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# An Animated Business

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Bob Marley, Casper the Friendly Ghost, G.I. Joe, the Three Stooges.

The names are ingrained in America's pop culture psyche as much as baseball and apple pie, evoking memories of relaxing days lounging in front of the stereo or television. But, for a handful of private-equity firms that are looking to capitalize on companies that own branded intellectual property, these iconic names represent much more than a good laugh or a great tune.

Companies that own well-established brand licenses for TV characters, comic book figures, and music stars as well as large catalogs of films, television series and music are once again piquing the interest of investors savvy enough to navigate the media landscape.

Witness **GTCR Golder Rauner**'s $200 million commitment to **Boomerang Media**, which supported the company's acquisition of the U.K. and U.S. subsidiaries of London media company **Entertainment Rights** earlier this month, or **Hilco Consumer Capital**'s joint venture with the family of the late **Bob Marley**, a reggae music superstar.

While the two transactions hardly constitute a new trend, they are illustrative of the promise residing in brand licensing. And the two deals are significant for another reason: at a time when traditional businesses ranging from metal-bending manufacturers to retailers are struggling to stay solvent, companies that own licenses for family entertainment and other brands offer an attractive avenue for private-equity firms struggling to find the right industry in which to deploy capital.

The investment by GTCR, for example, marks the Chicago private-equity firm's first foray into branded intellectual property after almost three decades of its existence. It's also the culmination of close to five years of reviewing potential transaction opportunities within the media, entertainment and information services industries, according to **Eric Sondag**, a vice president at GTCR Golder Rauner.

"Every year you have a different set of opportunities with different brands," he says. "There's a constant revolving door of opportunities around these brands, so it ends up being a nice business."

Sondag says Entertainment Rights' core Christmas properties -- Frosty the Snowman and Santa Claus Is Coming to Town -- generate recurring revenue streams year in and year out. The characters secure TV licensing, retail promotions and toy spots with both showing up perennially in television specials and retail store promotions over the holiday season.

GTCR established Boomerang little more than a year ago with former **Classic Media** executives **Eric Ellenbogen** and **John Engelman** to acquire and manage intellectual property. The company's purchase of the Entertainment Rights subsidiaries gave it control of a library with more than 3,600 hours of branded content comprised of a host of long-standing children's TV characters.

Its brands include Lassie, The Lone Ranger, Dick Tracy, He-Man and Where's Waldo? It also put the brands back under the stewardship of seasoned media executives Ellenbogen and Engelman, who were familiar with the characters during their days at New York-based Classic Media.

Boston private-equity firm **Spectrum Equity Investors** acquired a majority stake in Classic Media in 2005 for $175 million, the bulk of which it shed in the company's $210 million sale to England's Entertainment Rights in 2006.

As for Marley, Toronto-based private equity firm Hilco Consumer Capital "saw an opportunity to grow the brands with a licensing model," says **Reyaz Kassamali**, managing director of Hilco. "We're working with the family to develop a strategic plan for where we want to position each of the brands."

Kassamali is serving as president of the House of Marley LLC, which will serve as the global licensing agent for all the Marley brands that include One Love, Tuff Gong, Three Little Birds, Catch a Fire and Relics of Antiquity.

Although **Universal Studios** holds the artist's recorded music catalog, the Marley family holds the singer's publishing rights.

Marley represents a lifestyle brand, Kassamali says, that can be extended across many product categories including accessories, apparel, home products, luggage and musical instruments. Additionally, it lends itself to promotional and entertainment events. Hilco and the Marley family are exploring the idea of launching a tie-in to the 65th anniversary of Marley's birth at the 2010 FIFA World Cup in South Africa next year.

Known for its focus on distressed businesses, Hilco isn't a newbie to the brand business. It owns The Sharper Image, Halston, Bombay and Ellen Tracy brands, but in the case of Marley it saw a unique chance to further expand an extremely popular brand. It retained New York advertising agency **Lipman Agency** to assist with the effort.

Hilco Consumer is also reviewing a number of other brand licensing opportunities with famous music stars and other celebrities, according to Kassamali.

Media companies, meanwhile, are taking advantage of technological advances to generate additional sources of revenue from the sale of yesteryear television series and films in boxed DVD packages. Some of those characters are being brought back to life this summer.

A new live-action movie about G.I. Joe, a **Marvel Comics** military icon spawned by the 1960s action figure for boys, is coming to theaters this summer. The film's title, "GI Joe: The Rise of Cobra," refers to the square-jawed heroes and their chief nemesis in the animated television series that first aired in 1985.

"With some good creative execution you can bring a property back to life," says **Jeff Bocan**, a managing director at **Beringea**, a Detroit and Los Angeles private-equity firm with seven intellectual-property portfolio companies.

Media companies can also take advantage of existing cultural interests to spawn new content, which can subsequently be merchandised. For instance, Beringea portfolio company **Starbridge Media Group** of McLean, Va., secured a multi-year publishing deal with NASCAR, the **National Association for Stock Car Auto Racing**, to create licensed comic books in 2007 titled "NASCAR Heroes."

Well-established entertainment properties offer diminished risk for private investors, according to Bocan. "With intellectual property rights you have a creative story that's validated in the market and the creative risk is largely mitigated because you know the story resonates with people," he says.

Moreover, businesses that own brands allow other companies to use the brands on different products through contracts that typically have a five- to 10-year term. As a result, a predictable and recurring revenue stream is locked in, and those sales aren't exactly insignificant in some cases. The classic Barbie doll and all its modern manifestations, for instance, generates some $3 billion in revenue each year.

Strong cash flow and sales figures are, of course, especially attractive to private-equity firms. It's what they use to secure debt financing for buyouts. "If you're doing a leveraged deal the banks can get comfortable with the cash flow because they usually have a lot of data they can look at," says Bocan.

Beringea exited its minority stake investment in another media intellectual property holder two years ago. That's when London private-equity firm **3i Group** took London Stock Exchange AIM-listed **Chorion Rights Ltd**. -- which holds the license for **Agatha Christie**'s literary work -- private for £111 million in 2007.

Although Beringea didn't disclose its return on investment, Bocan said it represented "a good deal."

That's not to say, however, that every mergers and acquisition transaction involving a media company has worked out as planned. Even media companies with strong intellectual property portfolios may stumble.

Take Entertainment Rights, which wound up in administration proceedings in Britain earlier this year before its subsidiaries were purchased by Boomerang. The company took on a significant amount of debt to finance its acquisition of Classic Media and embarked on a strategy to develop new content, moves that ultimately proved costly, says a source.

"A well-managed, well-capitalized company with significant liquidity will not have this issue going forward," responds Sondag, when asked if the subsidiaries acquired by Boomerang could face the same fate.

The GTCR executive says the company's U.K. character platform, which includes Postman Pat and Basil Brush, present an opportunity "to distribute content throughout the world."

Celebrity figures and fictional television characters aren't the only intellectual property avenue where private equity sponsors have forged M&A deals.

**Tailwind Capital Partners**, a New York private-equity firm, put roughly $50 million in Beverly Hills-based **Concord Records** in 2004 when it teamed up with now-deceased **Hal Gaba** and **Norman Lear**'s multimedia holding company **Act III Entertainment** to invest in the California company. The transaction created **Concord Music Group**.

"By putting Concord and Fantasy together we created the largest independent music company," says **Doug Karp**, a managing partner of New York-based Tailwind Capital.

The following year Concord acquired **Telarc International Corp.** with financing from **HSBC** and **JPMorgan Chase**, bolstering its music offerings with a catalog of more than 1,000 master recordings from artists like **Dave Brubeck**, **Andre Previn** and **Oscar Peterson**.

Concord began distributing its tunes on iTunes at a time when the business landscape of music distribution was shifting markedly towards the Internet. It also established a joint venture with **Starbucks Corp.** in 2007 to sell CDs in the coffee company's stores.

"The Starbucks joint venture created a new life for old artists and classic music," says Karp.

In February 2008, Concord merged with motion picture production company **Village Roadshow Pictures Group Fantasy Inc.** and formed a new company called Village Roadshow Entertainment Group. **Clarity Partners**, a Beverly Hills-based private equity firm, participated in the transaction.

"Our view is that if you can adjust to changing distribution formats, changing consumer tastes and changing payment mechanisms, then you can both support the artists and earn a good return on capital," Karp says.



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