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Bidding War for Warner

MEDIA: Netflix and Paramount Skydance are vying to buy Warner Bros. Discovery. Who will prevail and what will they gain?

By ZHIYU LUO
Staff Reporter

Burbank, California, USA - January 9, 2024: Nestled in the heart of the studio, the 513 seat Steven J. Ross Theater is the most elegant and technically advanced theatrical and screening venue at Warner Bros. Studios.

In a deal with more twists than a Hitchcock movie, Warner Bros. Discovery Inc. has found itself the belle of the ball in Hollywood, where two suitors – both alike in their determination – seek its business in a fervent bidding war.

The Los Gatos-based streaming giant Netflix Inc. had seemingly tied the knot on Dec. 5, shocking the entertainment industry by announcing that it would acquire Warner Bros. Discovery's streaming and studios division, which includes DC Studios, HBO Inc. and its extensive film and television library, at $27.75 per share. That represents $23.25 in cash and $4.5 in shares of Netflix common stock, which totals an enterprise value of nearly $83 billion and an equity value of $72 billion.

"It's inevitable," said Lloyd Greif, chief executive of downtown-based investment bank Greif & Co. "It's increasingly becoming the land of the giants."

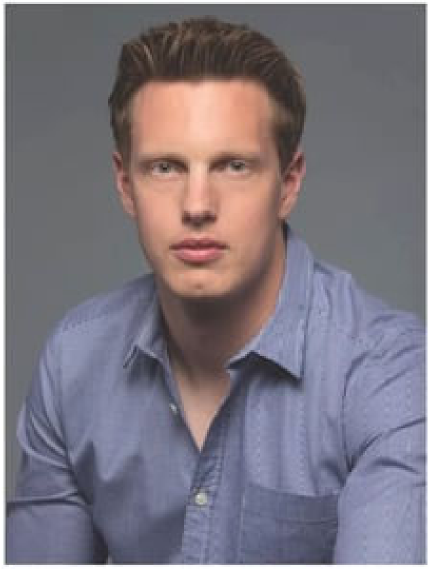
But not so fast. The drama escalated. Following a weekend of strongly worded reactions, ranging from buzzing internet chatter and industry podcast interviews to whispers behind the scenes about what's next, Paramount Skydance Corp. stepped back into the picture. It made a hostile all-cash offer to buy out all outstanding shares of Warner Bros. Discovery at $30 per share, outbidding Netflix by $6 billion.

The Hollywood-based studio is eyeing Warner Bros. Discovery's entire business, including its Global Networks division, which will give Paramount control of news outlets such as CNN, TBS and TNT Sports.

Having started the saga in September and since sent six proposals to Warner Bros. Discovery, Paramount chief executive David Ellison is apparently determined to bring home the trophy.

A hostile takeover

Ellison said the bid from Netflix was "uncertain" and left shareholders "with stock in a highly levered Global Networks business.



David Ellison

"It exposes shareholders to volatile Netflix shares that could drive value below headline levels and has a highly uncertain regulatory outlook," he said.

Warner Bros. Discovery shareholders may not see it that way when the bids are up for a vote. Paramount and Warner Bros. Discovery both have a strong theatrical presence and significant production capacity to match, which Netflix lacks. This could mean redundancy and potential job cuts, Greif said.

Since its August merger with Skydance Media, Paramount has implemented significant layoffs to save costs, according to various news reports. The studio laid off about 1,000 employees in late October and has plans for at least 2,000 cuts by year's end. Last month, the company also announced an additional 1,600 job cuts connected to the divestiture of certain television station operations. Overall, the company-wide layoffs are expected to save around $3 billion in expenses.

"We saw all the layoffs that Paramount did when Skydance took them over," said Greif. "I think you ain't seen nothing yet if Paramount gets their hands on Warner Brothers Discovery. It'll be a bloodbath."

In response to Paramount's competing bid, Netflix Chief Executive Ted Sarandos said while Paramount may be cutting jobs to achieve financial synergies, Netflix is creating jobs.

"We have employed 140,000 people, 2020 to 2024. Our economic contribution to the U.S. economy in that production has been about $125 billion. We are producing in all 50 states," Sarandos said in a UBS conference call Dec. 8. "We've used 500 independent production companies to make content for us, about roughly 1,000 original projects."

Furthermore, Netflix's proposal is sweetened by its focus on the digital experience and streaming, as the entertainment industry courts technological advances with increasingly bold gestures. Another behemoth in the field, The Walt Disney Co., announced this month that it would invest $1 billion in OpenAI Group PBC and allow users to create content with Disney characters in the Sora app.

"All the trends say that there's a joinder between tech and entertainment, and Netflix is just the current version of that," Greif said. "It's very likely that Netflix will come out on top. If I'm an oddsmaker, I'm betting on Netflix over Paramount."

Netflix expects the transaction to close in 12 to 18 months, following the separation of Warner Bros. Discovery's Global Networks division, which will form a separate public company named Discovery Global.

The "move (by Paramount) was entirely expected. We have a deal done, and we are incredibly happy with the deal," Sarandos said. "We're super confident we're going to get it across the line and finish."

Money details

The financing aspects of both deals, however, involve more players. Netflix is looking to borrow $59 billion from Wall Street banks in temporary loans to finance the deal. Paramount, on the other hand, is going into $54 billion of debt commitments from Bank of America Corp., Citigroup Inc. and Apollo Global Management Inc. The Ellison family and RedBird Cap-

Ted Sarandos

Burbank, CA – August 2024: Aerial view of the famous Warner Bros Studios in Burbank, California including the water tower and sound stages.

ital Partners Management will backstop the equity for the acquisition.

Paramount said Saudi Arabia's Public Investment Fund, Abu Dhabi's L'imad Holding Co. PJSC, Qatar Investment Authority and Affinity Partners under A Fin Management, the investment fund of President Donald Trump's son-in-law Jared Kushner, also agreed to back the deal.

Since the bidding war broke out Dec. 5, Paramount's share price rose more than 5% to close at $14.12 on Dec. 11, while Netflix slid by 6% closing at $94.09.

Warner Bros. Discovery's stock rose 13% to close at $29.53 a share on Wednesday, following reports that said Paramount can increase its offer from the current price point of $30 a share.

If Netflix successfully completes the deal, it will combine its highest-grossing streaming service with HBO Max, which is not far down the list. The vertical integration has raised questions about whether the deal will violate antitrust laws.

"In an industry that's in dire straits, a horizontal combination is less problematic than a vertical combination, especially a vertical combination involving the dominant player," said Jonathan Handel, an entertainment lawyer at Feig Finkel. "The Paramount deal is probably less vulnerable to antitrust objections than the Netflix deal."

Why WBD?

Both Netflix and Paramount may have their eyes on Warner Bros. Discovery because of its popular intellectual properties and extensive catalog, suggests Corey N. Martin, Managing Partner of Granderson Des Rochers, a Beverly Hills-based law firm that focuses on entertainment and media.

Iconic titles such as Harry Potter and the DC superheroes are especially attractive, because they can be mined for sequels, prequels and additional IPs.

"From the standpoint of Paramount, who has ambitions of creating an entertainment conglomerate, that can challenge Disney and Netflix," Martin pointed out.

Netflix, similarly, covets Warner Bros. Studios' centenarian library, which it can use to build more content, especially given its lackluster performance in earning prestigious film awards despite making critically acclaimed films such as "Roma" and "Marriage Story."

"It's the largest available library of intellectual properties," said Martin.

The IP-based entertainment business is coming up strong. Earlier this year, The Observer reported that among the top 66 movies to earn over $100 million in the U.S. since 2022, 47 were part of an established franchise. The board of directors at Warner Bros. Discovery may also be weighing long-term revenue streams from Netflix's stock against short-term gain from Paramount's higher price tag, according to Martin.

"While on the surface, it may appear that Paramount was offering a higher price, the Warner Bros. Discovery board clearly felt that the benefits that they would receive in the long term outweighed the short-term benefit," he said.

Market response

Hollywood did not take the news lightly. Soon after Netflix's announcement on Dec. 5, the Directors Guild of America Inc. issued a statement voicing concerns about the deal.

"We believe that a vibrant, competitive industry – one that fosters creativity and encourages genuine competition for talent – is essential to safeguarding the careers and creative rights of directors and their teams," the statement read.

The Directors Guild shared with the Business Journal on Dec. 8 that they were already meeting with Netflix and working on connecting with Paramount to outline its concerns and better understand their respective visions for the future of Warner Bros. Discovery.

Writers Guild of America West Inc. and Writers Guild of America East Inc. also shared a joint statement, saying "this merger must be blocked" over possibilities of job elimination, wage reduction, price rise for consumers and decreased diversity, among others.

"We believe this presents a huge regulatory issue, and we need the government to step in and let the antitrust gears start working on this potential merger," Michelle Mulroney, president of Writers Guild of America West, told The Ankler's Elaine Low on the industry publication's podcast. "Whoever wins, writers lose."

Screen Actors Guild-AFTRA and Producers Guild of America Inc. also weighed in with similar sentiment of doubt.

"It seems like [the industry] is moving towards an oligopoly," said Susan Sprung, chief executive of Producers Guild of America. "That's very scary because it eliminates the competitive marketplace."

Mike Schur, producer of "The Office", wrote on BlueSky: "All media mergers end up hurting writers, actors, directors and everyone else who works in the industry. Executives, assistants, caterers, teamsters, everyone. Fewer companies [mean] fewer jobs, period."

Other Hollywood stars touched upon the political undercurrents of the acquisition. In an op-ed published by The Ankler, actress Jane Fonda said the deal puts both the entertainment industry and democracy at risk. She cited a series of actions by Paramount during the Skydance merger, including installing Kenneth R. Weinstein, former president of the conservative Hudson Institute, as a "bias monitor" to oversee CBS content. It also fired "The Late Show" host Stephen Colbert after he criticized the company's "political capitulation" and eliminated the Race and Culture Unit at CBS.

"I want to be very clear: The First Amendment is not partisan and neither is standing up to defend it," Fonda wrote. "And if we don't speak now, we may have no industry – and no democracy – left to defend."

A storm in town

Hollywood has seen its fair share of turbulence in the past few years. Disney's 2019 merger with Twentieth Century Studios Inc. drew similar criticism, with journalists noting that consolidations often leads to fewer theatrical releases. The Hollywood Reporter wrote that, in 2016, the two released 26 new titles in over 2,000 U.S. theaters each. In 2025, the combined total is 14.

"The impact of this drop on domestic box office is that 20th Century titles are projected to gross $900 million less this year than in 2016, a drop of 63%," continues the report.

Disney has also closed a deal with Comcast Corp. – who also was in the Warner Bros. Discovery mix this fall – to acquire the remaining shares of Santa Monica-based streamer Hulu this summer. Disney already owned about a third of Hulu at the time.

While Governor Gavin Newsom has tried to stimulate the entertainment industry by offering tax credits to 17 local television projects, including "Baywatch" and "The Night Agent," many see the recent developments with Warner Bros. Discovery as another step toward eliminating choice and leverage for Hollywood workers.

"Consolidation only means contraction, and the industry is already in a very tough contraction and can't afford more of that," Mulroney said. "We sadly know how this movie ends."