Warner takes MTV, Nickelodeon public

Plans to sell minority interest in new company to raise $80 million

MTV Networks Inc.
(in thousands)

	1980	1981	1982	1983
Nickelodeon revenue	—	$4,401	$10,671	$16,744
MTV revenue	—	—	$7,060	$26,534
Combined revenue	$2,195	$4,196	$23,314	$49,801
Pro forma net income (loss)	($6,172)	($29,805)	($33,762)	($12,291)
Nickelodeon subscribers	2,600	6,160	10,370	15,120
MTV subscribers	—	2,150	9,350	16,280
Yearend per-subscriber revenue				
Nickelodeon	—	$0.71	$1.03	$1.03
MTV	—	—	$0.76	$1.63

Warner Communications Inc. is pushing its two wholly owned cable services, MTV and Nickelodeon, out of the nest—partially, that is. In a filing at the Securities and Exchange Commission, WCI announced it had formed a new company, MTV Networks Inc., in which it plans to sell a minority interest to outsiders, raising in the process approximately $80 million. The offering document provided some heretofore unrevealed insights into the operations of both channels.

The two combined reported a profit for the first time in January. For the three months ending March 31, net income, recorded as if the company were a separate operation, was $1,366,000, on revenue of $20,548,000, compared to a $5,929,000 loss for the same three months last year on revenue of $8,649,000. The prospectus attributes the recent increase in revenue to several factors. It notes that MTV and Nickelodeon were the second and third fastest growing basic cable services over the second half of 1983, according to the Nielsen Home Video Index. MTV subscribership increased from 11,492,000 as of March 31, 1983, to 17,254,000 a year later; Nickelodeon's figures grew from 11,608,000 to 16,147,000. MTV also received $1.7 million, or 13%, of its first-quarter revenue, from a source unavailable last year, as a result of Warner-Amex's decision to begin charging cable operators for the service. The charge currently applies to less than one-third of its subscriber base, and the company thinks that by the end of the year the percentage of MTV's revenue from cable operator fees will increase to 17%. Nickelodeon, which at the same time last year announced it would start accepting advertising, reported that $540,000, or 10% of its revenue for the most recent quarter, came from that new advertising revenue. It said the advertising portion should increase to about 17% for the full year.

The company expects MTV to have at least $50 million in advertising revenue for the full year. The revenue MTV gets from licensing of its trademark and from performing certain network services came to $1,682,000 last year. Adding those two together plus the 17% it expects to get from cable operators would put anticipated 1984 revenue near $62 million, a 133% increase. Nickelodeon expects its advertising revenue to be at least $3.3 million for this fiscal year, which as 17% of total revenue for the channel would make Nickelodeon's revenue $19.4 million, a 16% increase, indicating that the profitability of MTV is fast outpacing Nickelodeon.

According to the preliminary prospectus, "Prior to 1984, $82,030,000 of operating losses had been incurred by WASEC (Warner Amex Satellite Entertainment Co.) in the development and operation of the MTV and Nickelodeon channels." That number is close to the amount that would be raised by the offering. The losses were $6.2 million in 1980, $29.8 million in 1981, $33.8 million in 1982 and $12.3 million in 1983. Nickelodeon was launched in January of 1980; MTV in August of 1981.

The document also noted that the new company "has an affiliate sales and marketing operation consisting of over 70 staff members located at its headquarters and five regional offices. In addition, the advertising sales force has over 30 staff members."

If the SEC approves the registration, MTV Networks Inc. plans to offer 5,125,000 shares at between $16 and $18 per share. The offering would raise $87 million at $17 per share, of which an estimated $7 million would go to expenses and the underwriters—Shearson Lehman/American Express, Salomon Brothers Inc. and Drexel Burnham Lambert Inc.

Warner Communications and American Express, the equal owners of the two channels, would still maintain majority ownership and voting control after the offering. They would each own 2.5 million shares of common stock and would be sole owners of 5 million shares of convertible preferred stock giving them 66.1% of the equity and, because the preferred stock carries nine votes per share, 90.1% of the voting control. The preferred stock would, however, have limited advantages. No dividends could be paid on it unless equivalent dividends were paid on the common stock; the preferred would have no priority in the liquidation of assets, and its votes could not be used to increase preferred rights. □