MEDIA & ENTERTAINMENT · M&A

Paramount's $31 bid for Warner Bros. Discovery

How Paramount Skydance beat Netflix to a $110bn all-cash takeover of WBD

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DEAL AT A GLANCE

Target	Warner Bros. Discovery Inc. (WBD), NASDAQ: WBD
Acquirer	Paramount Skydance Corporation (PSKY), an American multinational entertainment & media conglomerate formed in 2025
Structure	All-cash public acquisition
Offer Price	$31 per share
Premium	147% to WBD's unaffected close of $12.54 (10 September 2025)
Equity Value	c. $81bn
Enterprise Value	c. $110bn
Implied EV / LTM EBITDA	c. 12.6x (Adjusted EBITDA as of 31 December 2025)
Target Advisers	Allen & Company LLC, J.P. Morgan Securities LLC, and Evercore Group LLC (financial advisors), Debevoise & Plimpton LLP and Wachtell, Lipton, Rosen & Katz, and Fried Frank, Harris, Shriver & Jacobson LLP (legal advisors)
Acquirer Advisers	Centerview Partners LLC (financial advisors), Cravath, Swaine & Moore LLP and Latham & Watkins LLP (legal advisors)
Status	Completed 6 October 2026; shares delisted from NASDAQ

01 The Deal in Brief

During an intense bidding war between Paramount Skydance (PSKY) and Netflix on acquiring Warner Bros. Discovery (WBD), Paramount proposed to acquire all shares of WBD while Netflix focused on WBD's Streaming & Studios businesses. On February 27, 2026, Paramount and WBD jointly announced the merger with an all-cash offer of $31 per share valuing WBD at $110bn including debt, and completed on 6th October. The reason we picked this deal is to find out more about the rationale behind WBD's conviction that such a merger would create more value to its stockholders.

02 The Players

The target. Warner Bros. Discovery, Inc. is a leading global media and entertainment company that creates and distributes a wide portfolio of content across the globe.

The buyer. Paramount Skydance Corporation is also a global media and entertainment company where this acquisition is its largest.

The Major Institutional Holders. The Vanguard Group (11.3%), BlackRock, Inc. (6.2%), and State Street Corporation (5.3%) are the major institutional shareholders of Warner Bros. Discovery.

03 Why do it?

In the 20th century, moving picture companies used to have monopoly over film production and distribution by creating content and owning theaters to exhibit them. To maintain healthy competition, the Supreme Court ceased, in 1948, such monopoly by forcing these companies to separate their production and distribution studios. Fast forward to the tech era, Netflix, Amazon, and other streaming giants have pushed the market for streaming content rather than displaying them in theaters. This allowed Netflix, for instance, to produce and distribute its content on its own platform, thereby gaining a huge competitive advantage over competitors. Therefore, from Paramount's perspective, this merger would allow them to compete more effectively against media and streaming giants such as Netflix, Amazon, and Disney. In addition, this deal would realize at least $6bn of run-rate synergies***** within three years. From Warner Bros' perspective, the company can consolidate with Paramount's assets and realize synergies in part to compensate for a series of past bad mergers that resulted in over $53bn of debt as of 2022 despite its strong and creative content production and distribution.

> KEY TERM
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> *** Run-rate synergies:** Synergies happen when the benefits generated from the combined business is greater than the sum of the benefits generated from the individual parts. In particular, run-rate synergies is the maximum financial benefits the combined business is expected to generate annually once integration is complete. For example, if the merger results in $4m per year of cost-savings and $6m per year of revenue from combining product offerings, the total expected run-rate synergies would be $10m per year once integration is complete.

04 The Price

The $31 offer price represents a premium of approximately 147% to the unaffected stock price***** of $12.54 per share and 124% premium to WBD's unaffected 52-week high trading price as of September 10, 2025. Based on Warner Bros' latest 10-K report, the $110bn enterprise value can be derived as shown in the table below.

> KEY TERM
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> *** Unaffected Stock Price:** This represents the share price of the company being acquired before the announcement date of the merger. Ideally, it would be the share price before any rumors about the merger have come out and influenced the market price.

EXHIBIT 1: FROM EQUITY VALUE TO ENTERPRISE VALUE

Item	US $bn
Equity Value ($31 x 2,612.61 m fully diluted shares outstanding)	81
Total Debt	32.567
Preferred Equity	0
Non-Controlling Interest	1.228
Cash & Cash equivalents	4.566
Enterprise Value	**110.2**

Source: Warner Bros. Discovery's Definitive Proxy Statement "DEFC14A" and balance sheet items of the most recent 10-K report. Figures might not sum due to rounding.

05 How it was paid for

EXHIBIT 2: COMMITTED FINANCING

Source	US $bn
Ellison Party	46.72
RedBird	0.25
Bank of America, Citi, & Apollo	57.5

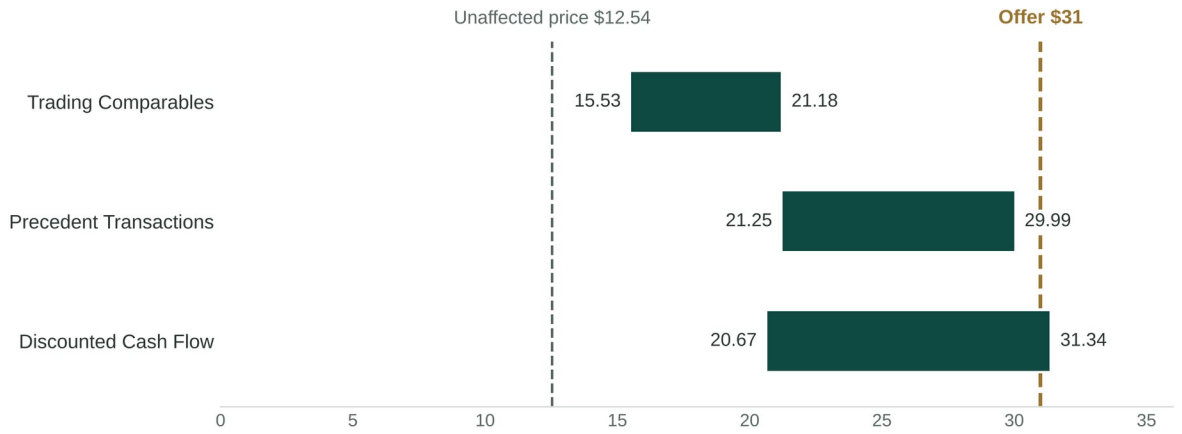
Source: Warner Bros. Discovery's Definitive Proxy Statement DEFM14A.

Paramount Skydance would have paid WBD a $7bn regulatory termination fee in case the merger was blocked by regulators. This payment would have been provided by the Ellison Party. In addition, PSKY paid a termination fee of $2.8bn to Netflix on behalf of WBD, in order to break the Merger Agreement between WBD and Netflix.

06 Valuation of WBD

Allen & Company and J.P. Morgan gave their financial opinion to WBD's board. Both financial advisors performed three types of analyses: Comparable Companies, Precedent Transactions, and Discounted Cash Flow. These 3 valuation methods were applied on a sum-of-the-parts basis. Sum-of-the-Parts (SOTP) is a valuation method used on companies with many business products, diverse divisions, or different business segments where each segment is valued separately and then summed to get total firm value. Now, let us examine the analyses presented by J.P. Morgan.

EXHIBIT 3: J.P. MORGAN'S VALUATION RANGES VS THE OFFER PRICE ($US PER SHARE)



Two important insights can be derived from the above graph:

I. The range provided by the discounted cash flow method is the widest compared to the other two. This is because DCF is highly sensitive to the underlying assumptions taken when projecting unlevered free cash flows and discounting them at a given rate.

II. Precedent transactions provide a higher valuation range compared to the other methods, because buyers usually pay premiums when acquiring a target. Premiums are paid because the buyer can realize synergies from the acquisition, thus paying more than the target's market price.

07 Risks the Board Weighed

WBD shareholders were subjected to several risks:

I. **Opportunity cost:** As a result of the merger, WBD shareholders lose the opportunity to separate the Streaming & Studios Business and Discovery Global Business into two publicly traded companies. This acquisition will prevent WBD stockholders from realizing any benefits related to accretive investments or M&A opportunities these two businesses might engage in.

II. **High Leverage:** Paramount Skydance has negative free cash flow with a credit rating of BB+, according to Fitch Ratings and S&P Global Ratings. In addition, this acquisition requires $54bn of new debt financing, resulting in pro-forma gross debt of $82bn and a gross leverage ratio of 7x 2026E EBITDA before synergies.

III. **Antitrust Lawsuit:** This acquisition would create a combined market share of 27% in the theatrical market and 30% in the anticipated top-grossing blockbusters market. This allows only 4 players to control 86% and 90% of each market, respectively. As a result, California's Attorney General Rob Bonta, under Section 7 of the Clayton Act, led a lawsuit filed by 12 states on the grounds that such a merger would create a monopoly over the theatrical and streaming industry.

08 What to Watch Next

It is worth examining whether the $31 per share offer price was fair to WBD shareholders or not. We believe there are several reasons why Paramount's offer was fair:

I. **Control Premium:** Paramount's $31 a share was superior to Netflix's bid of $27.75, an 11.7% premium. In addition, there was great uncertainty as to how much exactly WBD stockholders would get from Netflix's proposal. To clarify, if WBD were to take Netflix's proposal, the WBD

board was going to spin off* its Global Linear Networks business where it could allocate to the spun off company a maximum of $17bn of net debt to as low as debt-free. The less debt allocated to Global Linear Networks business, the more of this debt is kept in the Streaming and Studios business which will be netted off enterprise value, and thus less equity value available to WBD stockholders. This means that Netflix's offer could be as low as $21.23 per share if we take into account the net debt adjustment of Global Linear Networks business of WBD.

II. **Deal Financing:** The Ellison Trust and RedBird Capital provided $44.9bn of equity financing to acquire all WBD shares, compared to $67.2bn of debt financing from Netflix to acquire only the Streaming & Studios businesses. This shows that there is much more commitment from Paramount to improve WBD and create value to stockholders.

III. **Regulatory Hurdles:** Netflix faces more severe regulatory scrutiny compared to Paramount. To elaborate, Netflix had a market cap of $418bn, as of September 12, 2025, nearly $40bn more than all the other major media companies (e.g., Disney, IMAX, Paramount Skydance, FOX, etc.) which stood at a combined market cap of $382bn. In addition, if Netflix acquired the Streaming & Studios businesses it would have HBO Max resulting in an approximate market share of 43%, more than double the #2 competitor in the streaming industry. These competition concerns would delay the acquisition far longer than if Paramount was the buyer.

KEY TERM

*** Spin off:** A spin off is when a company wants to separate one of its divisions to become a separate business with its own assets and liabilities. To clarify more on section 08 part "control premium", WBD had a poorly performing business, "Global Linear Networks", that the board wanted to spin off. In light of this, if WBD agreed to the Netflix proposal, the board would have had to perform this spin off. The problem with this is that Netflix's $27.75 offer did not include any net debt adjustment, so if this spin off results in net debt being allocated entirely to Global Linear Networks, then Netflix's $27.75 offer would remain as is. However, if not all the $17bn of net debt gets allocated to Global Linear Networks, then the remaining net debt would stay in WBD's Streaming & Studios businesses, and a net debt adjustment would have to be applied to Netflix's $27.75 offer resulting in as low as $21.23 per share.

Sources

- Warner Bros. Discovery, Annual Report on Form 10-K (2025)
- Warner Bros. Discovery, Definitive Proxy Statement (DEFC14A)
- Warner Bros. Discovery, Definitive Proxy Statement (DEFM14A)
- Fitch Ratings and S&P Global Ratings, Paramount Skydance credit ratings

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