Paramount: let the bidding begin

By Geoffrey Foisie

Viacom and QVC Networks Inc., locked into a multibillion-dollar bidding war for Paramount, are scrambling for money.

Viacom last week raised $600 million in a deal with home video giant Blockbuster Entertainment and was lining up another $1.5 billion in bank credit. QVC reportedly also was going to the banks for $3 billion.

Both companies are offering cash-plus-stock for the movie studio. Viacom's offer is now valued at $7.8 billion; QVC's bid approaches $10 million.

The Paramount board last week declined to begin negotiations with QVC until it has secured the cash it needs ($3.6 billion, or $30 per share) to formalize its offer.

Most expected QVC to come up with the cash, even Viacom Chairman Sumner Redstone. He told BROADCASTING & CABLE that he would "not be surprised" if QVC raises the money.

QVC's controlling shareholders, John Malone's Liberty Media and Comcast, already have committed $1 billion. And *American Banker* said QVC is working with Chemical Bank to line up another $3 billion.

Viacom is adding some bidding muscle, lining up three major commercial banks to commit to a $1.5 billion revolving credit line. The banks have signed exclusivity agreements "...prohibiting them from working with QVC Networks Inc. or any other rival bidders for Paramount."

For its $600 million "strategic" investment, Miami-based Blockbuster will receive preferred stock paying 5% dividends and convertible into Viacom's class B nonvoting stock, which traded at around $55 last week, at $70 per share.

Redstone emphasized that the securities issued to Blockbuster were not debt, technically, thus keeping leverage low. Selling stock, rather than debt, also might make it easier for Viacom to tap the credit markets further, if the bidding war makes that necessary.

The Viacom chairman also said that he continues to talk with other strategic investors. He declined to name them, but speculation involves Cox Enterprises and several of the regional Bell companies, including Southwestern Bell.

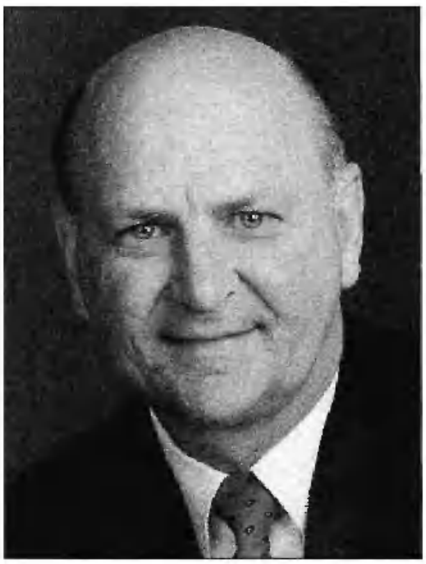
Redstone said the investments were being sought independently of any plans to up the bid for Paramount, which includes $9.10 cash per share.

"It is a dream to put together the two companies [Viacom and Paramount], but we can't effectuate that, deliver on it and grow enormously with a lot of debt on the balance sheet," Redstone said. "We don't want to do a deal where we have to sell Simon and Schuster."

Professional merger investors last week continued to insist that "cash is king" and that the winning bid would

Huizenga building Blockbuster's media presence

Blockbuster's investment in Viacom is only the latest in a number of steps to move the company further up the entertainment distribution food chain. Blockbuster, which has made its name in the home video store business, is led by Chairman/CEO H. Wayne Huizenga (pictured). Its other entertainment acquisitions include the accumulation of a 70% interest in Spelling Entertainment Group and 37% of Republic Pictures.



In recent weeks, Spelling has been hard at work trying to assemble a mini-TV network, asking stations to commit to a multiyear two-hour prime time block (see page 16) and has entered into a partnership with Mexico's Multivision to launch a 24-hour cable service in Latin America.

Blockbuster's expansion strategy is seen at least partly as an effort to diversify beyond its core video rental business, which is exposed to potential competition from cable and telephone company pay-per-view movies.

In addition to protecting its existing distribution channel, Blockbuster has sought to diversify the product flowing through that channel. The Fort Lauderdale-based company recently closed deals in the music industry with the purchase of the Sound Warehouse and Music Plus chains as well as the formation of a partnership with London-based Virgin Retail, with whom Blockbuster plans to build music and video entertainment "mega-stores."

Currently, video rentals make up roughly 85% of Blockbuster's revenue. It has 3,000 company-owned and franchised stores throughout the U.S. and abroad.

Blockbuster's revenue for 1992 was $1.2 billion with an operating income of more than $220 million. Viacom's revenue last year exceeded $1.8 billion with operating profits of more than $347 million. **—JC**