

Driven by Digital Technology

An Interview with Strauss Zelnick, ZelnickMedia

EDITORS' NOTE Strauss Zelnick co-founded ZelnickMedia in 2001. He also serves as Chief Executive Officer and Chairman of the board of directors of Take-Two Interactive Software, Inc. Prior to forming ZelnickMedia, Zelnick was President and Chief Executive Officer of BMG. Before joining BMG Entertainment, Zelnick was President and Chief Executive Officer of Crystal Dynamics. Prior to that, he spent four years as President and Chief Operating Officer of 20th Century Fox. Previously, he spent three years at Vestron Inc., two as the company's President and Chief Operating Officer. Zelnick also served as Vice President, International Television at Columbia Pictures. Zelnick is a director of Starwood Property Group, Inc. He is a Trustee Emeritus of Wesleyan University and holds a B.A. from Wesleyan University, an M.B.A. from Harvard Business School, and a J.D. from Harvard Law School



Strauss Zelnick

COMPANY BRIEF ZelnickMedia (www.zelnickmedia.com) manages and owns interests in an array of media enterprises, including interactive entertainment, television, wireless network software, business information, trade shows, and media-related business services in the U.S., Europe, Asia, and Australia. Current portfolio companies include Take-Two Interactive Software, Airvana, Cannella Response Television, ITN Networks, Arkadium, Naylor, Alloy, and Tekelec. The partnership is currently investing from ZM Capital, its media-focused private equity fund.

What led you to believe there was opportunity to co-found this company?

The biggest opportunity we saw was the influence digital technology was having and will have on the media business, both in terms of value destruction and value creation.

Digital technology is transforming the media business; I believe the next 40 or 50 years should be a great time to build a new kind of diversified media conglomerate, one that is driven by digital technology.

We set out to build our business with a different kind of balance sheet: private equity. Why? Because the capital was readily available at the time; because it is return driven and we know that creates discipline; and because it requires portfolio balancing. Where conglomerates often go astray is in falling in love with their assets.

Also, being backed by private equity means you have to ask on a daily basis, do we invest in this asset or divest the asset? Both cannot be true.

How broad is the portfolio?

Our footprint will do over \$3 billion in revenue this year and that includes nine enterprises. We have offices all over the world – roughly 40 locations – and our business segments are interactive entertainment; various forms of television programming, distribution, and advertising; and mobile software and services with an emphasis on what tablets are going to do to media.

Will you increase the portfolio or will the growth come from those nine enterprises?

We're big believers in organic growth and the bulk of our growth after we acquire companies is organic, although in certain instances we've made strategic acquisitions inside portfolio companies.

Despite the volatility in the market, is this a time of opportunity?

Yes. The low cost of debt, even though limited in availability, is a good thing. We're fortunate to have never suffered a loss or failed to make an interest or principal payment in the history of ZelnickMedia. So capital is readily available to us – both debt and equity co-investment capital.

With plenty of capital and the availability of more, and with volatile and uncertain markets, it's a good time to buy companies and to add value once you own them.

Will growth come about internationally or is there still strong opportunity in the U.S.?

There is opportunity everywhere so we invest worldwide. Our first deal was in Japan and we are currently looking for opportunities throughout Europe; we also have a company in Canada.

We would be uncertain about putting our capital in a lot of places that are in vogue now, like Brazil, Russia, India, and China. Those are great places to do business and create value, but not great places to export our dollars.

Were you surprised by the speed and severity of the economic downturn? How was the company positioned?

The fact that we didn't suffer a loss reflects that we were structured for a downturn. Our structural protection was that we were under-leveraged in comparison to the marketplace.

We didn't do a deal 18 months before the crash, but all of our portfolio companies felt the pain. We had, however, created a safe balance sheet structure that protected them and allowed us to hang onto our equity and realize many benefits since then.

What characteristics are you looking for in a potential asset?

We have to believe that what digital technology has to offer is going to supercharge the growth and value creation of that enterprise.

Moreover, the future of digital media must not be a threat that could destroy value in the enterprise.

That has kept us from buying newspapers, consumer magazines, and broadcast television and has moved us towards mobile software and services over the past four years.

We consider ourselves students of the business and we have the benefit of not being burdened with a legacy structure. So at only 12 years old, we can nimbly act on our views and pursue investment themes driven by digital technology.

You are engaged in the Partnership for New York City. Are you surprised at how close-knit the business community is in New York City?

Businesspeople recognize they have a social obligation to create the kind of city they want to live and work in, and the opportunity exists in New York to make a difference.

In terms of the Partnership, the reason it is successful is because it has great leadership itself in Kathy Wylde and it focuses on issues that matter.

Everyone in New York understands that the opportunity exists for the city to be a dominant force in the worldwide business community, but it's not going to happen by itself – we have to be engaged with it.

I'm personally focused on initiatives that will make New York the most congenial place on earth for media companies to locate.

Is your focus always on the future?

I tend not to worry because we're risk averse entrepreneurs. That means I have to be more patient at times as we have grown more slowly as a result.

Risk mitigation year after year is highly correlated with investment returns, if you know what you're doing.

I'm grateful for what I get to do every day and for my team. I believe arrogance is the enemy of continued success. So we're all focused on what we can be doing better. ●