EMI agrees $4.7 billion offer from Terra Firma

By Kate Holton and Jeffrey Goldfarb
Mon May 21, 6:10 PM ET

LONDON (Reuters) - British music company EMI (EMI.L) agreed to a 2.4 billion pounds ($4.73 billion) cash takeover from private equity group Terra Firma on Monday in a surprise move that could finally shut out long-time suitor Warner (NYSE:WMG - news).

The offer of 265 pence a share sent EMI's stock up to close 9.3 percent higher at 271 pence, indicating investors thought a higher counter bid was possible.

Sources familiar with the deal told Reuters that Terra Firma intended to keep EMI intact and proceed with plans to securitise the company's reliable music publishing assets.

The sources said Terra Firma, whose chief executive is buyout mogul Guy Hands, did not have a management team lined up to take over as is often common in such deals.

The difficulties facing EMI were also laid bare on Monday as the group released its final results, showing pretax profit down more than 60 percent.

Terra Firma said that including debt the deal put a value of 3.2 billion pounds on EMI, home to artists including Kylie Minogue and Norah Jones. The agreement also includes a break fee of 24 million pounds if EMI pulls out.

The price tag values EMI at 18.5 times EBITDA, according to figures for the year ended March 31 compared with the 9.4 multiple against where Warner Music is trading, using its figures for the year ended September 30.

If accepted by shareholders, the deal would bring an end to the seven-year standoff between the world's third-largest music company, EMI, and the fourth-largest, New York-based Warner.

The two groups have tried to combine many times, but any deal might have struggled for regulatory approval. Another merger, Sony/BMG, is still being examined by the...
European Commission

Warner declined to comment on Monday. Its shares were down 2 percent at $17.04 in late Monday afternoon trading on the New York Stock Exchange.

HARD CASH

"The EMI board received a number of proposals from several different parties," Chairman John Gildersleeve said.

"Terra Firma's offer is the most attractive proposal received and delivers cash now, without regulatory uncertainty and with the minimum of operational risk to the company."

Numis analyst Paul Richards said it was good to see an official bid price for EMI after months of speculation but said he still expected Warner to try again as he did not see the 24 million pound break clause as too large in this case.

Sources familiar with the situation had previously told Reuters that EMI had opened its books in recent weeks to Warner and three other private equity groups.

Details of Terra Firma's strategic plans will also be a blow to Warner as it had been thought that any private equity buyer might only keep the cash-generative music publishing arm and sell the struggling recorded music division to Warner.

"It believes in the digital growth opportunity in the music market, in general, and so the expectation is that the business will be held together," said the source.

Another source familiar with the talks said Warner was considering its options and did not think it would have to return with a counter bid immediately.

Alternatively, it could return at a later date to buy EMI from Terra Firma once the regulatory outlook is clearer.

British-based EMI also released full-year results, showing a 61 percent fall in underlying profit before tax to 62.7 million pounds in the year to end-March, due to worsening market conditions. Underlying group revenue fell by 16 percent on a reported basis and by 12 percent at constant currency.

Revenue from its recorded music unit fell by 15 percent at constant currency, while it said the EMI publishing unit outperformed the recorded music market with revenue declining by only 0.9 percent.

EMI was advised by Greenhill, Citigroup and Deutsche Bank while Terra Firma was advised by Dresdner Kleinwort. Citigroup is arranging debt for the acquisition.

(Additional reporting by Yinka Adegoke in New York)