

# Agencies For Sale

Private Equity Investment and Soaring  
Agency Valuations

## INTRODUCTION

The two dominant Hollywood talent agencies, William Morris Endeavor (WME)<sup>1</sup> and Creative Artists Agency (CAA), have recently transformed themselves from partner-controlled businesses to conglomerates that are majority-owned by private equity funds, sovereign wealth funds, and other institutional investors. The third-largest talent agency, United Talent Agency (UTA), followed suit in August 2018, selling a minority stake to private equity firm Investcorp and pension investment manager PSP Investments. As a result, the top three agencies now operate under the pressure of private-equity-level profit expectations. This has caused a seismic shift away from an agency's core mission of serving clients over all else, fulfilling its fiduciary obligation to always act solely in the best interests of clients and to avoid conflicts of interest.

As detailed in this report, the major talent agencies have taken in billions in outside investment. These investments have been attracted by the agencies' exclusive access to television and film talent. In addition, investors are drawn to a business model in which the agencies' own income is divorced from what clients earn. The major Hollywood agencies now make much of their money by demanding direct payments from the studios that employ their clients, known as "packaging" fees, which are unrelated to their clients' compensation and come directly from TV series and film production budgets and profits. Packaging fees are a conflict of interest because they introduce direct negotiations between the agency and its client's employer over how much the agency will be paid. Agency success is severed from client income.

The recent infusion of outside investment in the major agencies exacerbates this conflict. Outside investment not only brings with it intractable profit expectations, it has fueled the agencies' expansion into new ventures, including into TV and film production, in effect making the agencies employers of their own clients. This investment-fueled expansion is incompatible with, and threatens to overwhelm, the major agencies' core purpose *as agents*—to represent their clients. At the same time, the top agency executives and the private equity owners have benefitted handsomely from these developments, receiving hundreds of millions of dollars in payouts and seeing their remaining ownership stakes balloon in value by hundreds of millions more.

As the agencies and their owners prosper, they have neglected the clients who make the television programming and films that drive those profits. Surveys conducted by the Writers Guild of America (WGA) have found that television writer-producers' median weekly earnings declined 23 percent between 2014 and 2016, even as demand for their work has increased and the entertainment industry enjoys record profits.

This report examines the investments made into the largest Hollywood talent agencies, the practices that attracted the investments, and the extent to which private equity funding has inhibited agencies from fulfilling the legal and ethical obligations of talent representation.

## OUTSIDE INVESTORS TAKE OVER THE HOLLYWOOD REPRESENTATION BUSINESS

Talent agencies have operated in the entertainment industry for almost a century, representing Hollywood actors, writers, and directors. Their primary responsibility is to help clients procure employment and to negotiate their clients' compensation. Today, a few large and powerful agencies dominate representation of talent in Hollywood, giving them inordinate power over the talent they represent. The three largest agencies—WME, CAA, and UTA—account for almost 70 percent of WGA members' earnings. Their control of the representation industry and their ability to monetize access to their clients has attracted billions of dollars in investment into the agencies from private equity firms and other investors.

### CAA and TPG Capital

TPG Capital (TPG),<sup>4</sup> a diversified private equity manager with more than \$103 billion in assets under management, first acquired a 35 percent stake<sup>5</sup> in CAA in 2010 for \$165 million.<sup>6</sup> TPG is invested in dozens of companies, including Viking River Cruises, Cirque du Soleil, Life Time Fitness, and J. Crew.<sup>7</sup> TPG raised its stake in CAA to approximately 53 percent in 2014, investing another \$175 million to date, with \$50 million more committed for further acquisitions.<sup>8</sup> Most recently, CAA has sold additional minority stakes totaling nearly \$100 million to a consortium of China Media Capital, Fubon Financial Holding Co., and Taiwanese telecommunications group Taiwan Mobile,<sup>9</sup> and an undisclosed stake to Singapore sovereign wealth fund Temasek Holdings.<sup>10</sup> In total, over \$440 million has been invested into CAA.

### What is Private Equity?

Private equity firms raise capital from institutional investors, including pension funds, for the primary purpose of investing in privately-held businesses. Typically, capital is raised through a multibillion dollar fund that will invest in a number of companies over several years.

Through direct investment in these businesses, the private equity firms often play an active role in determining company strategy in order to expand operations and increase cash flows.

To realize the gains from their investment and return value to the institutional investors, private equity firms typically sell these businesses or take them public through an initial public offering (IPO) after four to six years.

### Private Equity Performance

Private equity is considered an illiquid investment because it must be held for a number of years. To assess the performance of private equity investments and funds, two measurements are typically used: Internal Rate of Return (IRR), and Multiple on Invested Capital (MOIC, also called Total Value to Paid-in Capital or TVPI).

#### Internal Rate of Return (IRR)

IRR is the annualized return of a private equity investment, taking into account timing of cash flows. For example, Silver Lake Partners III, L.P., which held the investment in WME until 2017, had generated an 18.47 percent net annual return as of mid-2017.<sup>2</sup>

#### Multiple on Invested Capital (MOIC) or Total Value to Paid in Capital (TVPI)

MOIC represents the value of distributions paid to equity holders plus the remaining value of investment(s) in portfolio companies, relative to the amount of capital invested. For example, Silver Lake Partners III, L.P., had generated a 1.9x multiple as of mid-2017,<sup>3</sup> meaning that the total value of the investment is 1.9 times the original capital invested.

## **WME and Silver Lake Partners**

WME followed CAA in 2012 with a \$250 million investment from Silver Lake Partners (Silver Lake),<sup>11</sup> a technology-focused private equity firm with more than \$45 billion in assets.<sup>12</sup> Like TPG, Silver Lake is invested in dozens of companies, including Dell Technologies, Symantec, Ancestry.com, and Motorola Solutions.<sup>13</sup>

In 2014, as part of WME's \$2.4 billion acquisition of sports and event marketing and management company IMG, Silver Lake followed up with a second round of investment totaling \$500 million.<sup>14</sup> In 2016, Silver Lake invested alongside WME when WME acquired mixed martial arts organization UFC.<sup>15</sup>

WME has also sold minority equity stakes totaling approximately \$1.8 billion<sup>16</sup> to institutional investors, including GIC Private Limited (formerly known as the Government of Singapore Investment Corporation),<sup>17</sup> Canada Pension Plan Investment Board,<sup>18</sup> SoftBank Group, Fidelity Management & Research Company,<sup>19</sup> Saudi Arabia's sovereign wealth fund,<sup>20</sup> and a consortium including Sequoia Capital, Tencent, FountainVest Partners, and Focus Media.<sup>21</sup>

In all, roughly \$3 billion in outside capital has been invested into WME and CAA.

## **UTA and PSP, Investcorp**

Most recently, in August 2018, United Talent Agency (UTA) sold an approximately 40 percent stake to Investcorp, a private equity firm, and PSP Investments, a Canadian pension fund investment manager, for approximately \$200 million.<sup>22</sup>

## **OUTSIDE INVESTMENT SHIFTS AGENCY FOCUS**

Under the law, Hollywood talent agencies exist to help clients procure employment and to negotiate an individual client's compensation above the minimum rates established by an applicable collective bargaining agreement. While talent agents were traditionally compensated through a ten percent commission of their client's earnings, the dominant agencies have institutionalized the practice of collecting "packaging" fees directly from the studio employing their clients.

Packaging fees have been lucrative for the big agencies and problematic for their clients. Financial records revealed that WME made \$138 million from TV packaging fees in 2013, \$77 million of which came from scripted TV series and \$61 million from unscripted TV programming.<sup>23</sup> Clients, however, are harmed by this practice because the agency collects its packaging fee regardless of how much money it negotiates for its clients, even collecting higher profits if the series' costs—including its own clients' compensation—are lower. This practice leaves the agency with significantly less incentive to increase any individual client's compensation or otherwise advocate on the client's behalf. In an era of "peak TV" production, and therefore peak demand, the disconnect between writer and agency compensation has meant that TV writer pay has declined while agencies have experienced the upside of this industry growth. In December 2018, credit rating agency S&P wrote of CAA, "The explosion of content from over-the-top (OTT)

players such as Netflix, Amazon, and Hulu has favorably affected the company's television revenue, particularly its TV packaging revenue...The packaging of talent, along with the massive increase in TV content production, has driven most of the growth in the company's TV segment..."<sup>28</sup>

Private equity ownership has pushed CAA and WME even further away from business practices that serve the interests of their clients. TPG, for example, invested in CAA with the clear intent of expanding the agency's business away from representation and toward a focus on the agency's self-interest. As TPG Co-Founder David Bonderman noted in an interview, "We were intrigued by CAA because they're in the middle of the ferment that's going on in this industry, but they've been brokers instead of principals, and we think they have plenty of opportunities to be principals."<sup>29</sup>

### Top Agencies Focus on Owning Content

The most significant shift following the transition to private equity ownership has been the increased focus on acquiring and owning content by WME and CAA. Representatives of both TPG and Silver Lake have emphasized that the value of CAA and WME is tied to the ability to use those agencies as a platform to acquire content.<sup>31</sup>

At WME, Silver Lake and WME management have engaged in a buying spree which included a \$2.4 billion acquisition of IMG (a company with an expansive presence in sports, including production and distribution of sports and nonfiction programming); \$4 billion for mixed martial arts organization UFC; as well as purchases of the Miss Universe Organization, Professional Bull Riders,<sup>32</sup> and an investment in Frieze art fairs.<sup>33</sup> By May 2017, WME Co-CEO Ari Emanuel noted, "Half of our business is representation and half is things that we own."<sup>34</sup> These acquisitions have significantly expanded the agency. Prior to purchasing IMG in 2014, WME's annual revenue was

### What Are Packaging Fees?

When a writer creates a television series, instead of the agency commissioning ten percent of the writer's pay, the agency negotiates its own compensation directly from the studio producing the series through what is known as a "package," or "packaging fee." The standard packaging fee consists of three parts: an upfront fee of approximately \$30,000 to \$75,000 per episode that is paid out of the production budget; an additional \$30,000 to \$75,000 per episode that is deferred until the series achieves "net" profits, if any;<sup>24</sup> and a percentage of the TV series' "modified gross" profits<sup>25</sup>—usually ten percent—for the life of the show.<sup>26</sup> Through packaging, an agency can collect tens of millions of dollars from a successful series it played little to no role in creating or producing.

According to WGA research, almost 90 percent of scripted series in the 2016–2017 television season were packaged, with WME or CAA involved in 80 percent of those packaged series.<sup>27</sup>

For more details about packaging and other agency conflicts of interest with their clients, see the recent WGA report "No Conflict, No Interest" (2019).

*"We benefit from package fees from the shows when they get resold and re-syndicated over and over again."<sup>30</sup>*

Egon Durban, Silver Lake  
managing partner and  
managing director

*“Premium content is incredibly valuable—and there are more buyers.”<sup>35</sup>*

Egon Durban, Silver Lake  
managing partner and  
managing director

\$513 million.<sup>36</sup> By the third quarter of 2018, revenue for the previous 12 months was approximately \$3.2 billion, according to credit rating agency Moody’s.<sup>37</sup>

WME has also moved directly into producing scripted film and TV content with the formation of Endeavor Content in late 2017.<sup>38</sup> The same year, WME acquired a majority stake in film production, finance, and sales company Bloom, and announced a partnership with Chernin Entertainment to finance, develop, and produce scripted series.<sup>39</sup> Endeavor Content is set to be the producer or co-producer for at least ten scripted television and online series, such as *Are You Sleeping* on Apple and *Half-Empty* on Amazon, and has produced or financed films such as *Book Club* and *Icebox*.<sup>40</sup> WME has also expanded into content distribution with its acquisition of video streaming technology firm NeuLion, which has been incorporated into a new Endeavor Streaming company.<sup>41</sup>

TPG has shown the same focus on using CAA as a platform to acquire content. In 2017, CAA launched a \$150 million film fund with Chinese company Bona Film Group,<sup>43</sup> and established a studio called Wiip<sup>44</sup> that is producing several scripted series for Facebook and Apple.<sup>45</sup> TPG has invested in several other content producers, including TV studio Platform One Media,<sup>46</sup> digital media company Vice, and STX Entertainment, a film and TV finance and distribution company.<sup>47</sup>

*“The light went off for me that this is not only an agency, it is a content play because of their extraordinary access to a very large pool of content.”<sup>42</sup>*

James Coulter, TPG co-founder

*“We were intrigued by CAA because they’re in the middle of the ferment that’s going on in this industry, but they’ve been brokers instead of principals, and we think they have plenty of opportunities to be principals.”<sup>48</sup>*

David Bonderman,  
TPG co-founder

TPG and CAA have also worked together to form an investment bank that funds content. Former CAA executive David O’Connor noted in *Powerhouse: The Untold Story of Hollywood’s Creative Artists Agency* by James Andrew Miller, “As a result of the TPG transaction, we started Evolution Media, which is now a \$500 million fund we didn’t have to raise and that we didn’t have to put any of our own money into. It’s going to be wildly successful.”<sup>49</sup> TPG has funded at least three Evolution Media investment vehicles through its TPG Growth arm, and Evolution Media has invested in several companies,

including online TV and video streaming service Iflix, Platform One Media, and subscription-based sports media producer The Athletic.<sup>50</sup>

Expansion into content ownership both shifts agency focus away from its primary mission of representing clients and puts an arm of the agency in the position of employing agency clients. This shift has profound implications for clients at CAA and WME. Producing and owning content creates an indefensible conflict of interest because acting as an employer and representing a client in salary negotiations are fundamentally at odds. An agency-producer has the incentive to keep talent costs low. Talent cannot be effectively represented by an agency that has become a content producer and owner.

## OUTSIZED RETURNS TO PRIVATE EQUITY OWNERS AND AGENCY EXECUTIVES

While unbridled agency expansion harms the clients whose interests are subordinated to those of investors, it has been a financial windfall for agency executives and their private equity owners. CAA and WME remain privately-held companies with little information publicly available about their financial performance. However, using investment reports, credit agency ratings documents, public company filings, and other information, this report is able to shed light on just how well the agencies have performed as investments and how top agency executives have profited from the influx of outside capital.

### CAA

In 2010, TPG invested \$165 million in CAA for a 35 percent stake in the firm. TPG has continued to increase its ownership share in CAA, with an overall investment of approximately \$340 million for a majority stake in the agency.<sup>51</sup> According to WGA research, through dividend payouts and the rising valuation of CAA, TPG's stake in CAA was worth more than three times its original investment by mid-2017. For agency executives, the sale to private equity has been nothing short of hitting the jackpot: the top four CAA executives alone have received over \$250 million in payouts.<sup>52</sup>

#### *Returns to TPG*

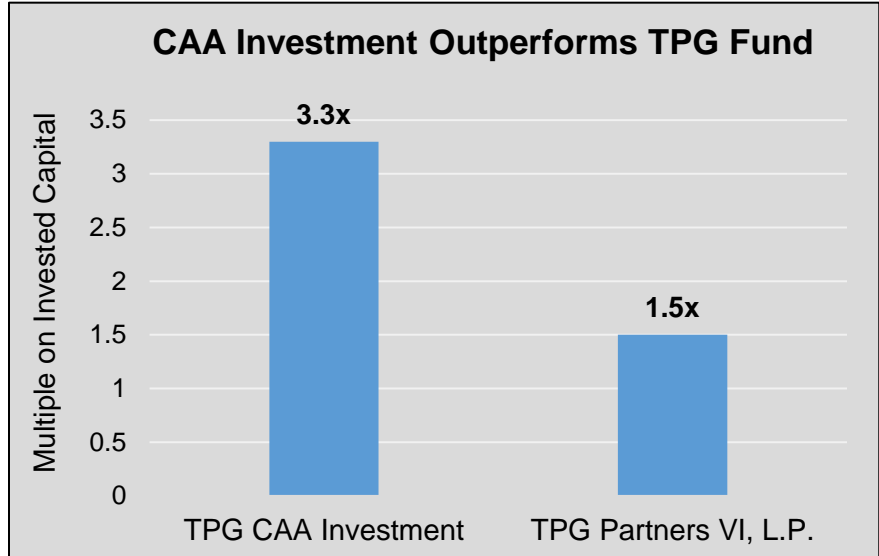
In February 2017, CAA paid a \$155 million dividend to investors.<sup>53</sup> TPG's stake in CAA at the time was close to 60 percent and would have entitled the private equity firm to roughly \$90 million, or a quarter of what TPG invested in CAA.<sup>54</sup>

In early 2017, news reporting of Taiwan Mobile's investment of \$21 million into Grand Academy Investment, L.P. (the vehicle through which China Media Capital, Fubon, and Taiwan Mobile bought a 5.2 percent stake in CAA),<sup>55</sup> and China Investment Corporation's discussion of a ten percent equity investment for \$200 million,<sup>56</sup> placed the equity valuation of CAA at \$1.86 to \$2.0 billion. Based on a conservative valuation estimate of \$1.86 billion, TPG's stake (around 55 percent after the China Media Capital group investment) would have been worth almost \$1.03 billion, or three times its investment in CAA, by April 2017.

The table below provides a snapshot of TPG's estimated multiple on invested capital at that time. While TPG has maintained its equity investment in CAA, this multiple means that, had TPG sold CAA in April of 2017, the combination of dividends and TPG's share of CAA's equity value was worth almost \$1.12 billion and would have resulted in at least \$775 million profit on TPG's \$340 million investment. TPG is poised for a financial windfall when it cashes out by selling CAA or taking the agency public through an IPO.

Estimated TPG-CAA Multiple on Invested Capital as of April 2017 (\$ in millions)		
Distributions	Company Value	Total Value (Distributions + Company value)
0.26x	3x	3.3x
\$90	\$1,025	\$1,115

TPG's investment in CAA has significantly outperformed the private equity firm's other investments. For instance, TPG Partners VI, L.P., the TPG fund that owns CAA and various other companies, had generated a multiple on invested capital of 1.5x as of mid-2017, according to a large fund investor.<sup>57</sup>



TPG's investment in CAA has also done much better than most private equity investments made around the same

time. As of mid-2017, the median private equity fund launched in 2010 had generated a 1.59x multiple, according to investment consultant Cambridge Associates.<sup>58</sup>

#### *Payouts for CAA Executives*

TPG's investment in CAA has not only benefited the private equity firm, it has also generated large payouts to CAA's top executives—Richard Lovett, Bryan Lour, Kevin Huvane, and David O'Connor.

In *Powerhouse*, author Miller reported:

*“For the first TPG transaction, the four [Lovett, Lour, Huvane, and O’Connor] were reputedly in the same zip code, receiving payouts commensurate with their ownership percentage in the agency. O’Connor got about \$25 million, with Lour and Huvane closer to \$30 million and Lovett slightly over this. On the second transaction, the partners cashed out the ‘Membership Program’—i.e., an exit benefit and net present value of salary reductions previously agreed to. It amounted to two years of compensation and so, once again, the numbers were relatively close, with each man earning approximately \$20 million. But this time there was a judo chop at the end. The remainder of the proceeds was in the hands of a ‘Comp committee’—reportedly just Lovett and Lour—and this time, Lovett, Lour, and Huvane each were granted another \$20 million in discretionary proceeds.”<sup>59</sup>*

Thus, according to Miller, the four CAA executives made more than \$250 million from the 2010 and 2014 TPG investments combined.

The overall payout to these four and other CAA executives in relation to the 2014 TPG transaction appears to have been substantially higher. In November 2014, Moody's reported that in addition to the equity investment from TPG, CAA took on a \$510 million term loan and used the proceeds to fund a "\$400 million payment," a portion of which went to CAA "members," or executives. The Moody's report also noted that the payment "is to fund a distribution to key members and retire CAA member exit benefits. Approximately 25% of the proceeds will be held to fund future vesting by its members."<sup>60</sup> The Moody's report suggests that, in addition to the roughly \$140 million



described in *Powerhouse* that was paid out to CAA's top four executives in TPG's second transaction in 2014, the agency paid out millions of dollars more to unnamed CAA "members."

In February 2017, CAA added \$160 million in debt to fund a dividend to shareholders, including TPG and CAA executives.<sup>61</sup> Of the February 2017 dividend, Moody's added, "The high compensation expense (including member distributions) limits free cash flow available for debt repayment or new acquisitions."<sup>62</sup>

## WME

Silver Lake Partners' investment in WME has generated a similarly profitable result. Silver Lake first invested \$250 million in WME in 2012, then invested an additional \$500 million in May 2014 in connection with WME's \$2.4 billion acquisition of sports marketing company IMG.<sup>63</sup> By June of 2016, the total value of Silver Lake's investment in WME had nearly doubled through a combination of dividend payouts and rising company valuation. In addition, WME's earnings had grown from \$97 million of EBITDA (earnings before interest, taxes, depreciation, and amortization) in 2013 to \$446 million for the fiscal year ending in June 2016.<sup>64</sup>

### *Returns to Silver Lake*

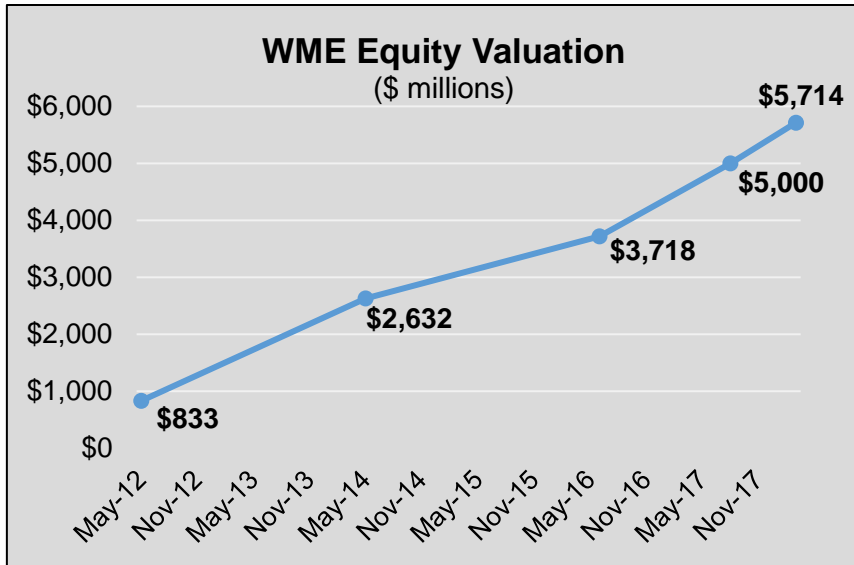
As of mid-2016, the value of Silver Lake's investment had nearly doubled, to a 1.9x multiple on invested capital. This included \$80 million in distributions from WME and an increase in the value of invested capital from \$749 million to approximately \$1.38 billion.

<b>Silver Lake-WME Multiple on Invested Capital as of June 2016</b>		
(\$ in millions)		
Distributions	Company Value	Total Value (Distributions + Company value)
0.11x	1.8x	1.9x
\$80	\$1,377	\$1,458

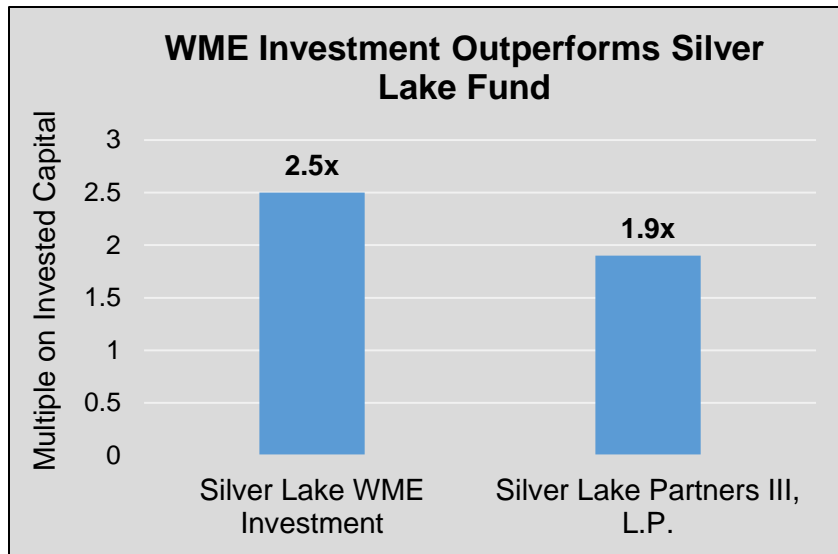
A year later, as of mid-2017, the WME investment had reportedly generated a 2.5x multiple on invested capital for Silver Lake and a 25 percent gross annualized return since inception.

WME has continued to take on additional outside investors, whose purchases reveal the continued growth of WME's equity value.

In March 2018, Bloomberg reported that WME was selling a seven percent stake to the Public Investment Fund of Saudi Arabia for \$400 million,<sup>65</sup> implying an equity value of \$5.7 billion. This represents a 14 percent increase over the \$5 billion equity value assigned to WME less than a year before, when the Canada Pension Plan Investment Board and GIC Private Limited invested approximately \$1 billion in WME.<sup>66</sup>



As with CAA, WME’s performance has outpaced other Silver Lake investments. For example, Silver Lake Partners III, L.P., which held the WME investment until mid-2017 and was launched in 2007 (though most of its capital wasn’t invested until 2012),<sup>67</sup> had generated a 1.9x multiple on invested capital as of mid-2017, according to investment records.<sup>68</sup>



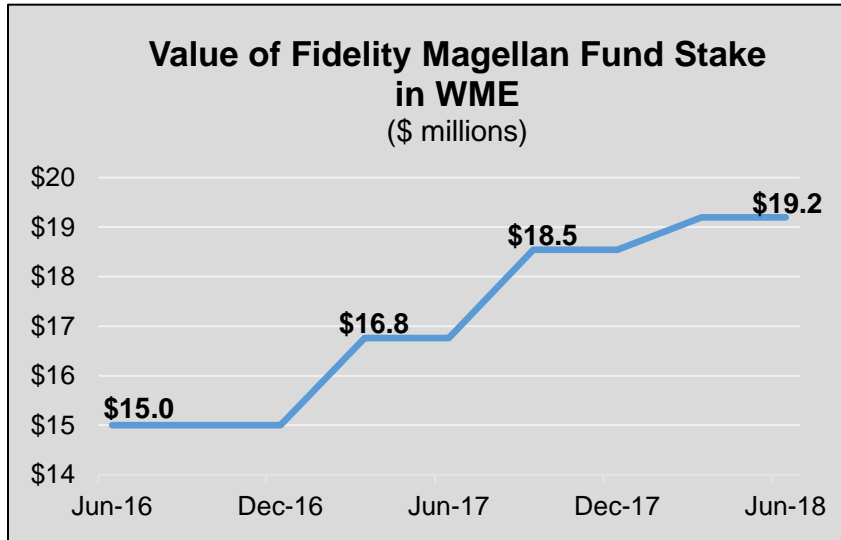
Silver Lake’s investment in WME also outperformed the typical private equity fund returns from the same year. For example, the median private equity fund launched in 2012 had generated a 1.31x multiple by mid-2017, according to Cambridge Associates—significantly lower than the 2.5x Silver Lake had generated on its investment in WME at that point.<sup>69</sup>

#### Returns to Other WME Investors

In addition to Silver Lake, WME has sold minority stakes to Japanese conglomerate SoftBank Group (\$250M, March 2016); investment manager Fidelity Management & Research Company (\$55M, April 2016); a consortium of Chinese investors, including Sequoia Capital, Tencent, FountainVest, and Focus Media (\$100M, June 2016); GIC Private Limited (\$600-800M, August

2017); Canada Pension Plan Investment Board (\$400M, August 2017); and the Public Investment Fund of Saudi Arabia (\$400M, March 2018).<sup>70</sup>

While information for all of these companies is not available, one of the Fidelity Management & Research Company funds invested in WME has reported a 28 percent increase in the value of their investment since acquiring a minority equity stake in 2016. The Fidelity Magellan Fund invested \$15 million<sup>71</sup> in WME in April 2016 and reported its stake was worth \$19.2 million as of mid-2018.<sup>72</sup>



### Returns for WME Executives

The transformation of the agency under private equity ownership and the subsequent sales of equity stakes to other investors has also benefitted WME executives, who have received cash payouts and have seen their stake in the agency skyrocket in value. WME management (including Ari Emanuel and Patrick Whitesell) owns a significant stake in the company and has benefitted from the company's equity valuation rising from \$833 million in 2012 to more than \$5.7 billion as of March 2018. WME management's stake was reportedly worth over \$1 billion in 2016.

In addition to the rising value of their ownership stake, untold distributions have been made to agency executives who own WME shares. In 2016, credit rating agency S&P reported that WME had made distributions of about \$30 million in 2015 and 2016, some of which went to the WME executives.<sup>73</sup> According to news reports, the approximately \$1 billion investment in WME by the Canada Pension Plan and GIC Private Limited in August 2017 allowed some senior WME management and investors to take cash out.<sup>74</sup> In May 2018, Moody's noted that WME's free cash flow was "negatively impacted by distributions and tax reimbursements to equity holders which reduces cash available for debt repayment or acquisitions,"<sup>75</sup> meaning that payments to investors and executives who own company shares were sufficiently large for the credit rating agency to note the effect on cash available to pay down WME's substantial debt of approximately \$2.8 billion.<sup>76</sup>

## CONCLUSION

The transformation of the dominant Hollywood talent agencies from agent-controlled partnerships to private equity investments has been a financial boon to outside investors and agency executives, who have seen their investments more than double and triple in value and have collected hundreds of millions in cash payouts, respectively. Meanwhile, the writer clients, whose work has made so much of this possible, have not shared in the gains, but rather have seen their earnings slip: television writer-producers' median weekly earnings declined 23 percent between 2014 and 2016. As these major agencies pursue business opportunities that expand their bottom lines and pay out profits to their private equity investors, agency clients are left behind.

The growing disconnect between the agencies' self-interest and the interests of their clients has prompted the Writers Guild of America to propose new terms for how talent agents represent Hollywood writers. The new regulations seek to restore the proper fiduciary relationship between talent agencies and their writer clients by ensuring that agencies put the interests of their clients first. This will necessarily mean that WME, CAA, and their private equity owners will have to choose between operating as talent agencies, and expanding their businesses into content production and ownership.

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<sup>1</sup> This report refers to the holding company currently doing business as Endeavor and its subsidiaries collectively as WME, except where a specific subsidiary is identified by name.

<sup>2</sup> Washington State Investment Board, Portfolio Overview by Strategy at 2-2 (June 30, 2017), <https://www.sib.wa.gov/financial/pdfs/quarterly/ir063017.pdf> ("*Washington Portfolio Overview*").

<sup>3</sup> *Id.*

<sup>4</sup> This report refers to TPG and its various investment arms and funds collectively as TPG, except where a specific arm or fund is identified by name.

<sup>5</sup> All stakes and investment numbers are approximate and based on available information.

<sup>6</sup> *Our Story*, TPG, <http://tpg.com/> (last visited Mar. 3, 2019); Josh Rottenberg, *Wall Street investors to Hollywood talent agencies: 'Show us the money'*, The Los Angeles Times (July 10, 2015), <https://www.latimes.com/entertainment/envelope/cotown/la-et-ct-talent-agencies-private-equity-20150710-story.html>.

<sup>7</sup> Pitchbook.com (last visited Feb. 14, 2019).

<sup>8</sup> Daniel Miller, *Private equity firm TPG ups stake in CAA, becomes majority owner*, The Los Angeles Times (Oct. 20, 2014), <https://www.latimes.com/entertainment/envelope/cotown/la-et-ct-tpg-caa-20141020-story.html>; Moody's Investors Service Rating Action, Creative Artists Agency, LLC: Moody's assigns Creative Artists Agency a B2 CFR and assigns ratings to new credit facility; outlook stable (Nov. 21, 2014), [https://www.moody.com/research/Moodys-assigns-Creative-Artists-Agency-a-B2-CFR-and-assigns--PR\\_313397](https://www.moody.com/research/Moodys-assigns-Creative-Artists-Agency-a-B2-CFR-and-assigns--PR_313397) ("*Moody's CAA Rating Action Nov. 21, 2014*"); Moody's Investors Service Credit Opinion, Creative Artists Agency, LLC: Update to Discussion of Key Credit Factors at 3 (Nov. 9, 2017) ("*Moody's CAA Credit Opinion Nov. 9, 2017*"). In 2014, TPG invested another \$75 million into CAA and committed another \$150 million for possible acquisitions; \$50 million remained on standby as of November 2017.

<sup>9</sup> The estimate of a nearly \$100 million stake is based on Taiwan Mobile's \$21 million participation in Grand Academy Investments (Taiwan Mobile Co., Ltd. And Subsidiaries, Consolidated Financial Statements for the Three Months Ended March 31, 2017 and 2016 and Independent Auditors' Review Report at 46, [https://english.taiwanmobile.com/english/upload/investor/TWMconsolidated\\_106Q1\\_e.pdf](https://english.taiwanmobile.com/english/upload/investor/TWMconsolidated_106Q1_e.pdf)), Taiwan Mobile's 21.67% stake in Grand Academy Investments (Taiwan Mobile Co., Ltd. And Subsidiaries, Consolidated Financial Statements for the Six Months Ended June 30, 2017 and 2016 and Independent Auditors' Review Report at 54, [https://english.taiwanmobile.com/english/upload/investor/TWMconsolidated\\_106Q2\\_e.pdf](https://english.taiwanmobile.com/english/upload/investor/TWMconsolidated_106Q2_e.pdf)), and Taiwan Mobile, Fubon Financial Holding Co and China Media Capital's 5.2% stake in CAA via Grand Academy Investment LP (Lisa Wang, *Taiwan Mobile Co Invests in Creative Artists Agency*, Taipei Times (Oct. 6, 2017), <http://www.taipetimes.com/News/biz/archives/2017/10/06/2003679790>).

<sup>10</sup> Nancy Tartaglione, *CAA Stake Acquired By Singapore's Temasek*, Deadline (Sept. 26, 2017), <https://deadline.com/2017/09/caa-temasek-investment-singapore-1202176970/>.

<sup>11</sup> William D. Cohan, *The Inside Story of Ari Emanuel's Big, Risky WME-IMG Merger*, Vanity Fair (Mar. 2015), <https://www.vanityfair.com/news/2015/02/wme-img-merger-ari-emanuel>. This report refers to Silver

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Lake Management, Silver Lake Partners, and related investment arms and funds collectively as Silver Lake, except where a specific arm or fund is identified by name.

<sup>12</sup> *Overview*, Silver Lake, <https://www.silverlake.com/> (last visited Feb. 14, 2019).

<sup>13</sup> Pitchbook.com (last visited Feb. 14, 2019).

<sup>14</sup> Matthew Garrahan, *Silver Lake looks to turn WME into gold*, Financial Times (Nov. 21, 2014), <https://www.silverlake.com/Images/Uploads/docs/Silverlake20111709432928705.pdf>.

<sup>15</sup> Erich Schwartzel and Gautham Nagesh, *Investors Pay \$4 Billion for Mixed-Martial Arts Group UFC*, The Wall Street Journal (July 11, 2016), <https://www.wsj.com/articles/ufc-sells-for-approximately-4-billion-to-talent-agency-wme-img-1468238282>. Deal included other investors.

<sup>16</sup> This total includes the \$400 million investment from Saudi Arabia. It was recently announced that WME returned the money, with WME investors contributing funds to repay the Saudi investment fund. Kate Kelly and Ben Hubbard, *Endeavor Returns Money to Saudi Arabia, Protesting Khashoggi Murder*, The New York Times (March 8, 2019), <https://www.nytimes.com/2019/03/08/business/endeavor-saudi-arabia.html>.

<sup>17</sup> Ann Williams, *GIC, Canadian fund to invest US\$1b in powerhouse Hollywood agency WME-IMG*, The Straits Times (Aug. 3, 2017), <https://www.straitstimes.com/business/companies-markets/gic-canadian-pension-fund-to-invest-us1b-in-powerhouse-us-entertainment>; Standard & Poor's Credit Research, WME Entertainment Parent LLC at 5 (Dec. 29, 2017).

<sup>18</sup> Press Release, Canada Pension Plan Investment Board, *Canada Pension Plan Investment Board Invests US\$400 Million in WME-IMG* (Aug. 2, 2017), <https://www.cppib.com/en/public-media/headlines/2017/cppib-wmeimg/>.

<sup>19</sup> James Rainey, *WME-IMG Lands \$55 million Investment from Fidelity*, Variety (Apr. 20, 2016), <https://variety.com/2016/film/news/wme-img-fidelity-management-investment-1201757635/>.

<sup>20</sup> Erik Schatzker, Lucas Shaw, and Matthew Martin, *Saudi Fund Said to Take \$400 Million Stake in Emanuel's Endeavor*, Bloomberg (Mar. 18, 2018), <https://www.bloomberg.com/news/articles/2018-03-18/saudi-fund-said-to-take-400-million-stake-in-emanuel-s-endeavor>.

<sup>21</sup> Rebecca Sun, *WME-IMG Taps NBA Exec as CEO of China Subsidiary*, The Hollywood Reporter (Oct. 27, 2016), <https://www.hollywoodreporter.com/news/wme-img-taps-nba-exec-as-ceo-china-subsidiary-941650>.

<sup>22</sup> Mike Fleming, Jr., *United Talent Agency Sells Minority Stake to Investcorp & Public Sector Pension Investment Board*, Deadline (Aug. 7, 2018), <https://deadline.com/2018/08/united-talent-agency-equity-stake-sale-jeremy-zimmer-1202441680/>.

<sup>23</sup> Sharon Waxman and Lucas Shaw, *Leaked! Inside Details of \$2.45 Billion WME-IMG Financing and Why an IPO May Loom (Exclusive)*, The Wrap (Apr. 13, 2014), <https://www.thewrap.com/leaked-inside-details-2-45-billion-wme-img-financing-ipo-may-loom/>.

<sup>24</sup> "Net" profits generally refers to gross receipts after the deduction of costs including the cost of production, distribution fees, distribution expenses, interest, overhead, and third party participations. The fees associated with distribution, interest, and overhead are typically higher under a net profit definition than a gross profit definition, thus reducing the likelihood of a profit.

<sup>25</sup> "Gross" profits generally refers to modified adjusted gross receipts, which is computed by deducting distribution fees, distribution expenses, the cost of production, and other expenses from gross receipts.

<sup>26</sup> This is referred to as the 3/3/10 model: 3% of the series license fee upfront (an amount which may be negotiated or imputed), 3% of the license fee deferred, and 10% of profits.

<sup>27</sup> Out of more than 300 WGA-covered scripted series.

<sup>28</sup> Standard & Poor's Credit Research, CAA Holdings LLC at 5 (Dec. 4, 2018).

<sup>29</sup> James Andrew Miller, *Powerhouse: The Untold Story of Hollywood's Creative Artists Agency at 617-18* (2016) ("*Powerhouse*").

<sup>30</sup> Matthew Garrahan, *Silver Lake looks to turn WME into gold*, Financial Times (Nov. 21, 2014), <https://www.silverlake.com/Images/Uploads/docs/Silverlake20111709432928705.pdf>.

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<sup>31</sup> See *infra* notes 35, 42 and 48.

<sup>32</sup> Erich Schwartzel and Gautham Nagesh, *Investors Pay \$4 Billion for Mixed-Martial Arts Group UFC*, The Wall Street Journal (July 11, 2016), <https://www.wsj.com/articles/ufc-sells-for-approximately-4-billion-to-talent-agency-wme-img-1468238282>. UFC deal included other investors.

<sup>33</sup> Matthew Garrahan and Jan Dalley, *Sports and entertainment agency WME-IMG invests in Frieze art fair*, Financial Times (Apr. 14, 2016), <https://www.ft.com/content/b303214a-025d-11e6-af1d-c47326021344>.

<sup>34</sup> Anita Busch, *WME/IMG to Receive \$1B Investment, Deadline* (Aug. 2, 2017), <https://deadline.com/2017/08/wme-img-1-1b-investment-silver-lake-partners-1202140659/>.

<sup>35</sup> Matthew Garrahan, *Silver Lake looks to turn WME into gold*, Financial Times (Nov. 21, 2014), <https://www.silverlake.com/Images/Uploads/docs/Silverlake20111709432928705.pdf>.

<sup>36</sup> Sharon Waxman and Lucas Shaw, *Leaked! Inside Details of \$2.45 Billion WME-IMG Financing and Why an IPO May Loom (Exclusive)*, The Wrap (Apr. 13, 2014), <https://www.thewrap.com/leaked-inside-details-2-45-billion-wme-img-financing-ipo-may-loom/>.

<sup>37</sup> Moody's Investors Service Rating Action, *WME IMG, LLC: Moody's places WME IMG's ratings on review for downgrade following weaker than expected performance* (Dec. 20, 2018), [https://www.moodys.com/research/Moodys-places-WME-IMGs-ratings-on-review-for-downgrade-following--PR\\_393344](https://www.moodys.com/research/Moodys-places-WME-IMGs-ratings-on-review-for-downgrade-following--PR_393344) ("*Moody's WME Rating Action Dec. 20, 2018*").

<sup>38</sup> Jeremy Kay, *WME, IMG film and TV sales groups form Endeavor Content*, Screen Daily (Oct. 16, 2017), <https://www.screendaily.com/news/wme-img-film-and-tv-sales-groups-form-endeavor-content-/5123308.article>.

<sup>39</sup> Mike Fleming Jr., *Endeavor Content Bolsters TV & Film Ranks, Fully Integrates Global Sales Company Bloom; Alex Walton is EVP, Dan Guando Sr Veep*, Deadline (Oct. 10, 2018), <https://deadline.com/2018/10/endeavor-content-bloom-alex-bloom-dan-guando-david-greathouse-patrick-mcdonald-lorenzo-de-maio-1202479929/>; Lesley Goldberg, *Endeavor, Chernin Pact for TV Drama Development*, The Hollywood Reporter (Oct. 30, 2017), <https://www.hollywoodreporter.com/live-feed/endeavor-chernin-pact-tv-drama-development-1052927>.

<sup>40</sup> Mike Fleming Jr., *Paramount Makes Splashy \$10 Million AFM Deal for June Pictures' 'Book Club'*, Deadline (Nov. 3, 2017), <https://deadline.com/2017/11/book-club-fifty-shades-of-grey-diane-keaton-jane-fonda-paramount-ten-million-dollar-afm-deal-1202201230/>; StudioSystem.com (last visited Mar. 3, 2019), and WGAW databases.

<sup>41</sup> Dawn Chmielewski, *Endeavor Forms Streaming Company, Combining NeuLion With Other Assets*, Deadline (Jan. 14, 2019), <https://deadline.com/2019/01/endeavor-forms-streaming-company-combining-neulion-with-other-assets-1202534746/>.

<sup>42</sup> *Powerhouse* at 619.

<sup>43</sup> Ryan Faughnder, *CAA and China's Bona Film Group Create \$150-Million Film Fund*, The Los Angeles Times (May 25, 2017), <http://www.latimes.com/business/hollywood/la-fi-ct-cao-bona-film-fund-20170525-story.html>.

<sup>44</sup> Abbreviation of "word.idea.imagination.production," also reported as wiip and WIIP. Rebecca Sun & Jonathan Handel, *As Talent Agencies Push to Own Content, Some Creators Cry Foul*, The Hollywood Reporter (Sept. 12, 2018), <https://www.hollywoodreporter.com/features/talent-agencies-push-production-rankles-wga-some-clients-1142009>; Delaware Department of State, Division of Corporations Website, Entity Details for "Wiip Development, LLC" (last visited Feb. 6, 2019).

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- <sup>49</sup> *Powerhouse* at 687.
- <sup>50</sup> See *supra* notes 46, 47; *TPG Portfolio Companies*, TPG, [https://www.tpg.com/sites/default/files/latest\\_portfolio\\_companies\\_list.pdf](https://www.tpg.com/sites/default/files/latest_portfolio_companies_list.pdf) (last visited Mar. 11, 2019); and Pitchbook.com (last visited Mar. 3, 2019).
- <sup>51</sup> See *supra* notes 6, 8; Moody's Investors Service Rating Action, Creative Artists Agency, LLC: Moody's assigns rating to Creative Artists Agency's proposed term loan (Feb. 1, 2017), [https://www.moody's.com/research/Moodys-assigns-rating-to-Creative-Artists-Agency's-proposed-term-loan--PR\\_361471](https://www.moody's.com/research/Moodys-assigns-rating-to-Creative-Artists-Agency's-proposed-term-loan--PR_361471) ("*Moody's CAA Rating Action Feb. 1, 2017*"); Stephen Battaglio, *Creative Artists Agency gets investment from a Singapore firm*, The Los Angeles Times (Sept. 26, 2017), <https://www.latimes.com/business/hollywood/la-fi-ct-caa-temasek-20170926-story.html>.
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- <sup>53</sup> Standard & Poor's Credit Research, CAA Holdings LLC at 4 (Nov. 29, 2017); *Moody's CAA Credit Opinion Nov. 9, 2017* at 4.
- <sup>54</sup> *Moody's CAA Rating Action Feb. 1, 2017*.
- <sup>55</sup> See *supra* note 9. Taiwan Mobile's investment gave the company a 21.67% stake in Grand Academy Investments, which took a 5.2% stake in CAA. This implies Taiwan Mobile's stake in CAA was 1.13%, which produces an equity valuation of CAA of \$1.86 billion.
- <sup>56</sup> Anita Busch, *CAA Teams with China's CMC Capital Partners to Form CAA China, Adds Exec Li Ruigang to Board*, Deadline (Apr. 17, 2017), <https://deadline.com/2017/04/caa-china-cmc-capital-partners-1202070920/>.
- <sup>57</sup> *Washington Portfolio Overview* at 2-2.
- <sup>58</sup> Cambridge Associates, US Private Equity Index and Selected Benchmark Statistics at 17 (June 30, 2017), <https://www.cambridgeassociates.com/wp-content/uploads/2018/04/WEB-2017-Q2-USPE-Benchmark-Book.pdf> ("*Cambridge Associates Benchmarks*").
- <sup>59</sup> *Powerhouse* at 686.
- <sup>60</sup> *Moody's CAA Rating Action Nov. 21, 2014*.
- <sup>61</sup> *Moody's CAA Rating Action Feb. 1, 2017*.
- <sup>62</sup> *Id.*
- <sup>63</sup> See *supra* notes 11, 14.
- <sup>64</sup> Sharon Waxman and Lucas Shaw, *Leaked! Inside Details of \$2.45 Billion WME-IMG Financing and Why an IPO May Loom (Exclusive)*, The Wrap (Apr. 13, 2014), <https://www.thewrap.com/leaked-inside-details-2-45-billion-wme-img-financing-ipo-may-loom/>.
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- <sup>68</sup> *Washington Portfolio Overview* at 2-2.
- <sup>69</sup> *Cambridge Associates Benchmarks* at 17.
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