

William Morris Endeavor Entertainment LLC

Silver Lake looks to turn WME into gold

Silver Lake scored one of the private equity industry's biggest returns in years when it turned a \$500m investment in Alibaba into a paper profit of \$5.7bn.

MATTHEW GARRAHAN

The firm made its name with such technology-focused deals, but is now looking to a century-old Hollywood talent agency behind Matt Damon and Serena Williams for its next big windfall.

The investment in William Morris Endeavor, the agency run by Ari Emanuel and Patrick Whitesell, "will be one of the highest returning investments that we have done", says Egon Durban, Silver Lake's managing partner.

With Silver Lake's backing, WME this year completed the \$2.4bn purchase of IMG, the sports marketing group. The combined WME-IMG is "one of the fastest growing media companies in the world at scale", says Mr Durban in an interview.

Silver Lake initially acquired a 31 per cent stake in WME in 2012 for \$200m, following up with a \$500m investment this year when the agency bought IMG.

That deal gave Silver Lake 51 per cent of the combined group and clients including some of the biggest stars of film, television, music, fashion and sport. Actors Ben Affleck and Charlize Theron are on WME-IMG's books, as is director Martin Scorsese. It also represents British model Kate Moss, the Wimbledon Championships and New York Fashion Week.

WME is one of the power brokers of old Hollywood, but Silver Lake is betting it

can plot a course through a fast-changing digital media landscape. A new generation of platforms is competing to acquire film and television programming, creating a new market for the top talent that produces it.

"Premium content is incredibly valuable - and there are more buyers," says Mr Durban. "If we continue to benefit from this trend of digital growth we get a lot of wood to chop," he says, pointing to Amazon's recent acquisition of the rights to screen the HBO back catalogue, in a deal worth \$250m a year.

\$2.4bn

Price WME paid for its Silver Lake-backed purchase of IMG

"We benefit from package fees from the shows when they get resold and re-syndicated over and over again."

The acquisition of IMG adds a new dimension, with athlete representation, events management - it owns more than 100 golf, tennis and fashion events - and marketing relationships for lucrative US college sports among its operations.

He is expecting Mr Emanuel and Mr Whitesell to bring some Hollywood hustle to

these businesses. "We're taking WME's expertise in creating and managing content and wrapping it around sports [and] imbuing itself in the culture of IMG."

WME's debt-financed purchase of IMG came at a hefty price tag. Rival bidders who balked at the final price have raised eyebrows at the debt the merged company will carry.

However, WME-IMG has no material debt maturities until 2021 and annual interest payments of about \$95m are less than a third of the \$315m the combined company generated in earnings before interest, tax, depreciation and amortisation in the past 12 months. WME's ebitda has risen 51 per cent this year while IMG's has increased 32 per cent, according to the company.

WME-IMG has identified more than \$100m of cost savings, cutting overhead and consolidating IT systems and global procurement. It has beefed up its management team with the addition of Chris Liddell, a former chief financial officer of Microsoft and General Motors, as CFO (he replaced Peter Klein, another former Microsoft CFO, who held the WME-IMG role for just six months). Mark Shapiro, the former chief executive of Dick Clark Productions, has been bought in as chief content officer to squeeze new revenue from IMG's businesses.

The combined group is a "relatively large and

complicated animal," Mr Durban acknowledges. "We are in many more businesses and offer more services."

WME-IMG is not alone in Hollywood in turning to private equity funding to bulk up its business as sport and media converge. Arch-rival Creative Artists Agency, which represents stars ranging from George Clooney and Brad Pitt to football player Cristiano Ronaldo, recently secured a \$225m investment from TPG, which lifted the investor's stake to 53 per cent.

Mr Durban says size has worked to WME-IMG's advantage. "It reminds me of when I graduated from college and worked at Morgan Stanley. Then there was consolidation: banks had to become full service and got larger and larger . . . instead of having to pitch clients, clients would call them and give them business."

The same trend is unfolding in entertainment, he says. "Through the course of the year we've had a significant acceleration of talent representation flow our way because of our scale."

Silver Lake has completed some large exits from its investments in its 15-year history. But he says the firm is in no hurry with WME-IMG. "This a business that has been around for 100 years," he says, referring to the William Morris agency's venerable history. "We're not in a rush."