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Inside Paramount's Search for a Buyer: Apollo's Letters, Redstone's Rejections and 'Party F'

Apollo Global Management tried seven times to gain a foothold in the bidding but ultimately lost out to Skydance Media's $8-billion deal, an SEC filing reveals

By Lucas Manfredi | November 27, 2024

From left to right: Warner Bros. Discovery CEO David Zaslav, Disney CEO Bob Iger, Comcast President Mike Cavanagh, Netflix co-CEO Ted Sarandos and Paramount Global co-CEOs Chris McCarthy, Brian Robbins and George Cheeks (Photo courtesy of Getty Images/TheWrap/Chris Smith)

Ever since the Skydance Media deal was announced, some Paramount investors have accused controlling shareholder Shari Redstone of pursuing David Ellison's offer to enrich herself .

But an SEC filing suggests that reality is more complicated, with the special committee carrying out a long and tiresome process to find a deal that would appease both Redstone and shareholders. The committee reached out to over 50 parties before landing on the $8 -billion merger deal, which included a provision for a 45-day go-shop period to find a better offer.

"The 45 days was designed to stack the deck in favor of Skydance's bid, but it looks like they did have a lot of interest," Lloyd Greif, CEO of the Los Angeles-based investment banking firm Greif & Co., told TheWrap. "Most of the parties probably figured they didn't have enough time to perform adequate due diligence."

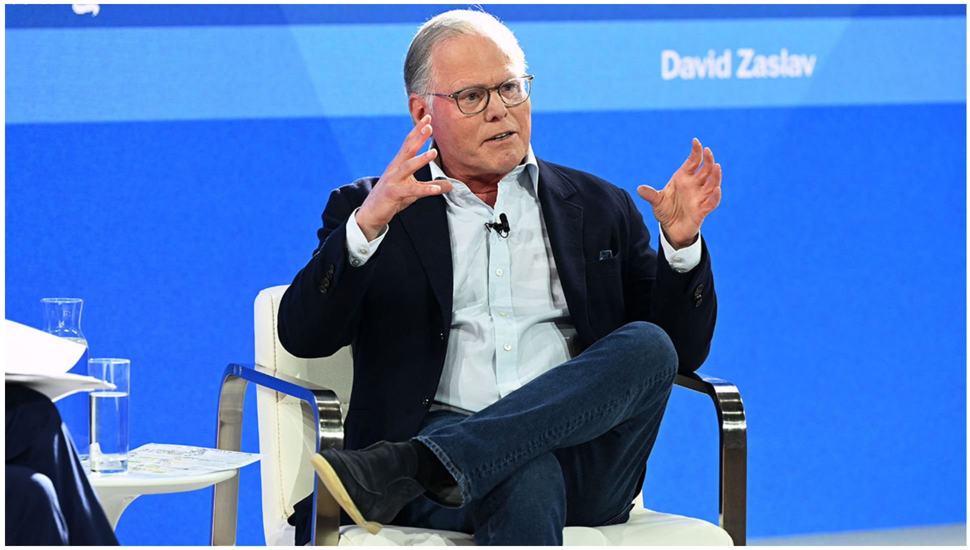
Among the interested parties was Apollo Global Management, who submitted a $26-billion all-cash offer with Sony Pictures Entertainment, but whose seriousness about a deal was questioned along the way as its various proposals omitted "certain key details," according to the SEC filing.

The filing also revealed that Warner Brothers Discovery CEO David Zaslav, despite the poor financial condition of WBD, nevertheless pursued Paramount for longer than previously understood. Paramount also received inquiries from undisclosed private equity firms, including the mysterious "Party F," whose proposal was ultimately spurned by Redstone.

While Paramount's filing sheds new light on how the search for a buyer played out, eMarketer senior analyst Ross Benes urged caution in drawing conclusions from the timeline laid out in the 669-page SEC filing.

"Shari Redstone changed her mind numerous times over numerous years regarding whether to sell Paramount and who to sell it to," Benes told TheWrap. "The claims [from the special committee] are just one side of the story."

Representatives for National Amusements, Apollo, Warner Bros. Discovery, Paramount and the special committee declined to comment for this story.



WBD CEO David Zaslav (Photo by Slaven Vlasic/Getty Images for The New York Times)

WBD-Paramount merger regulatory fears

On December 19, 2023, then-Paramount Global CEO Bob Bakish met in person with Zaslav in New York City. The two executives discussed, among other things, a potential merger between the two Hollywood studios. Talks continued during a meeting on January 11.

Between January and April, Paramount's management, along with its independent special committee and financial advisor, had various conversations about a possible WBD transaction. National Amusements expressed concerns that a deal with WBD would pose "heightened regulatory risk," expose both the company and Paramount to "further deteriorating industry conditions" and would likely not provide any cash to purchase outstanding shares owned by Paramount's shareholders

Nevertheless, the group determined a deal would have had "significant synergy potential" and opted to enter into an NDA with WBD to allow for mutual due diligence, the filing shows.

Warner Bros Discovery never actually submitted a transaction proposal and, in February, TheWrap reported that WBD and Paramount were halting merger talks. But the SEC filing shows that discussions continued behind the scenes until April 11, when Zaslav contacted the Paramount side and told them that while he believed there was strategic merit to a combination, a deal with Paramount wouldn't include any cash to purchase outstanding shares owned by Paramount's shareholders.

Paramount contacted WBD during the go-shop process in July, but Zaslav did not express interest in a potential transaction.

A joint streaming venture with Comcast

Bakish didn't only talk to Zaslav on January 11. That same day, he had a call with Comcast chairman and CEO Brian Roberts and discussed a range of possible transactions, including an acquisition by Comcast and a potential joint venture involving the companies' streaming platforms.

On January 26, Comcast informed Paramount it wasn't interested in a merger or streaming joint venture, but it was open to exploring a potential license for Paramount+ content. But during a February 20 meeting, Comcast changed its tune about a streaming joint venture, provided it could have majority control of the partnership.

From there, a multi-step plan was created involving a streaming joint venture and sale of Paramount Studios, which management believed was the "optimal" path forward in the event of no transaction for all of Paramount. The economic terms also included a substantial cash contribution from Paramount to fund the JV. But the special committee determined it would need NAI's blessing.

By the end of March, the situation had shifted. Paramount's special committee drafted an exclusivity agreement for talks with Skydance and told Bakish to cancel any further meetings with Comcast.

During a call on March 30, Redstone also supported pulling the plug on the Comcast discussions — she preferred to enter exclusive talks with Skydance.

Paramount contacted Comcast during the go-shop process in July, but it ultimately did not submit a proposal. However, Comcast president Mike Cavanagh recently said he'd generally be open to streaming partnerships to help grow Peacock.

Private equity's play for Paramount

Paramount's special committee also received interest from some private equity firms.

"Party E" was a "leading private equity firm" that submitted a proposal in January for a transaction that would involve a third-party acquisition of a stake in a new entity to which Paramount would contribute a portion of its content library.

Another bidder was "Party F," identified as a private equity firm focused on "middle market companies." It sent a proposal to Bakish and Redstone in February offering an entertainment studio it owned on a debt-free basis and an unspecified amount of cash, in exchange for 19.9% of Paramount's outstanding shares.

Party F's proposal was contingent upon equal voting rights for shareholders with a Class A shareholder premium to be determined for relinquishing their voting rights. Party F later contacted Redstone directly about a new, similar proposal in April. She ultimately chose not to engage with it.

"Paramount value had declined a lot, which made it attractive for a PE takeover," Benes said. "PE is always looking for companies they can purchase cheaply, wrangle some profits out of after cutting costs, restructure and sell off as a desiccated husk vaguely resembling its former self."

Letters from Apollo

For nearly four months, New York investment firm Apollo Global Management made numerous plays for Paramount.

It started on March 6, when Apollo sent a proposal to Bakish expressing interest in buying Paramount Pictures and other film and TV studios in a deal that valued Paramount Studios at $11 billion.

Apollo Global Management CEO Marc Rowan (Photo by Vernon Yuen/ NurPhoto via Getty Images)

The investment firm wanted to exclude CBS Studios and Paramount's other primary television studios.

On March 23, the special committee decided to pursue talks with Apollo. But NAI said it would not support a sale of Paramount Studios for $11 billion because it didn't believe the transaction would maximize value for Paramount shareholders. That same day, Apollo sent a second letter offering $2.5 billion to $3 billion to acquire Paramount's Class A common stock owned by NAI and other shareholders interested in selling. It said it could bring in other partners but didn't reveal details.

Redstone's firm said it wouldn't support a sale of the asset at even twice the $11 billion Apollo was proposing.

The special committee, nevertheless, continued to discuss Apollo's new proposal and determined it warranted further exploration. NAI, on the other hand, continued to believe that Paramount Studios was a "crown jewel asset" that was critical to Paramount's long-term strategy, NAI's legal counsel told the special committee.

On March 26, Apollo sent a third letter of interest. It didn't include financial, structural or other transaction terms, including sources of capital. That prompted the committee to question the seriousness of Apollo's interest and they proceeded to ask the private equity firm for more specifics on financial terms. The special committee decided to hold back on a final decision on entering into an exclusivity agreement with Skydance until Apollo responded.

Five days later, Apollo sent a fourth letter valuing Paramount between $26 billion and $27 billion. While there were still no details on financing or the allocation of the consideration between Class A and B shares, Apollo did note a transaction would not accelerate a mandatory repurchase offer for the vast majority of Paramount's outstanding indebtedness in light of S&P's credit downgrade.

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On April 1, the Paramount side reviewed the latest Apollo pro-


Shari Redstone (Photo by Jared Siskin/Patrick McMullan via Getty Images)

posal and felt the private equity firm was showing a lack of urgency given the media attention swirling around the Skydance transaction. It also couldn't determine how much cash Paramount's public stockholders would get in the proposed transaction. Later that day, NAI weighed in, calling it a "preliminary" and "not an actionable offer" — Redstone's firm didn't believe it warranted risking Skydance walking away if David Ellison's company declined to enter into an exclusivity agreement, which NAI believed was a "credible risk."

The next day, Apollo sent yet a fifth letter reiterating its interest. It clarified proposed terms, including that the purchase price would be in cash at closing and that it had sufficient capital to fund 100% of the equity. But it continued to omit details regarding the allocation of the consideration between Class A and B common stock, according to the SEC filing

Paramount continued to believe that Apollo was not engaging meaningfully with NAI to understand Redstone's priorities — and was a bigger risk than Skydance.

After shortening the duration of the Skydance exclusivity period from 30 days to 20 days, the committee approved the exclusivity agreement.

As talks were going on behind the scenes, Paramount shareholders were publicly expressing opposition to the Skydance deal, arguing the deal would enrich Redstone at the expense of Paramount's minority investors, and that Apollo's bid was being unfairly ignored. Ariel Investments' John Rogers Jr., for example, told TheWrap at the time it was considering taking legal action over the Skydance deal if it didn't appropriately benefit the firm's clients.

Enter Sony

Meanwhile, on March 21, Sony Pictures Entertainment and representatives of Party G, a "strategic counterparty," reached out to express interest in a potential acquisition of Paramount's studios — but not for all of Paramount.

On May 1, Apollo submitted a sixth letter, but this time along with Sony. The partners offered to acquire Paramount Class A and B common stock for $28 and $17 per share, respectively, representing premiums of 35% and 49% to the closing prices on April 30. They also offered to acquire all of NAI and Redstone's shares for $1.8 billion in cash. Apollo added that they were prepared to reallocate how much cash would go to NAI and Redstone compared to Paramount's public stockholders.

The Paramount group looked at the new proposal and determined that the structure and ownership split between Apollo and Sony had been omitted and that NAI and Redstone would likely find the acquisition of 100% of their shares "disadvantageous." They also worried that such a transaction could receive enhanced scrutiny from regulators and might present more closing risk than a Skydance transaction

Still, the Paramount side decided to continue to engage with Sony-Apollo and discuss how to improve the terms.

Apollo-Sony and the Paramount parties finally signed NDAs on May 16.

Even as it engaged with Skydance and Apollo-Sony, Redstone's NAI continued to explore NAI-only transactions with multiple unidentified parties, the filing showed.

On May 12, legal counsel for the special committee said that Sony and Apollo had still not entered into an NDA a week after it was shared with them. Two days later, news outlets reported that Sony and Apollo were "rethinking" their bid. By May 27, Sony and Apollo were conducting due diligence, but they hadn't made much progress from the May 1 proposal.

The special committee, seemingly frustrated with Apollo and Sony, determined that Skydance was the only potential counterparty that was actively engaged.

On June 24, a special committee member called Apollo's financial advisor, who continued to request information from Paramount for due diligence — including a meeting between Sony and Apollo and Paramount management that did not ultimately occur.

Apollo sent a seventh, and final, letter on July 3 offering a $4 billion preferred equity investment to acquire Paramount's issued and outstanding shares and deleverage its capital structure.

Over the next two days, the special committee queried Apollo about why its latest proposal was still missing "certain key details," according to the SEC filing. The committee opted to prioritize Skydance, figuring it could further engage with Apollo during a go-shop period. (A representative for Apollo declined to comment.) The long dance had ended. Though the special committee contacted Apollo and Sony during the go-shop period in July, the parties did not sign a new NDA nor engage further on a potential deal.

"Not every suitor will want to jump through continual hoops for an uncertain transaction of a deteriorating asset," Benes said.