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TOP OF THE WEEK

CBS, Time Inc. (HBO) and Coca-Cola (Columbia) join forces to prime pump in movie production

Joint ventures have pay TV as one of principal objectives with pay-per-view among the major attractions; investors ante $300 million-$400 million

A new triple entente was forged last week, uniting three of America's major entertainment and leisure product giants—CBS, Time Inc. (through its Home Box Office subsidiary) and Coca-Cola (through Columbia Pictures)—in an effort to establish a new major motion picture production company. The thread of common interest binding these new partners is a mutual desire to increase the world's supply of theatrical motion pictures, and, they hope, to participate in the profits that successful films will generate in the various media: theatrical distribution and pay and broadcast television. A further interest mentioned in the announcement of their alliance is the desire to explore production for "the pay-per-view market."

The news adds a new dimension to the emerging shape of the pay television universe (BROADCASTING, Nov. 22) under three principal groupings: this expansion of existing pacts between HBO and Columbia with CBS now along for the ride; the partnership of Warner Bros., MCA and Paramount (along with American Express) in The Movie Channel; and the presumption that 20th Century-Fox, ABC and the Spotlight partners will forge some agreement with Viacom's Showtime in the ensuing weeks.

Sources inside the companies indicate that the new partners are expected to invest $300 million to $400 million in the project. The deal itself was worked out over the last three months during a series of meetings among CBS Inc. President Tom Wyman, Time Inc. President J. Richard Munro and Coca-Cola's Chairman Roberto C. Goizueta. Also playing important roles in the negotiations: Columbia Pictures President Francis T. Vincent Jr. and HBO President James Heyworth.

About all that's being said officially is that the three firms will be "equal partners" in the deal. But indications are that they intend to put up half the amount themselves in the form of equity in the venture, and raise the other half through bank financing; the announcement said a line of credit has been negotiated with unnamed commercial banks. It's further understood the three partners wouldn't put up all that equity at once; the expected initial investments are said to be in the range of $20 million from each company.

The financial community, by and large, was looking favorably on the deal. Donaldson Lufkin & Jenrette's Dennis Liebowitz thinks it "sounds logical and productive from everybody's standpoint." And Rich MacDonald of First Boston suggests it "makes [CBS president] Wyman look awfully smart... There are synergies among the three companies he can exploit."

Wertheim & Co.'s David Londoner, moreover, thinks this is a particularly good time to be starting a venture of this nature—"the [film] industry is near the bottom of its cycle... it's the right time to set something up," he said.

That's not to say the proposal is getting universal accolades. Susan Watson of E.F. Hutton said she has "trouble" understanding some of the details, particularly the word that Columbia and, more important, CBS, would each continue its existing theatrical film operations. The CBS effort, after a disastrous start, has now been swung under the aegis of the CBS/Broadcast Group in a much reduced scope. Those analysts who view the CBS link-up with Columbia and HBO most favorably assume that CBS Theatrical Films will slowly fade into the dust as existing commitments, including a distribution pact with Warner Bros., expire. (CBS sources, however, insist that its independent movie division will not slacken pace. They argue that the industry needs all the product it can get, and that because no single studio can produce more than 15 or 20 pictures a year, it makes sense to maintain the CBS-only venture.)

Wertheim's Londoner, however, says it's better for CBS to be involved in the new venture, in which it can share financial risks and benefit from HBO's pre-buy of pay television rights to the film product, and Columbia's management and distribution expertise, than to try to go it alone.

Some other weighty matters that the partners haven't yet announced are where the operation will be based and who will constitute the management the partners say "will be separate from the managements of the three companies and will report to a committee representing the owners."

Of the details that the partners have finalized, one of the most important is HBO's pre-buy arrangement for the pictures produced or acquired by the new company. At the same time, HBO and Columbia separately announced an extension and expansion of an agreement that gives HBO a lock on Columbia film product in return for upfront investment. Under the past agreement, which dates to November 1981, HBO advanced Columbia minimum license fees based on a film's production costs, which were then credited against fees based on eventual box office performance. Under the new pact announced last week, HBO additionally will make a direct investment in the product costs of each Columbia film commencing principal photography or acquired by Columbia between Jan. 1, 1983 and June 30, 1986.

HBO President James Heyworth and Co-