PRINT CLOSE

Condé Nast Portfolio.com

IPO Spotlight: TV movie maker RHI Entertainment

Associated Press

Jun 16 2008 9:57am EDT

Analysts are divided over whether made-for-TV movie maker RHI Entertainment Inc.'s initial public offering -- one of two planned for this week -- has what it takes to attract a strong investor audience.

RHI, which first filed for an IPO last September, plans to offer 12.5 million shares at $16 to $18 apiece.

The New York-based company, the former Hallmark Entertainment LLC, expects to raise about $198.2 million, or $227.9 million if the underwriters exercise their overallotment option in full. IPO proceeds, combined with proceeds from a new credit facility and other borrowings, will be used to repay debt and for general corporate purposes.

RHI develops, produces and distributes new made-for-TV movies, miniseries and other television programming. RHI also owns the rights to roughly 1,000 titles of long-form television content, which it licenses to broadcast and cable networks around the world, including ABC, CBS, Lifetime and the USA Network. The majority of the company's revenue comes from the licensing of programming. Made-for-TV movies in the company's library include "Cleopatra," "Alice in Wonderland," "Call of the Wild" and "Arabian Nights."

Film producer Robert Halmi Jr., whose projects include miniseries "Lonesome Dove," serves as chairman, president and chief executive. Founded by Halmi's father, RHI was acquired by Hallmark Cards Inc. in 1994 and became Hallmark Entertainment. Along with private equity firm Kelso & Co. LP, Halmi acquired the company back from Hallmark in January 2006.

Since then, the company has worked to diversify its content and has expanded the networks to which it licenses its programming. RHI is also targeting new distribution platforms, such as direct-to-video, video-on-demand and pay-per-view.

Melanie Hase, an analyst at Greenwich, Conn.-based Renaissance Capital, sees the company's ability to generate strong cash flow as the biggest draw to the IPO.

The company collects a bulk of the licensing fee on a project in advance of the production's delivery, thereby recouping a majority of the production costs by the end of the initial licensing term. RHI can then generate strong cash flow from the re-licensing of that content. As of December 31, 2007, the company had $314.3 million of future cash flows under contract from the licensing of content in its library, 24 percent more than at the end of 2006, according to its prospectus with the Securities and Exchange Commission.

But some analysts are concerned by the amount of debt the company has as a result of the leveraged buyout and its subsequent reorganization.

"Although their backlog is increasing nicely and that is contributing to a cash flow that is helping the business in a difficult environment, their losses as well as their very high debt load are a detriment," said Scott Sweet, managing director of research firm IPO Boutique. "Debt-laden IPOs are not being well received."

For the three months ended March 31, RHI reported a loss of $20.2 million on revenue of $22.2 million. The company's losses stem largely from film production costs and interest expense on outstanding debt, according to the prospectus.

"The firm is highly leveraged and that is a concern, but if you believe in the forecast, it looks good," Hase said.

JPMorgan and Banc of America Securities are serving as lead underwriters. The underwriters have the option to buy up to about 1.9 million additional shares.

Shares are expected to trade on the Nasdaq Global Market under the symbol "RHIE."