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I Oughta Be In Pictures

Smelling opportunity, heavy hitters are suddenly cranking up new studios

Don't expect John Malone to show up anytime soon glad-handing Brad and Angelina on the red carpet. The billionaire dealmaker, whose Liberty Media Corp. (LCAPA) owns pieces of lots of media companies, has famously stayed away from the all-too-risky movie business--once guffawing that "if I wanted to lose money, I'd go to the track." But last year, Malone decided to make a good-size wager on the long-shot art of filmmaking, bankrolling former MGM Co-Chairman Chris McGurk's Overture Films. "He got the business plan immediately," says McGurk. "He could see the upside."

Most folks don't use "upside" and "Hollywood" in the same sentence. But in a sudden explosion of movie lust, new studios seem to be popping up faster than Paris Hilton's driving violations. Besides Malone's venture, CBS Corp. (CBS), under CEO Leslie Moonves, is bankrolling another. And former Paramount Vice-Chairman Robert G. Friedman has raised \$1 billion from investors, including Merrill Lynch (MER), to launch Summit Entertainment, which will produce, market, and distribute flicks.

Why are sane folks plunking down big money to make movies just as major studios are cutting back production and farming out riskier projects to private equity firms? In a word: distribution. As the world quickly goes digital with so many new ways to deliver entertainment directly to consumers, Malone and Moonves see movie-making as a huge opportunity to feed a fast-growing electronic maw of downloads and video-on-demand. What's more, when they look out at the bloated infrastructures of the established studios, these new entrants figure getting into the game now makes perfect sense, especially with leaner operations that get a boost from new technologies.

Even better for Malone and Moonves is that by having their own movies, they won't be as beholden to the studios for the films they put on their pay-TV outlets. Liberty's Starz channel and CBS's Showtime Networks shell out hundreds of millions of dollars a year to the studios in licensing fees. But with fans able to get DVDs quickly through services like Netflix (NFLX) and use TiVo (TIVO) to record movies, premium channels are balking at the agreements established years ago when there was less competition. "It's supply and demand," says Hollywood investment banker Stephen Prough of Salem Partners. "If the channels can fill the slots with their own content, they don't need the studios as badly."

Just the same, making your own films is not for the fainthearted. To minimize risk, Overture's McGurk intends to make 10 to 12 films a year that cost no more than \$30 million each. Budgets at CBS and Friedman's Summit would start at about \$10 million per film but could rise to nearly \$50 million. (The average Hollywood film costs \$65 million.)

Using his longtime connections, McGurk is hiring top-notch producers to lure projects to his studio, including Ferris Wheel, a film about a mother abandoning her daughter that stars Charlize Theron and hits theaters later this year. Moonves is still looking for an executive to run his film operation but will likely lean on top Showtime executives, such as Robert Greenblatt, who have helped develop hot shows like Weeds. The movies may or may not work, but the new studios still can make money by putting them on their own platforms. Malone's Starz already owns a DVD distributor and an online service, while Moonves can ship movies to CBS.

Feature films may not be all these new movie moguls are cooking up. Malone, the onetime cable tycoon who hates convention, might one day use his Starz channel to premiere movies--at \$40 a pop, perhaps--on the same day they open at your local movie house. Theater owners would rebel. So would studio execs, fretting over the impact on DVD sales. Starz CEO Robert Clasen says that's not on the early agenda, but who knows? In shaking up Hollywood with so-called day-and-date releases, Malone may find a piece of the movie industry he really can love.

By Ronald Grover