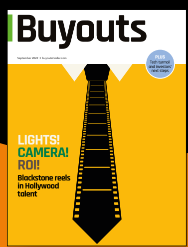
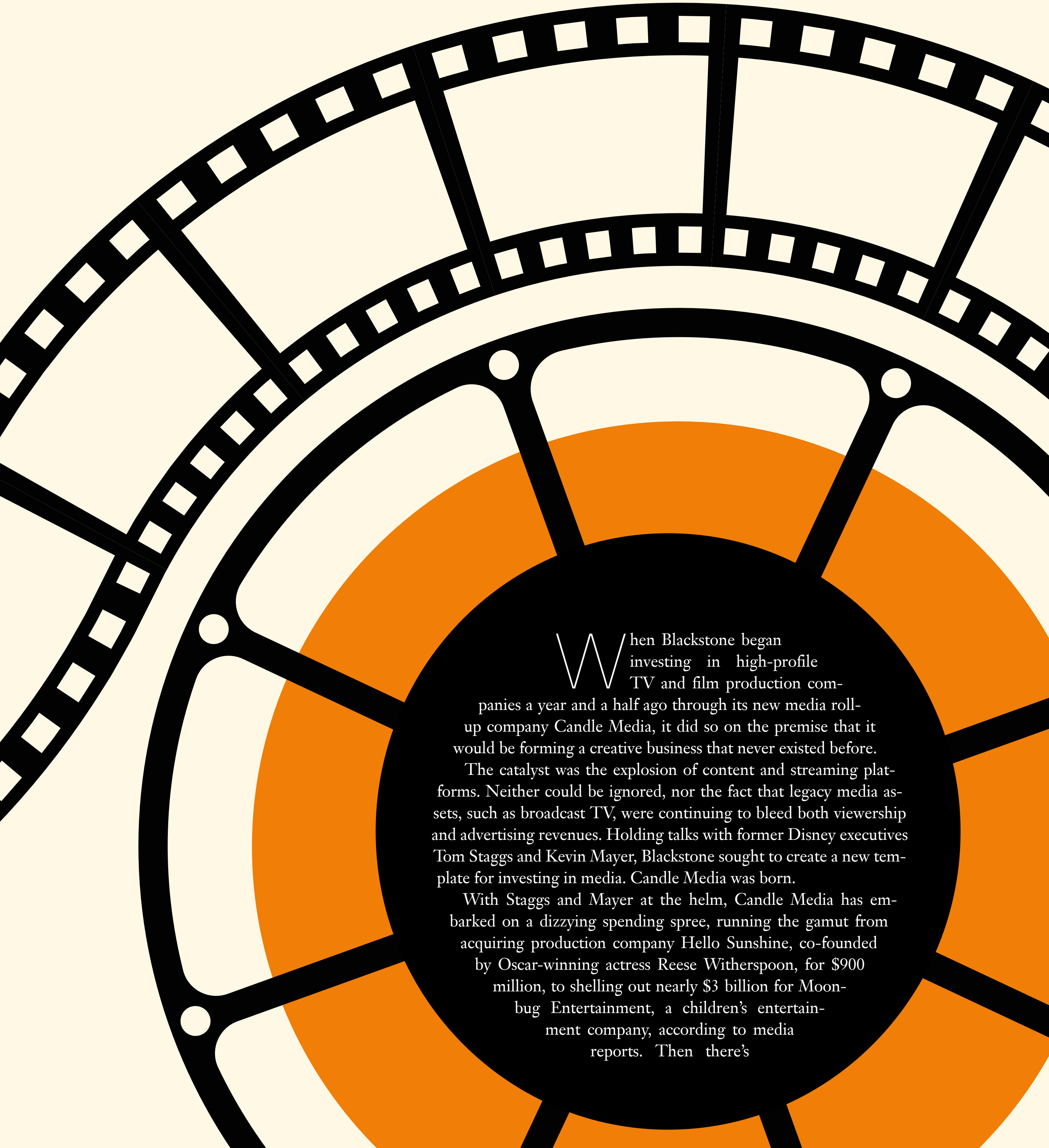
Lights! Camera! ROI!

Blackstone builds a creative empire as it targets talent for its new media rollup. But fierce competition means plenty of dramatic plot twists ahead. By Iris Dorbian



Cover story



When Blackstone began investing in high-profile TV and film production companies a year and a half ago through its new media roll-up company Candle Media, it did so on the premise that it would be forming a creative business that never existed before.

The catalyst was the explosion of content and streaming platforms. Neither could be ignored, nor the fact that legacy media assets, such as broadcast TV, were continuing to bleed both viewership and advertising revenues. Holding talks with former Disney executives Tom Staggs and Kevin Mayer, Blackstone sought to create a new template for investing in media. Candle Media was born.

With Staggs and Mayer at the helm, Candle Media has embarked on a dizzying spending spree, running the gamut from acquiring production company Hello Sunshine, co-founded by Oscar-winning actress Reese Witherspoon, for $900 million, to shelling out nearly $3 billion for Moonbug Entertainment, a children's entertainment company, according to media reports. Then there's

"Streaming platforms have transformed the way people consume content. The trend toward consuming content from these platforms is irreversible"

JOE BARATTA
Blackstone

the purported $60 million minority investment made earlier this year in Westbrook, a production company co-founded by controversial Oscar-winning actor Will Smith and his wife, actress Jada Pinkett Smith. And a deal, whose financial terms were undisclosed, to scoop up Faraway Road, the Israeli entertainment company behind the hot Netflix series *Fauda.*

These moves have left some in private equity scratching their heads, wondering what Blackstone is doing, making these expensive bets on talent when other firms have played it safe by picking up old film libraries or music catalogs from iconic or veteran talent.

The answer, as Blackstone tells *Buyouts*, is simple: The valuations they're paying are quite reasonable – critics be damned.

Moreover, the firm feels confident the deals Candle Media made recently are all the right ones. If things go Blackstone's way, the firm will be presiding over a next-generation entertainment empire with Candle Media serving as a premium content platform catering to a broad range of audiences while leveraging a cornucopia of ecommerce opportunities.

"We're building it from scratch," says David Kestnbaum, a senior managing director at Blackstone, when asked how Candle Media has evolved. "We don't want to buy things to fix legacy issues. We want to build it brick by brick the way we want the company to work. It's not a traditional private equity example of buying a more established company. It's much more strategic and growth driven."

It's an ambitious and perhaps risky undertaking, particularly as the appetite for certain types of content hinges on the fickle tastes of the public. Yet Blackstone is more than willing to take that gamble, positioning Candle Media to lead the charge in a media wilderness whose future, they believe, lies in streaming channels and their content.

Subscriber boom

The staggering statistics are in Blackstone's favor. Last year, streaming services, led by Netflix, helped push content spending past $220 billion. According to UK market researcher Ampere Analysis, that was a 14 percent jump over the previous year, when advertising spending declined while TV and film productions halted in the wake of the covid-19 outbreak.

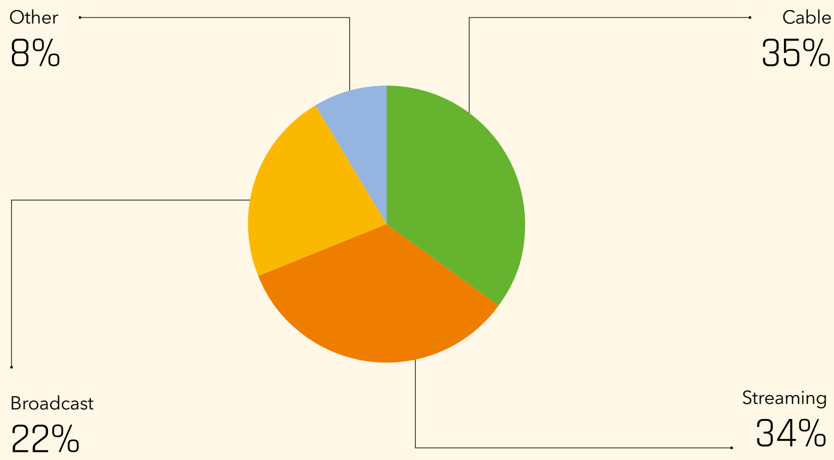
Ampere also found that "there are now more subscriptions to video streaming services – including Netflix, Amazon Prime, Hulu, HBO Max and Disney+ – than there are people in the USA."

"That's where all the growth is," adds Kestnbaum on the meteoric surge in streaming businesses. "We're trying to skate where the puck is going. You're not beholden to what's on TV at 8pm at a given time."

But choppy waters have been roiling the streaming landscape lately. In April, the sector's most formidable player, Netflix, announced it lost 200,000 in subscribers in the first quarter; and in July it announced it had lost 970,000 in the second quarter of this year (although the number was better than the two million the firm was expecting to lose for that quarter).

The startling admission in April caused the stock to nosedive as well

US TV viewing platforms (June 2022)



*Figures have been rounded

Source: Nielsen

as trigger lawsuits from shareholders charging the streaming titan with misleading them about subscriber growth.

Days later, CNN's new parent company, Warner Bros Discovery, said it was pulling the plug on the cable network news channel's new streaming platform CNN+ a mere three weeks after its much ballyhooed launch. According to online news outlet Axios, the shutdown was instigated "because CNN and its new parent disagreed over whether the investment made sense long-term."

Yet these setbacks have not caused Blackstone to experience buyer's remorse. On the contrary, the investment giant seems to have doubled down on Candle Media's investment strategy.

"Streaming platforms have transformed the way people consume content," says Joe Baratta, Blackstone's global head of private equity. "The trend toward consuming content from these platforms is irreversible, and industry-wide spend levels on this content will continue to grow. Candle is built on serving great content to both streaming and social media platforms and is not dependent on any one distribution partner. Candle's value is in attracting and creating great content."

In addition to the recent woes in the space, another question pops up: With more people returning to the office, even on hybrid schedules, will the supply and demand in streaming content continue? Arash Khalili, a partner at Los Angeles-based law firm Loeb & Loeb LLP, whose clients include media and sports companies, believes it will.

"What's happened during covid is that binge watching is at a whole new level; people are watching a lot more content. The demand is definitely increasing because folks the last few years are home all day," says Khalili. "This

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DAVID KESTNBAUM
Blackstone

NOW SHOWING

$220bn

Amount spent in 2021 to create streaming, TV and movie content

$760m

Apollo's investment in Legendary, a media company that has produced a slew of top-grossing box office films

$900m

Price tag that Blackstone's Candle Media paid to acquire production company Hello Sunshine, co-founded by actress Reese Witherspoon

$100m

The amount that buyout shop Abry Partners recently invested in comedian Kevin Hart's production company Hartbeat

is additional fuel to the fire. Many companies are embracing hybrid work so there will still be more content post-covid. The paradigm has shifted of late with higher quality content in these platforms."

Competition

Judging by recent moves in the private equity terrain, other firms are angling to get in on the action. In April, the same month as the infamous CNN+ shutdown and Netflix's admission of subscriber loss, Boston-based buyout shop Abry Partners announced it was investing $100 million in comedian Kevin Hart's production company Hartbeat. Among the many projects the company is developing are *Me Time* with Mark Wahlberg and Regina Hall for Netflix and *So Dumb It's Criminal* with Snoop Dogg for NBC's Peacock platform. When asked about the investment, Abry declined comment

Where Blackstone is relying on the continuing popularity of streaming services and glut of content to inform Candle Media's investment strategy,

> *"Binge watching is at a whole new level. Many companies are embracing hybrid work so there will still be more content post-covid"*
>
> **ARASH KHALILI**
> **Loeb & Loeb**

Apollo is adopting the polar opposite approach when it comes to its foray into the entertainment sector.

Earlier this year, Apollo invested $760 million in Legendary, a media company that has produced a slew of top-grossing box office films, such as the Oscar-winning blockbuster *Dune* as well as TV shows that include *Lost In Space* and *Carnival Row*. Apollo was motivated to make the deal for several reasons, including Legendary's massive film library. Also, the company owns and creates its intellectual property, which can be commercialized and monetized in several profitable ways, such as merchandising and video games.

That is very different from the production companies that churn out content for streamers yet don't own their IP, says Aaron Sobel, a private equity partner at Apollo. According to him, the streaming wars have become so cutthroat and competitive, where a dozen services are vying for a slice of the pie, it is bound to create a Darwinian ecosystem where only a few will survive.

"Macro-wise, we've been studying media for a long while," explains Sobel, who spoke to *Buyouts* prior to the CNN+ debacle and Netflix's subscriber attrition. "[The streamers] are fighting for consumer attention; they're not all going to win independently, and the industry will see continued consolidation. All of these assets need to end up somewhere. We can be a real buyer. As streamers go internationally, they're going to need our help and we can be good partners for them."

Although Apollo is not as proactive as Blackstone has been in the

Hollywood undead

Private equity has been investing in media at a frenzied pace recently. Here is a small sample of other players making moves in the content space:

HARBOURVIEW EQUITY PARTNERS

It's been a busy year for HarbourView and its founder, Sherrese Clarke Soares. HarbourView focuses on investments in music catalogs but has plans to expand into other areas of entertainment, Clarke Soares said in a *Buyouts* cover story earlier this year. She also has aspirations to expand fundraising as her organization grows (Apollo invested $1 billion for HarbourView's launch in 2021). Bloomberg reported last year that Clarke Soares wants to grow HarbourView into a $20 billion asset manager by 2026: "$1 billion is a great way to start; our goal is to build an institution," she said. She's been making good on that pledge, with her firm now owning over 30 catalogs.

Some of HarbourView's recent acquisitions include the song catalog of country star Brad Paisley ("Whiskey Lullaby" being one of his more famous ballads) and that of rap/rock band Hollywood Undead, which features albums with existential titles such as *American Tragedy* and *Notes from the Underground*.

ATWATER CAPITAL

Founded by Vania Schlogel, Atwater Capital styles itself as "operational capital," leveraging partnerships with creative management teams and other investors primarily on a deal-by-deal basis. The firm has ambitions to raise a larger, commingled fund in the future. Projects produced by its portfolio companies include *Mare of Easttown* (HBO Max); *Dickinson* (Apple TV+); *Dark* (Netflix); and *Call My Agent!* (Netflix). Atwater often invests alongside global firms including TPG, EQT and KKR, where Schlogel started her career. As she told *Buyouts* earlier this year, "myriad forms of content rights (be it music, film, TV, digital imagery, etc) exhibit qualities that are incredibly attractive to institutional capital. This includes acyclicality – even in recessions, people still seek joy and entertainment – and stable, predictable cashflows."

PETER CHERNIN

The veteran media executive and investor announced in early July he was rolling three studios (including Chernin Entertainment, which produced the film *Ford v Ferrari* and the sitcom *New Girl*) into a mega-content creator, The North Road Company, with an outside investment of $800 million from Providence Equity Partners and Apollo. (Providence is investing $500 million of equity and Apollo is chipping in $300 million of debt financing.)

REDBIRD CAPITAL

In late July, RedBird, founded by Gerry Cardinale, announced that it was buying Talent Systems, in partnership with StepStone Group. Talent Systems is a software/tech company that specializes in casting and auditioning for Hollywood productions. In 2020, RedBird acquired Skydance Media (*Mission Impossible* and *Top Gun: Maverick*) just before the pandemic hit. Last year the firm, with Nike, Fenway Sports Group and Epic Games, bought a minority stake in SpringHill, an entertainment entity founded by LeBron James and Maverick Carter.

entertainment sector, Sobel insists the Legendary investment is not a one-off but part of a broader play.

"Our goal is to come out swinging with these assets," he adds. "There are two ways that most buyers invest, one is in IP and the other is to buy up talent. We love talent but we feel a smarter way of [investing in the space] is supplementing that with IP, versus buying just a person. This can meaningfully de-risk an investment."

"I don't think they understand what we're doing," counters Baratta, responding to the implication that Blackstone is not buying IP. "The largest investment [we have] is in Moonbug. They control the most viewed children content in the world, Cocomelon. It owns and controls that IP."

Blackstone's Kestnbaum concurs, adding: "We own the IPs that we're making. We're going for the best of the best in terms of the quality of content, tied to IP that also presents a commerce angle. Our company is growing revenue at an incredibly fast rate. This looks like a tech company growth profile. We understand why others may look at this and think, 'What are they doing?' because we're creating an entirely new model. But we have a real conviction on capturing the flag in this market."

In that same vein, Baratta notes that Hello Sunshine is not just a pricey, celebrity-minted add-on for Candle Media.

"Hello Sunshine is led by an exceptional management team and has established itself over the last five years as the best place for female creators to tell their stories," he explains. "The company isn't spending millions making large scale productions; they are packaging great books, scripts, directors and talent and partnering with distribution partners to make great female-led content."

Another company that produces superior content and was an ideal investment for Candle Media was Faraway Road. "[Their Netflix series *Fauda*] is a great example of non-English shows being wildly popular globally," says Kestnbaum. "We're not going to partner with and buy anyone. You have to be great."

"[The streamers] are fighting for consumer attention; they're not all going to win independently, and the industry will see continued consolidation"

AARON SOBEL
Apollo

As for Westbrook, Blackstone declines to comment on the notorious Will Smith incident at the 2022 Oscars ceremony. After Smith slapped comic Chris Rock on stage during the telecast, several of his projects have been put on hold.

Instead, both executives affirm their confidence in Westbrook, which Baratta says had "terrific momentum, great social media" and a "remarkable ability to attract content creators that serve the immense demand by streaming services and social media platforms."

Recently, Candle Media inked two deals that show it is walking the talk when it comes to ramping up its social media offerings and appealing to diverse audiences. In late May, the company announced it was acquiring ATTN, a digital media company that focuses on social change content for millennials and Gen Z.

No financial terms were disclosed, although various media reports pegged the purchase price at $100 million. And less than a week later, the Blackstone-backed media roll-up said it had acquired Exile Content Studio, a content creator for Spanish speakers, for an undisclosed sum.

It remains to be seen whether Candle Media's strategy will work out in the long run, but Blackstone is convinced that it will.

"Streaming platforms are using their super premium shows to attract new subscribers," Kestnbaum explains. "That's why the spend on content is growing. Disney+ didn't even exist a few years ago. We're basically reverse engineering and supplying that trend. We don't need to make a bet on a specific platform having more subscribers in a few years, but rather that all of them will collectively have subscribers and continue to need more content." ■