

## **General Electric – Vivendi Universal Entertainment**

On September 2, 2003, General Electric (GE) and Vivendi Universal (VU) announced that they have signed an agreement to conduct exclusive negotiations for a merger of their entertainment assets: NBC and Vivendi Universal Entertainment (VUE), respectively.

GE will own 80% of the new company, NBC Universal, with the remaining 20% held by Vivendi Universal. As part of the transaction, VU shareholders will receive \$3.8 billion in cash at closing (expected to be next year) by selling its right to receive \$4 billion of GE stock in the next two years. GE will also assume \$1.6 billion of VU's debt. Thus GE's net financial payment should initially total only \$5.4 billion, with no initial cash outlays.

The proposed terms value the combined company at \$42 billion with NBC being valued at roughly \$28 billion and VUE assets at \$14 billion. VU's 20% stake in NBC Universal is valued at \$8.4 billion. GE will essentially acquire control of VUE's assets for 14x's EBITDA, a multiple near the bottom of the range for similar transactions since 1994. Vivendi Universal will be able to sell its remaining 20% stake at regular intervals between 2006-2008. Robert C. Wright, chairman of NBC, will run the new company. VU will hold three seats on the new board.

NBC Universal will be the nation's sixth largest media company with 2003 pro forma revenues of \$13 billion and EBITDA margins of 23.1%. The new company will include NBC's assets: broadcast network; more than 14 local stations; NBC Studios, cable channels CNBC, MSNBC, Bravo, and Mun2; and the Spanish-language network Telemundo. Vivendi Universal brings in: Universal Pictures film studio; Universal

Television production studio; cable networks like USA, Sci-Fi, and Trio; and Universal Studios theme parks. The deal does not include Universal Music, the world's biggest record label.

News of the agreement was met with muted enthusiasm by investors. GE rose 87 cents to \$30.44. Vivendi Universal was up \$1.35 to \$18.25 in the NYSE, and closed in Paris at 16.6 euros, up 0.66 euros.

The deal will help NBC compete in an entertainment world that is increasingly vertically integrated. NBC is the only network that isn't directly linked to a major movie studio, leaving it to rely on outside producers for films and programs. Thus NBC is gaining considerable heft in its production capabilities (content) and adding some attractive cable assets (distribution). It will also represent a dramatic broadening in its revenue base to include a more balanced combination of advertising, production and syndication revenues and fees, shifting from 90% advertising revenues to 45% advertising and 55% "aftermarket" fees. Pre-tax synergy opportunities are expected to be around \$400 to \$500 million annually (75% from cost reductions and 25% from potential revenues). NBC Universal would represent 9% of GE total revenues and as much as 15% of total GE operating profit. In addition, VUE assets are expected to grow much faster than the old-line industrial businesses in GE's portfolio.

For Vivendi Universal, the deal ends a months-long auction that sought to unravel the frenzied acquisitions that brought VU to the brink of bankruptcy. VU announced its intention to auction the entertainment assets in its annual meeting in April 2003. Six bidders submitted initial offers: Liberty Media, Viacom, MGM, NBC, an investor group led by Seagram heir Edgar Bronfman Jr., and a group led by oil billionaire Marvin Davis.

NBC and the investor group led Bronfman Jr. were selected for further negotiations which NBC eventually won.

A firm deal is still far from certain. GE is known for trying to exact better terms during final negotiations. Another complication is InterActiveCorp, the electronic-commerce concern controlled by Barry Diller, which has a minority stake in the venture that owns the VUE assets and could also emerge as a last-minute spoiler. In addition the corporate cultures are different. GE represents steady predictable growth, rigorous financial and management discipline. VUE is more of a hit-and-miss enterprise with plenty of Hollywood volatility. “Staid” companies such as Coca Cola and Matsushita Electric Industrial tried to ran movie studios for a while before quitting, burned by the film industry’s lavish spending and uncertain success rate.