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Vivendi Snubs Bidder as It Moves to Keep Record Group

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At a nine-hour board meeting in Paris yesterday, Vivendi Universal eliminated one of the six bidders for its entertainment businesses and decided to pull its giant record group, Universal Music, off the auction block, executives briefed on the meeting said.

Vivendi rejected the bid of an investor group led by Marvin Davis, the oilman who once owned 20th Century Fox, after determining that the financing and structure of the offer was "dubious and unattractive," according to one of the executives.

The five remaining contenders are Liberty Media, NBC, Metro-Goldwyn-Mayer, Viacom and an investor group led by Edgar Bronfman Jr. that includes Cablevision Systems. So far, NBC and Viacom have submitted only letters expressing interest — not formal offers. But all the parties have been instructed to submit second-round offers in two weeks, the executives said, and each would have to bid a minimum of $11.5 billion to remain in contention.

Liberty Media and the Bronfman group, which had included Universal Music in their offers, are both going to have to revamp their bids to focus on Vivendi Universal Entertainment, which includes the Universal film and television studios, the USA Network and Sci-Fi Channel cable networks, and the Universal theme parks.

Vivendi's decision to exclude Universal Music from the sale was made after the board concluded that it would otherwise be selling the unit — the recording industry leader — at the bottom of the market. Sagging CD sales and concerns about online piracy have devalued all music companies, and the Vivendi board is hoping it can attract a higher price for Universal Music later, once the industry sorts out the piracy problem, the executives said.

The removal of Universal Music from the bidding contest is likely to benefit Liberty Media, which had been uncomfortable with the state of the music industry and may now be inclined to bid more for the other entertainment assets. MGM, NBC and Viacom were never interested in the music unit.

The Bronfman group, on the other hand, had been eager to win the entire set of properties, and Mr. Bronfman is particularly intrigued by the music business. A spokesman for Mr. Bronfman said that his investor group would have preferred to keep the assets together but now planned to submit an offer without the music unit.
Universal Music still may not be completely off limits, one of the executives said: "If someone made a big enough bid for music, the French would be willing to sell it. All you know now is that there is no clear winner who has come in with a preemptive bid for all the assets."

Vivendi indicated to the bidders that no final decision would be made before September.

Despite Vivendi Universal's paring of the list of competitors, several people involved in the process said the rejection of the Davis bid was not necessarily final. If the Davis investors, which also included Texas Pacific and the Carlyle Group, "came back with a stronger offer, they would be in the deal," said one of these people. The Davis group, which calls itself Universal Partners, was said to have offered $15.5 billion for all the assets, including the music company.

The Davis group will probably try to re-enter the auction by raising its bid, a person involved in the process said.

There is also the possibility that members of the Davis group will try to latch on to other bidders if they are unable to assemble a new offer as a team. According to the executives, several conversations between members of the Davis group and other suitors have already taken place.

Vivendi is seeking to sell the entertainment assets to reduce its debt and reverse the financially disastrous strategy pursued by its former chairman, Jean-Marie Messier, who went on a spending spree trying to turn Vivendi from an aging water utility into a global media giant. In a statement released yesterday, besides saying that "in-depth negotiations will now be pursued with selected bidders," Vivendi said that it had already met its June 30 targets for cash and debt levels.

The fact that Vivendi's balance sheet is in order may be helpful to NBC's bid.

NBC, owned by General Electric, has offered to merge with Vivendi's entertainment properties. Rather than receiving cash, Vivendi would be relieved of the entertainment assets' debt while getting equity in the combined company — and avoiding the tax consequences of a cash sale.

At the outset of the bidding, some analysts had predicted Vivendi might seek an outright sale of the entertainment businesses. But with its financial house now in better order than expected, the company might be willing to wait out a final sale until the climate for media businesses improves.