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Investors Call Skydance Deal for Paramount 'Suboptimal' and Warn of Lawsuits

Majority owner Shari Redstone is "only looking out to maximize the value of Shari Redstone" says one large shareholder, who says the board needs to also consider Apollo Global's bid

By Lucas Manfredi and Emily Smit | April 9, 2024

As Paramount and Skydance inch closer towards a deal that would give David Ellison's media company control through Shari Redstone and National Amusements' stake, shareholders are expressing concern that a deal could decrease their ownership stakes and close off better options for a sale.

For a deal to go through, it must win approval from Paramount's special committee, which was formed in January to balance competing interests in the different companies. But the committee faces the difficult challenge of striking a balance between a deal that is in line with the interests of Redstone — Paramount's majority shareholder through her stake in National Amusements — while upholding its fiduciary responsibility to the rest of its shareholders, some of whom argue that Apollo Global Management's competing bid is being unfairly ignored.

Skydance Media CEO David Ellison and Paramount Non-Executive Chairwoman Shari Redstone, with (center) Apollo Global Management CEO Marc Rowan (TheWrap/Chris Smith)

“Shari Redstone is literally only looking out to maximize the value of Shari Redstone, which is terribly disconcerting,” David Katz, president and chief investment officer of Matrix Assets Advisers, which owns more than 350,000 Paramount shares, told TheWrap. “The shareholder base in aggregate would like everybody to be treated fairly and be on a level playing field.”

Other investors including Gabelli Asset Management CEO Mario Gabelli, who owns 5 million shares of Paramount’s voting stock, and John W. Rodgers Jr., whose firm, Ariel Investments, owned 1.8% of Paramount’s shares as of the end of last year, have expressed similar concerns.

And on Monday, Justin Evans of Blackwood Capital Management wrote the Paramount board of directors to complain about the looming deal. “The last thing the company shareholders need is yet another silver-spooned movie enthusiast to run our entertainment company into the ground,” Evans wrote.

If Redstone attempts to move forward with a Skydance deal against the recommendation of the special committee, lawsuits from shareholders could get “nasty and expensive,” Stefano Bonini, an associate professor of finance at Stevens Institute of Technology, told TheWrap.

An insider with knowledge of Redstone’s thinking told TheWrap that “the special committee has a lot of power” and that its recommendation “is hard to overrule as a board or majority owner, because you have to show why your reason to overrule it is better than the special committee’s special investigation. If you were to overrule it as a board member, you’d need a good reason to sway shareholders.”

The insider told TheWrap that those on the special committee — who have not been publicly named — include Nicole Seligman, a prominent lawyer and former EVP and general counsel of Sony Corporation, and Dawn Ostroff, the former chief content officer of Spotify and a former president of Conde Nast Entertainment. Both also sit on the board of Paramount Global.

Redstone, who is Paramount’s non-executive chairwoman, has recused herself from the committee, which is advised by Centerview Partners and the law firm Cravath, Swaine & Moore.

A “suboptimal” bid

On Monday, Matrix, which owns 355,445 Paramount shares on behalf of its clients and itself and has over $1 billion in assets under management, penned a letter to the media conglomerate’s board in which it knocked Skydance’s bid as “suboptimal.”

The firm argues that while it may be a “home run” for Redstone that would monetize her controlling stake for cash at a “significant premium,” it would be at the expense of the company’s other shareholders and “detrimental” to Paramount’s value.

Matrix also said it is “especially galling” that Paramount’s independent committee has not seriously considered a $26-billion cash offer from Apollo made on March 31, including assumption of debt. The private equity firm should be given the same deference as Skydance to perform due diligence and confirm its financing, Matrix added, noting that the “valuation certainty of a cash bid is vastly superior to a notional valuation that Skydance is assuming for itself in the second-step transaction, a clear conflict of interest.”

In an interview with TheWrap, Katz estimated that the Apollo deal could result in anywhere from $18 to $21 per share for Paramount shareholders, while Skydance’s deal would be about $11 per share. The estimate accounts for a $3-per-share premium for the voting stock.

“We just wanted to remind the board and the independent committee that their obligation as directors is to protect all shareholders, not just take care of Shari Redstone," Katz said.

After making its letter to Paramount's board public, Katz said his firm received letters of support from other Paramount shareholders who shared Matrix's concerns.

Representatives for Paramount and National Amusements declined to comment on the letter. Skydance did not immediately return TheWrap's request for comment.

Skydance vs Apollo

Skydance, which is valued at more than $4 billion, has been a co-producer with Paramount on projects such as the "Mission: Impossible" franchise and "Top Gun: Maverick." Its deal, which CNBC reported would include raising new equity and an ownership stake of somewhere between 45% to just over 50%, would be financed with the help of a consortium of investors, including private equity firms RedBird Capital Partners and KKR, as well as Larry Ellison, Ellison's father and Oracle's cofounder.

Larry Ellison would reportedly put up some of the new funding and potentially provide Paramount with access to artificial intelligence software and other data technology from Oracle. David Ellison would likely lead the new company, while former NBCUniversal CEO Jeff Shell would also have a major leadership role. Additionally, management would reportedly be open to divestitures of assets, such as BET Media Group. Bloomberg separately reported that Skydance would look to merge Paramount+ with a rival, such as Peacock, Max or Prime Video, and would hold on to CBS.

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Lloyd Greif, CEO of investment banking firm Greif & Co.

Redstone's National Amusements could receive over $2 billion in cash from the Skydance deal, according to The Wall Street Journal. Skydance would reportedly be acquired in an all-stock deal valued at around $5 billion.

In addition to Skydance, Paramount Global CEO Bob Bakish met with Warner Bros. Discovery CEO David Zaslav in December about a potential merger, though those talks have since halted. Allen Media Group founder Byron Allen placed a $30 billion bid including debt for the company, though it's unclear how that deal would be financed, and Apollo has placed a $26-billion all- cash offer, which was reportedly rebuffed due to concerns around how the bid would be financed.

Lloyd Greif, CEO of the Los Angeles-based investment banking firm Greif & Co., told TheWrap that Paramount's decision to enter exclusive talks with Skydance is a "head scratcher."

"They've had an opportunity for the last four months, going on five months, to make something happen here. Who says that's going to change in 30 days?" Greif said. "Now it's no longer a one-firm playing field…public companies by definition need to consider all offers because you're responsible to all public shareholders to protect their interests and make sure they get the best deal, not effectively what looks like an inside deal."

Apollo's offer is more than the entire market capitalization of Paramount Global, which is currently around $7.6 billion plus debt of $14.6 billion.

While acknowledging that $26 billion may not be the right price, Greif pointed out that Paramount has chosen not to negotiate with Apollo.

"The argument is that they haven't done due diligence, but by the same token that's a self-fulfilling prophecy because you haven't given them the opportunity to do due diligence," he said. "I don't think anybody can question their ability to do a deal this size, and therefore to pull the rug out from under them before they even have a chance to dig in seems extremely inappropriate."

Greif added that Skydance may not have moved fast enough to close a deal for National Amusements, giving Apollo time to enter the fray. But he emphasized that Centerview Partners or another investment bank will need to provide a fairness opinion for Skydance's merger offer or Apollo's acquisition offer.

"It's going to be tough to say Skydance is the best deal out there when Apollo's bid hasn't been given fair consideration," Greif said.

Bloomberg noted that negotiators in the Paramount/Skydance deal are considering a dividend or stock repurchase and eliminating the two-class share structure that gives the Redstone family control with less than 10% of Paramount's overall stock to get support from its other shareholders — National Amusements owns 77.3% of its Class A (voting) common stock and 5.2% of its Class B common stock.

"Those things are all patently absurd," Katz said. "If the Apollo deal is worth \$21 a share, and if Skydance is getting this business from the regular shareholders at \$11 a share, they're basically stealing the company and all these extras don't amount to anything. I'd be shocked if any shareholders are satisfied or if that does anything for them."

Legal risk

The insider said it was likely that Redstone was most interested in negotiating with David Ellison because he "cares" about Hollywood and the media industry. "He's more than just the numbers, and that matters to Shari, and they've also indicated they're not necessarily in favor of breaking up the company, which many just assume they should," the insider added.

But Redstone is potentially exposing Paramount to shareholder lawsuits. "It would be very easy to argue you had an independent committee that said, 'Wait, pause, you need to gather all the offers and all the possible information to make sure that the deal you're approving is the deal that maximizes the value for everyone,'" said Bonini, the finance professor. "And you decided to ignore it and thereby you determine a loss for shareholders or financial damage, which is exactly what a security class action lawsuit is all about."

Gabelli told TheWrap that he has "no issue" if Redstone were to get a premium on the sale — as long as the clients he represents are given a fair shake.

"Everybody knows that there's going to be some arm wrestling if I don't like what Shari gets for her voting stock versus what our clients get," he said. "If it's the same, there won't be litigation."

While acknowledging the legal risk, the insider believes the deal between Paramount and Skydance is "very close" to being done.

"If the board thought the deal was going to fail, it wouldn't have entered into exclusivity. So I believe it's pretty close," the person said. "But I don't see how they will get out of this without a bunch of lawsuits."