Buyout firm in accord for EMI

Record label accepts a $4.7-billion offer, which may spur a bidding war.
By Alana Semuels, Times Staff Writer
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EMI Group may have finally been sold.
Or maybe not.

The British music giant said Monday that it had agreed to a $4.7-billion takeover bid by private equity firm Terra Firma Capital Partners Ltd. That could end EMI's seven-year mating dance with various buyout firms and record companies.

EMI's board is recommending the deal to shareholders. If it is successful in taking control of EMI, Terra Firma will require EMI to "refocus the business model of its recorded music division and accelerate the development of its digital business," the firm said in a statement.

But analysts believe that Terra Firma's offer may not be the end of it. Many believe that the deal could ignite a bidding war involving longtime suitor Warner Music Group and others.

"Anybody can come and top it," said Bishop Cheen, director of fixed income at Wachovia Capital Markets.

EMI, home to such artists as the Beatles, Coldplay and Norah Jones, is now hoping other bidders emerge, Claire Enders, the founder of London-based independent media research firm Enders Analysis, told Reuters.

Analysts were divided over whether the announcement of the takeover bid would help New York-based Warner, the smallest of the four labels, finally land EMI.

Laura Martin, senior media analyst at Soleil Securities Group Inc., is predicting Warner eventually will win out. EMI had previously rejected Warner's offers as too low, without specifying a price it would accept. Now, Martin said, Warner has a number to work with.

"This is great for Warner," Martin said.

But a bidding battle could put Warner in a position of having to overpay for an ailing company, said Richard Greenfield, an analyst at Pali Capital.

EMI has been beset by problems this year. It issued a profit warning in January and fired two top executives. EMI lost $570.3 million in the fiscal year ended March 31.

EMI and Warner have circled each other for years. At one time, EMI was reportedly mated dancing with various buyout firms and record companies.

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EMI and Warner have circled each other for years. At one time, EMI was reportedly also in talks with private equity firm Blackstone Group in 2003. Another time, EMI was outbid for Warner by an investment group led by Edgar Bronfman Jr. In late 2006, European private equity group Permira approached EMI about a potential offer, but it is unclear whether a formal offer was extended.

Early this year, Warner approached EMI. It had secured the backing of Impala, a trade group that objected to previous mergers. But EMI rejected Warner's $4.1-billion cash offer in March. Regulatory uncertainties have shadowed a potential EMI-Warner deal since a European judge last summer annulled a music merger between Sony Corp. and Bertelsmann.

Terra Firma is the latest private equity firm to bid for a high-profile company. Last week, Chrysler Group and Bausch & Lomb Inc. said they would be acquired by private equity firms.

Cheen said EMI was a good target because of the artists it has rights to distribute.

"Exclusive assets do tend to attract multiple bidders," Cheen said.
INFOBOX BELOW

EMI dealings

2000 — EMI and Warner first try to merge.

2001 — EMI ends talks with Bertelsmann's BMG.

2003 — EMI reportedly in talks with private equity group Blackstone.

Late 2003 — EMI loses out in auction of AOL Time Warner's music business, which goes to a group of private equity firms led by former Hollywood mogul Edgar Bronfman Jr., Warner's current chief executive.

July 27, 2006 — EMI and Warner abandon efforts to buy each other after a European court ruling on the Sony-Bertelsmann deal that casts doubt on whether antitrust regulators would allow further consolidation in the music industry.


Feb. 20, 2007 — Warner approaches EMI, saying it sees strategic, commercial and financial logic in a deal. It secures backing of Impala, the trade group for independent music labels that previously challenged consolidation in the industry. EMI says it has no proposal to consider.

March 2, 2007 — EMI rejects $4.1-billion proposal from Warner Music, saying the price is inadequate and not in the best interests of its shareholders.

May 4, 2007 — EMI says it has received a number of acquisition overtures.

May 21, 2007 — EMI says it has agreed to $4.7-billion takeover offer from private equity firm Terra Firma.

Sources: Reuters, Los Angeles Times