch" when it comes to accomplishments in filmed entertainment, television and sports.

Meanwhile, RedBird Capital is run by "savvy Wall Streeters" who are focused on sports, entertainment, telecommunications, media and technology, with $8.6 billion in assets under management and backing from Chinese tech company Tencent and the investment firm KKR (which is also notably an investor in Skydance).

"We think there's a decent chance a deal is done as we think the Redstone Trust may be ready to move on from operations to monetization," Wells Fargo analyst Steve Cahall wrote in a note to clients on Sunday. "But, there is significant timing risk and complexity to any potential transaction."

Paramount, which had a market capitalization of $10.72 billion as of Monday's close, is much smaller than legacy media peers Comcast ($171.7 billion), Disney ($167.8 billion) and Warner Bros. Discovery ($27.87 billion). As of the third quarter of 2023, the company had $1.8 billion in cash on hand and long-term debt of $15.6 billion. National Amusements took a $125-million preferred equity investment in May from BDT & MSD Partners to give Paramount additional liquidity after cutting its dividend earlier this year.

Adding to the possible pressure to do a deal, the company is also gearing up to negotiate new distribution deals for its cable networks, with The Wall Street Journal reporting its deal with Comcast expires at the end of December, and its contract with Charter ends in the spring. The Journal adds that Paramount has discussed the possibility of laying off more than 1,000 workers early next year.

If Ellison and RedBird's bid for National Amusements' majority stake were to be successful, they could combine Skydance with Paramount's existing studios, shut down Paramount+ and sell Pluto and most of the media conglomerate's linear assets, Cahall said.

"We estimate $13.5 billion divestiture enterprise value, or around $10 billion" after taxes, Cahall estimated. He collectively valued Paramount's remaining assets, including CBS Studios, Paramount Studios, and content creation from Taylor Sheridan, Nickelodeon and MTV, at $23 per share.

Citigroup analyst Jason Bazinet was even more bullish on the benefits of a break-up, estimating Paramount's equity could be worth around $38 per share if the firm's networks, production assets and Direct to Consumer (DTC) business were sold individually. The bank's sum-of-the-parts analysis values Paramount at roughly $38.8 billion, with its cable networks at roughly $7.4 billion, its broadcasting business at roughly $12.1 billion, its production assets at roughly $18 billion and its DTC business at $6.8 billion.

Bazinet pegged scenarios in which Paramount continues to operate as currently configured or is fully acquired by a strategic buyer at 25% likelihood. Meanwhile, a partial asset sale scenario in which Paramount's cable and broadcast network businesses were sold for cash at roughly $9.6 billion and $15.8 billion, respectively, was given 50%.

Barclays Capital analyst Kannar Venkateshwar believes that Paramount Studios and CBS could have significant value — especially in the hands of the right buyers — with the firm estimating that the studios' business could be worth roughly $5.5 billion before considering any premium attributable to its franchises.

"Even if we use say $10-12 billion for CBS and $8.5 billion for Paramount, it would essentially account for 70-75% of the company's value based on last week's close [of $16.82 per share]," Venkateshwar wrote in a note to clients on Monday. "In theory, this could imply further upside if the company's streaming and cable network businesses can be monetized separately."

But others on Wall Street are skeptical about why Redstone would sell Paramount or National Amusements' stake before exhausting other options.

"We suspect cost-cutting would be far more aggressive if Paramount were preparing to put itself up for sale," LightShed Partners' Rich Greenfield wrote in a Nov. 21 research note. "You would give up on your streaming ambitions and harvest cash before you got to the point of selling off NAI's stake in Paramount to the highest bidder."

Greenfield added that if Paramount was going the route of selling its studio assets, killing its streaming business and finding a private equity buyer for its linear TV assets, the company likely would have already shut down Paramount+ and transformed more than $1.5 billion in streaming losses into hundreds of millions in profits as a licensor "arms-dealer" to third-party platforms.

"This strategy would appear to be a way to create far more value before trying to auction off the company's assets in pieces," he said.

Paramount already sold publisher Simon & Schuster to investment firm KKR for $1.62 billion, and said it would sells its majority stake in Bellator to the Professional Fighters League for an undisclosed amount. It also began exploring a sale of its majority stake of BET in March — with suitors including Byron Allen, who offered $3.6 billion for the network, and Tyler Perry — but later reversed course. Redstone also turned down a $3-billion bid for Showtime, instead integrating the network into Paramount+.

The company's direct to consumer division, which includes Paramount+ and Pluto TV, reported 63.4 million subscribers — which are dwarfed by competitors Netflix, Disney and Warner Bros. Discovery — and a loss of $238 million in its third quarter. Looking ahead, Paramount anticipates that its full-year DTC losses in 2023 will be lower than in 2022, with the division's losses in the fourth quarter of 2023 similar to the fourth quarter of 2022.

Though winding down Paramount+ would buy the company some time, Venkateshwar said it would not really solve any underlying structural challenges.

An alternative path would be selling its streaming assets, which would "eliminate the associated investment needs and help the balance sheet and cash flows heal a lot faster," he said, but he noted such a deal would be complicated due to Paramount+'s reliance on sports. He added that it is unclear who would want the streaming business without the studio assets that anchor its content.

"Peacock and Apple may benefit more than most but Comcast and Apple may also have the choice of other potentially more-desirable assets such as WBD/Max," Venkateshwar said.

Pluto, on the other hand, may draw "real demand from multiple buyers," but Venkateshwar doesn't think a sale of the asset would "move the needle enough from a balance sheet or earnings trajectory perspective to change the valuation framework materially."

Shari's Choice

It's unknown at this point what Redstone will ultimately do with Paramount and National Amusements. The 69-year-old has not chosen a successor and remains on the board, but has been open about her current focus on educational initiatives around tolerance and antisemitism, especially since the Hamas attack on Israel on Oct. 7. Her father, Sumner Redstone, ran the company, then called Viacom, until 2016, stepping down at age 92, and had expressed that he didn't want to sell off the studio.

Ultimately, it is her call whether to give up control of Paramount, four years after merging it with CBS in a bid to make Paramount bulky enough to withstand the pressures of the changed Hollywood landscape. According to the Journal, Redstone views selling off Paramount Pictures on its own as a nonstarter and previously brushed off requests to spin off the company's local broadcast stations.

In addition to interest from Skydance and RedBird, Redstone has fielded interest from Netflix and Activision CEO Bobby Kotick about potential deals for Paramount, according to The Wall Street Journal. Warner Bros. Discovery CEO David Zaslav has also considered the pros and cons of making a run at Paramount, according to the Journal, though doing so would likely add to WBD's heavy debt load. Others who held conversations with Redstone about potential deals earlier this year include Amazon and Apple, according to The New York Times.

Amazon and Warner Bros. Discovery declined to comment, while representatives for Apple, Netflix and Kotick did not immediately return TheWrap's request for comment.