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**EUROPACORP S.A.: A SECOND ATTEMPT AT A TURNAROUND[[1]](#endnote-1)**

Wiboon Kittilaksanawong and Pierre Jullien wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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In June 2017, the French motion picture producer and distributor EuropaCorp S.A. (EuropaCorp) announced a historical record loss of €119.9 million.[[2]](#endnote-2) The next month, the company released France’s most expensive film, *Valerian and the City of a Thousand Planets* (*Valerian*). Earlier, between 2001 and 2010, the company had almost doubled revenues, operating through what it called an “integrated studio model,” but then incurred substantial losses and nearly went bankrupt in 2011.[[3]](#endnote-3) To effect a turnaround, the company formed distribution and co-production deals with Shanghai Fundamental Films Inc. (Fundamental Films), based in China.[[4]](#endnote-4) EuropaCorp also formed a joint venture with Relativity Media LLC (Relativity), based in the United States, to market and distribute both EuropaCorp’s and Relativity’s movies in the United States.[[5]](#endnote-5)

These efforts had increased EuropaCorp’s revenues in 2015 to the highest level it had ever reached. Then, unexpectedly, in July 2016, EuropaCorp announced the lowest revenues since 2008 and operating losses.[[6]](#endnote-6) It tried to effect a second turnaround by selling non-core assets, refocusing on the founder’s historical successes of core businesses, raising funds, restructuring debts, and reducing overheads.[[7]](#endnote-7) The subsequent capital increase that resulted from issuing new equity stakes to Fundamental Films brought about a major shift in EuropaCorp’s shareholding structure.[[8]](#endnote-8) However, in November 2017, EuropaCorp still anticipated a continuing loss in 2018 (see Exhibit 1).[[9]](#endnote-9) Given the recent events and financial results, the company appeared to be still in need of a second turnaround. How could EuropaCorp achieve its needed turnaround and continue to grow?

**THE FOUNDER OF EUROPACORP: FROM FILM PRODUCER TO ENTREPRENEUR**

Born in Paris in 1959, Luc Besson, the founder of EuropaCorp, discovered the film industry when he was 17 years old and on the film set of a short movie.[[10]](#endnote-10) He took many jobs in film production, being second and then first assistant to film directors, all while writing his own projects. Besson’s first full-length feature, *Le Dernier Combat*—which Besson wrote, directed, and produced himself in 1983—earned several awards in France.[[11]](#endnote-11) His next film, *Subway*, which was distributed by The Gaumont Film Company (Gaumont) in France, was a great success in France, with almost 3 million viewers (see Exhibits 2A and 2B), and was the seventh most successful movie of 1985.[[12]](#endnote-12) In 1988, Besson’s next film, *The Big Blue*, sold 9.1 million tickets, becoming Besson’s greatest box office success to date in French cinema.[[13]](#endnote-13) Almost 30 years later, *The Big Blue* remained in the top 50 of the highest grossing films of all times in France.[[14]](#endnote-14)

Besson directed and released *Nikita* in 1990, and *Léon: The Professional* in 1994. The two movies made $6.7 and $45.3 million,[[15]](#endnote-15) respectively, in worldwide box office sales,[[16]](#endnote-16) with 3.8 and 3.5 million tickets, respectively, sold in France. *Nikita* became the most successful French movie in the United States, making Besson famous on the international stage.[[17]](#endnote-17) In 1997, the release of *The Fifth Element*, the most expensive European film ever made, became the most successful French movie in the United States with $264 million in gross revenues worldwide.[[18]](#endnote-18)

After a decade of international successes, Besson started a new project, *Taxi*. Gaumont was not convinced that this project was worthwhile, therefore Besson and Gaumont’s former distribution director, Pierre-Ange Le Pogam, joined in November 2000 to create EuropaCorp, which would produce *Taxi* and other projects.[[19]](#endnote-19) Besson was scriptwriting action movies at that time, focusing on creating movies with popular appeal, such as sequels to the original *Taxi*, as well as *The Dancer*, *Exit*, *Yamakasi*, and *Kiss of the Dragon*. The movies received poor reviews. Nonetheless, the *Taxi* franchise achieved popular success, earning $238.5 million in revenues worldwide, and attracting 27.5 million viewers in France.[[20]](#endnote-20)

By 2002, EuropaCorp had become a well-structured company, generating €98 million in revenues and employing about 50 people (see Exhibits 3 and 4).[[21]](#endnote-21) Besson owned 73 per cent of the company’s shares through his wholly owned company, Front Line, and was chair of EuropaCorp’s board. Le Pogam owned 16 per cent of EuropaCorp’s shares and was the chief executive officer (CEO) (see Exhibit 5).[[22]](#endnote-22)

**EUROPACORP: A HISTORY OF VERTICAL INTEGRATIONS**

EuropaCorp adopted an integrated studio model—a studio system that brought many or all aspects of film production under one company. Creative talent was usually employed on long-term contracts (see Exhibit 6). EuropaCorp vertically integrated value-creating activities through acquisitions, partnerships, and greenfield investments, aiming to consolidate its competitive position along the value chain of the film industry.[[23]](#endnote-23)

Alongside EuropaCorp’s production business, the company also sold television broadcasting rights and international rights. In 2001, the company set up several subsidiaries to extend its involvement in various stages of the film business in France—from theatrical distribution through EuropaCorp Distribution to video publishing and distribution through EuropaCorp Home Entertainment and EIG Fox Pathé Europa.[[24]](#endnote-24) The film distribution involved selecting a movie, acquiring the needed copyrights, marketing, and programming. The company could produce movies internally or acquire copyrights for movies from other companies. Marketing activities included selecting a release date and method of promotion, and organizing previews. Depending on the criteria for releasing the film, programming involved negotiating with independent or networked movie theatres.

During the same period, EuropaCorp created EuropaCorp Home Entertainment to edit and distribute EuropaCorp’s own movies. This subsidiary then joined with another French producer and distributor, Pathé Frères (Pathé), and with the American film studio Twentieth Century Fox Film Corporation (Twentieth Century Fox) to create Fox Pathé Europa. The group distributed movies from the catalogues of all three companies in video format (DVDs).[[25]](#endnote-25)

In April 2002, EuropaCorp invested a 35-per-cent stake in EuropaCorp Japan, which was created in partnership with Japan’s leading media players to exclusively distribute EuropaCorp’s films in Japan.[[26]](#endnote-26) In April 2010, EuropaCorp increased its stake in EuropaCorp Japan to 100 per cent; however, the entity was liquidated in February 2012 after recording revenues of €129,000 but with net losses of €98,000 in fiscal year (FY) 2010/11.[[27]](#endnote-27)

In May 2002, EuropaCorp acquired Intervista, a book publishing company, and The Dog Productions, a producer of advertising films. Intervista had published the *Arthur and the Invisibles* book series, written by Besson and Céline Garcia, with more than 400,000 copies sold of the first three in the series.[[28]](#endnote-28) The books were the basis for EuropaCorp’s *Arthur and the Invisibles* movies; with the success of the first film, released in 2006, movies of the second and third episodes were subsequently released in 2009 and 2010, respectively.[[29]](#endnote-29)

In 2005, apart from its core film production, EuropaCorp created another subsidiary, EuropaCorp Music Publishing, to increase profitability of its own original music works.[[30]](#endnote-30) Until March 2017, the catalogue of approximately 1,500 original works had been acquired by collecting societies all over the world.[[31]](#endnote-31) In June 2017, EuropaCorp sold its catalogue of music copyrights to Sony/ATV Music Publishing, and signed an agreement with it to administer its music royalties for future film and television titles.[[32]](#endnote-32)

In 2007, EuropaCorp fully acquired a long-term partner, Ydéo, which specialized in consulting and creative marketing creation, for €670,000.[[33]](#endnote-33) In 2008, EuropaCorp acquired 100 per cent of Roissy Films for €28 million, strengthening EuropaCorp’s asset base and expanding its offering in the video and television market.[[34]](#endnote-34) Roissy Films was one of very few independent companies that owned a large catalogue; Roissy had about 500 quality movies.

In 2009, EuropaCorp partnered with Euro Media Group S.A., Quinta Communications S.A., and Front Line to launch La Cité du Cinéma, a cinema hub near Paris, France. The project included nine film sets, costing over €170 million to construct. The hub, finished in 2012, became EuropaCorp’s headquarters in August of that year, attracting local permanent and temporary employees who worked together on each production project.[[35]](#endnote-35)

**Penetrating the Television Drama Industry**

In April 2010, EuropaCorp acquired a 75-per-cent stake in Cipango Ltd. (Cipango), a producer of French television dramas. Targeting French and international markets, Cipango was ranked as the seventh French television drama producer, with revenues of €14.6 million. The acquisition was a significant step towards increase the value of brands EuropaCorp had developed over the previous 10 years, while strengthening its reputation and position among large American distributors as a leader in the European film industry.[[36]](#endnote-36) Cipango was renamed EuropaCorp Television in 2011 and fully acquired by EuropaCorp in July 2014.[[37]](#endnote-37)

Producing television series was considered less risky than producing movies because television projects were usually fully financed before production started. EuropaCorp’s entry into this market was also timely: the emerging SVoD (subscription video on demand) platforms like Netflix, Inc. and Amazon.com, Inc.’s Prime Video were transforming how people consumed television series.

**The Initial Public Offering**

In July 2007, EuropaCorp announced a successful initial public offering (IPO) with a stock price of €15.5 and funding of about €77 million. Besson retained majority control with 63.2 per cent of the shares and voting rights. The goal of the IPO was to increase the number of high-budget production projects and attract well-known American actors.[[38]](#endnote-38) Agents of these actors usually looked for financially strong production companies.

Besson and Le Pogam aimed to reach sales of around €300 million within four years of the IPO. Despite the fact that the IPO was heavily oversubscribed, the company’s first trading day was relatively quiet.[[39]](#endnote-39) After the IPO, the share price had continued to drop until the global financial crisis. Within a year, the global financial crisis had pushed the price down by 60 per cent, to around €6.40. Based on the company’s risk and return profile, the IPO valuation might arguably have been too high. EuropaCorp’s shares reached their lowest level at €1.17 in May 2012, and then climbed, fluctuating between €3 and €5. Compared to other film and entertainment companies, such as The Gaumont Film Company in France and the American companies The Walt Disney Company (Walt Disney) and Twenty-First Century Fox, Inc., EuropaCorp had underperformed in the market since its IPO in 2007 (see Exhibit 7).

**THE FILM AND CINEMA INDUSTRY**

**In France**

The film production and distribution industry in France accounted for 3.2 per cent of the country’s gross domestic product, worth €58 billion in 2014.[[40]](#endnote-40) France’s population of people six years of age and older in 2014 was about 59 million; about 67 per cent of these people went to movie theatres at least once a year.[[41]](#endnote-41)Movie attendance at the theatre was the main driver of the French cinema market.[[42]](#endnote-42) In 2015, France’s box office sales were over 205 million tickets, or €1,331 million (see Exhibit 8). Record high sales in 2011 were linked to successful films like *The Intouchables*, which was produced by Gaumont.[[43]](#endnote-43)

The movie theatre was one of the final links in the value chain, closest to the final viewer. In France, the main theatre companies included Les Cinémas Gaumont Pathé, CGR Cinemas Group, and Cineworld Cinemas Ltd., representing 13.4 per cent, 8.1 per cent, and 7.0 per cent of the screens, respectively. In 2015, there were 5,741 screens in 2,033 establishments in France, showing 654 movies, which included 322 French-initiated projects.[[44]](#endnote-44) Movie theatres generally kept 50 per cent of the after-tax ticket sales and transferred the remaining 50 per cent to the distributor.

In 2016, major film production companies Walt Disney, Twentieth Century Fox, and Warner Bros. Entertainment Inc. held 15.0 per cent, 13.3 per cent, and 8.9 per cent, respectively, of the market share in France (see Exhibit 9).[[45]](#endnote-45) These market shares were volatile, depending on the number of movies the company distributed.

In 2015, investments in France’s film production reached €1,224 million, of which French-initiated production accounted for €4.4 million.[[46]](#endnote-46) Film producers often aimed to minimize their own investment capital by securing additional funds from co-producers, including television channels, distributors, and subsidies. In general, producers still had to invest approximately 15 per cent of the production costs. The major French production and distribution companies were Les Cinémas Gaumont Pathé, StudioCanal, Cineworld Cinemas, Gaumont, and EuropaCorp.

**The French “Cultural Exception”**[[47]](#endnote-47)

The concept of French “cultural exception” referred to the use of legislation to protect French cultural creations. One measure was an additional tax of approximately 11 per cent charged on all cinema tickets and 2 per cent on all DVD sales. The revenue, approximately €700 million per year, was used as a subsidy to support French original content, such as all French movies. In fact, American movies, which represented 45–55 per cent of ticket sales in France, were helping to finance the production of French movies.

French television channels were also committed to investing some revenues in cinema production in exchange for the right to broadcast the movies on their television channels nine months after the release in theatres. The French government also imposed quotas on French content played on radio and television.

**In the United States**

In 2016, box office revenues in the United States reached $10.6 billion, representing 28.5 per cent of the world’s market share.[[48]](#endnote-48) However, movies produced by American companies represented an overwhelming share—79 per cent—of all movies in the worldwide box office.[[49]](#endnote-49) The American cinema industry had six major studios, including Walt Disney (holding 26.3 per cent of the global market share), Warner Bros. Entertainment Inc. (16.7 per cent), Twentieth Century Fox (12.9 per cent), Universal City Studios Productions LLLP (12.4 per cent), Sony Pictures Entertainment Inc. (8 per cent), and Paramount Pictures Corporation (7.7 per cent). Together, they accounted for 84 per cent of the global market share, worth about $9.6 billion.[[50]](#endnote-50)

Before 1948, major American studios were fully integrated, from production through distribution to exhibition in movie theatres, owning their own theatres and exclusive rights to dictate which theatres would show their films. However, a landmark anti-trust court case in 1948 forbade studios from being both distributor and theatre operator.[[51]](#endnote-51) Major studios were, therefore, relegated to production and distribution. The six major studios in the United States had their own subsidiaries in France to distribute their movies in that country.

**In China**

The Chinese film market had seen a very high growth rate from 2012 to 2016, compared to the market in the United States and France (see Exhibit 10). China’s international box office had grown from $2.5 billion in 2012 to $6.2 billion in 2016, representing a compound annual growth rate (CAGR) of 24.9 per cent. With growth of 49 per cent from 2014 to 2015, China was the first market outside the United States to achieve box office revenues of over $5 billion.[[52]](#endnote-52) Its box office revenues were expected to reach $10.7 billion with a market share of 23.2 per cent by 2021, or a CAGR of 11.6 per cent from 2016 to 2021. This forecast was only $500 million less than that of the United States.[[53]](#endnote-53)

China had become the most attractive market for French movies. However, the Chinese government was also trying to boost its own film industry over Hollywood by implementing tax breaks for local cinema operators and requiring that, to enter the market, foreign films be co-produced with Chinese companies. In 1994, when it first allowed foreign titles in China, the Chinese government limited the number of foreign films (i.e., films produced by a non-Chinese film producer) to 10 per year to preserve its own growing film industry. After entering the World Trade Organization (WTO) in 2002, the government increased the quota to 20 titles, then to 34 titles in 2012, and in December 2016 to 39 titles as “cultural exchange projects.”[[54]](#endnote-54)

EuropaCorp was well established in China, producing seven out of 10 French movies distributed in the country since 2000.[[55]](#endnote-55)

**CHRISTOPHE LAMBERT ERA: 2010–2016**

EuropaCorp had almost doubled its revenues from €98 million in 2001 to €181 million in 2010 through vertical integration; Jean-Julien Baronnet was the CEO (until November 2008).[[56]](#endnote-56) However, EuropaCorp’s earnings before interest and taxes (EBIT) struggled, decreasing from a profit of 14 per cent in FY 2004/05 to a loss of 9 per cent in FY 2009/10 (see Exhibit 11). Christophe Lambert, CEO of Front Line—EuropaCorp’s parent company, holding 62 per cent of EuropaCorp’s shares—was then appointed CEO of EuropaCorp, effective July 7, 2010.[[57]](#endnote-57)

During FY 2010/11, EuropaCorp nearly went bankrupt with disastrous operating losses of €47 million.[[58]](#endnote-58) To recover, the company launched a new strategic plan in May 2011, focusing on overseas expansion by targeting the Chinese market and the production of English language films.[[59]](#endnote-59)

In October 2013, EuropaCorp strengthened its competitive position by opening a 12-screen multiplex movie theatre in the Aéroville shopping centre, near Paris. This theatre activity generated revenues of €5.8 million in FY 2014/15 and €7.46 million in FY 2015/16, with 770,000 tickets sold.[[60]](#endnote-60) The company planned to open a second theatre, La Joliette, in Marseille, with construction to start in 2017.

In February 2014, EuropaCorp formed a joint venture with Relativity, the American production and distribution company—Relativity EuropaCorp Distribution (RED). The new venture marketed and distributed films from both EuropaCorp and Relativity in the United States. EuropaCorp was to pay Relativity $130 million over the next six years for 50 per cent of the shares of the venture. Both companies were to seek opportunities to produce and finance movies together, while sharing their profits. Being already present in the U.S. market, EuropaCorp expected to use RED to fully control EuropaCorp’s distribution and maximize its visibility in the United States. Relativity also expected to increase its use of RED’s strong distribution and marketing abilities, while continuing to expand its own film production.[[61]](#endnote-61)

These efforts renewed EuropaCorp’s profitability between 2011 and 2015, with EBIT between 4 per cent and 16 per cent, and revenues increasing from €168 million in FY 2011/12[[62]](#endnote-62) to €227 million in FY2014/15,[[63]](#endnote-63) the highest level the company had ever reached. The release of *Lucy*, a film produced by EuropaCorp and directed by Besson in August 2014, was a main driver of EuropaCorp’s success. *Lucy* became the most successful French film ever, with the highest worldwide revenues and number of tickets sold to date (see Exhibits 2A and B).

**PARTNERSHIP WITH China’s FUNDAMENTAL FILMS**

As part of Lambert’s turnaround plan, which included gaining a larger presence in China, EuropaCorp announced a three-year deal with Fundamental Films in China in July 2012. Fundamental Films was founded in 2008, with headquarters in Shanghai and offices in Beijing and Los Angeles. A prominent distributor of Chinese and foreign film in China,[[64]](#endnote-64) Fundamental Films was listed on the Chinese NEEQ stock exchange[[65]](#endnote-65) with revenues of €25.7 million in 2015 (see Exhibit 12).

Through the deal with EuropaCorp, Fundamental Films was given exclusive rights to distribute all films produced by EuropaCorp (at least 15 titles) in the Chinese market, and the two companies committed to co-producing three of those films. EuropaCorp already had a large number of well-known, top-tier films in China, particularly *Transporter 3* and *Adèle: Rise of the Mummy*. With Fundamental Films’ knowledge and market position in the country, EuropaCorp planned to significantly expand the presence of both Chinese and French films to fully benefit from the extraordinary growth in the Chinese market.[[66]](#endnote-66) The partnership also made Fundamental Films an international player in funding and producing international film projects.

After the success of this initial partnership, the deal was extended in May 2015 for an additional five years. In the extended deal, Fundamental Films committed to investing $50 million in Besson’s new *Valerian* project, adapted from a comic book and embodying EuropaCorp’s history.[[67]](#endnote-67) *Valerian* was by far the most expensive French movie to that point (€197 million), overtaking other films directed by Besson, including *Asterix at the Olympic Games* (€78 million) and *The Fifth Element* (€75 million).[[68]](#endnote-68) *Valerian* was filmed at EuropaCorp’s Cité du Cinéma.[[69]](#endnote-69) Its post-production effects were done by a subsidiary of EuropaCorp, Digital Factory.[[70]](#endnote-70) Fundamental Films and EuropaCorp would each be responsible for distribution of the movie in the company’s respective territory, and Fundamental Films claimed a substantial part of the international box office.[[71]](#endnote-71)

**THE END OF LAMBERT’s ERA AND CRITICAL STRATEGIC DECISIONS, 2016–2017**

Lambert unexpectedly resigned in February 2016, and Marc Shmuger, an American and a former chairman of Universal Pictures was appointed the new CEO.[[72]](#endnote-72) Lambert’s sudden departure raised speculation that EuropaCorp might soon be sold off—a conclusion drawn by linking Lambert’s departure with his overly ambitious *Valerian* project and overseas expansions.[[73]](#endnote-73)

In July 2016, EuropaCorp announced very disappointing results for FY 2015/16, including revenues of €147.3 million, the lowest level since 2008, and operating losses of €22.3 million.[[74]](#endnote-74) In September 2016, EuropaCorp announced the sale of its multiplex theatre activities, launched earlier in 2013, and of the La Joliette project in Marseille, still under development, to Les Cinémas Gaumont Pathé for $21.2 million, indicating that it wanted to refocus on its core production and worldwide distribution of films and television series.[[75]](#endnote-75)

In November 2016, EuropaCorp announced a reserved capital increase of €60 million by issuing new equity stakes of 27.9 per cent to Fundamental Films at a share price of €5.25, corresponding to a premium of 38.5 per cent (see Exhibit 13).[[76]](#endnote-76) This capital increase would enhance EuropaCorp’s ability to produce and distribute English-language films and series worldwide.[[77]](#endnote-77) The capital increase was also a major shift in EuropaCorp’s shareholding structure, reducing Besson’s ownership from 44 per cent to 32 per cent, and making Fundamental Films the second-largest shareholder (see Exhibit 14).

In June 2017, EuropaCorp announced its FY 2016/17 results, which included revenues of €151.7 million—a marginal increase of 3 per cent, driven by foreign sales—but with a historical record loss of €119.9 million.[[78]](#endnote-78) The operating cash flow was also enormously reduced, to €2.4 million from €81.7 million, in FY 2015/16. Accordingly, EuropaCorp’s stock price decreased by 8 per cent.[[79]](#endnote-79)

The company attributed its loss to the poor performance of English-language films and disappointing box office revenues in the United States—the result of RED, the joint venture with Relativity—which failed to offset the significant distribution costs of over €100 million.[[80]](#endnote-80) In response to this failure, in January 2017 EuropaCorp outsourced some theatrical distribution and marketing of *Valerian* and other upcoming films in the United States to STX Motion Pictures Group with a multi-year agreement.[[81]](#endnote-81) This decision had immediate and dramatic effects on RED, which included a large number of RED employees being laid off.[[82]](#endnote-82) FY 2016/17 also marked a high level of investment of €133.7 million in world-class films like *Valerian* and television series like *Taken*.

In October 2017, EuropaCorp anticipated a continuing loss for FY 2017/18, again due to disappointing box office revenues for *Valerian* in the United States.[[83]](#endnote-83) In November 2017, Shmuger announced his plan to leave EuropaCorp at the end of his contract on December 31, 2017.[[84]](#endnote-84) Besson would assume the position of interim CEO on January 1, 2018. The company also announced the sale of the French television activity it had acquired earlier for €11 million; the sale would decrease yearly overheads of approximately €2.5 million–€3 million.[[85]](#endnote-85) EuropaCorp kept its U.S. television business, continuing to produce and distribute English-language television series that had strong international potential.

Also in November 2017, EuropaCorp reaffirmed its priority strategic objective to focus on what had been EuropaCorp’s successful core business: production of English- and French-language feature films and English-language television series, and distribution and international sales of films.[[86]](#endnote-86) *Valerian*’s box office revenues were still disappointing, at $225 million as of November 28, 2017.[[87]](#endnote-87) The revenues would cover the production budget of $200 million, but were far below what was needed to pay the marketing expenses of around $200 million. Given the cost of debts and the maturity of credit lines, the company was considering additional recapitalization, as well as cost cuts and asset sales related to post-production or film catalogues.[[88]](#endnote-88) EuropaCorp’s stock price continued to fall, from €4.19 on June 26, 2017, before the announcement of the historical record loss of €119.9 million, to €1.15 on November 28, 2017—a drop of 73 per cent.

It seemed that EuropaCorp’s future would be decided by the box office success of the ambitiously big *Valerian* project and its distribution in the U.S. market. However, press reviews of the movie were negative, not leaving much hope for its success in France and abroad.[[89]](#endnote-89) Was EuropaCorp doomed, or was there some way to turn the company around? Indeed, given all the past and present challenges, was a second turnaround even possible, and if so, what strategic, financial, and operational actions would be necessary?

**Exhibit 1: timetable of EUROPACORP S. A.’S IMPORTANT EVENTS, 2000–2017**

|  |  |  |
| --- | --- | --- |
| **Time** | | **Events** |
| 2000 | November | EuropaCorp created. |
| 2001 | February | Created EuropaCorp Distribution to distribute EuropaCorp’s own films. |
| 2002 | April | Created EuropaCorp Japan with a stake of 35 per cent. |
| May | Acquired Intervista, a book publishing company, and Dog Production, a producer of advertising films. |
| 2005 |  | Created EuropaCorp Music Publishing to publish EuropaCorp’s own original music works. |
| 2007 |  | Acquired a partner, Ydéo, operating in consulting and marketing creation. |
| July | Announced the success of its initial public offering. |
| 2008 |  | Acquired Roissy Films to exploit its catalogue of about 500 movies. |
| 2009 |  | Partnered with Euro Media Group S.A., Quinta Communications S.A., and Front Line to launch La Cité du Cinéma, a cinema hub near Paris, France. |
| 2010 | April | Bought the remaining shares of EuropaCorp Japan and a 75-per-cent stake in the French television drama producer Cipango. |
| July | Lambert appointed chief executive officer (CEO). |
| 2011 | May | Launched a new strategic plan, focusing on overseas expansion. |
| 2012 | February | Liquidated EuropaCorp Japan in response to net losses in fiscal year 2010/11. |
| May | Stock price reached the lowest level, due to the global financial crisis. |
| July | Struck a three-year distribution and production deal with Fundamental Films. |
| August | Made La Cité du Cinéma, launched in 2009, company headquarters. |
| 2013 | October | Opened a 12-screen multiplex movie theatre near Paris. |
| 2014 | February | Formed a joint venture with Relativity Media LLC for marketing and distribution of movies in the United States. |
| July | Bought the remaining 25 per cent of Cipango shares. |
| 2015 | May | Extended the deal with Fundamental Films for five more years, with Fundamental Films investing US$50 million in the Valerian project. |
| 2016 | February | Lambert resigned from EuropaCorp and Shmuger was appointed CEO. |
| July | Announced the lowest revenues and operating losses of EuropaCorp’s history. |
| September | Announced the sale of multiplex theatre activities, launched earlier in 2013. |
| November | Announced a reserved capital increase by issuing new equity stakes to Fundamental Films. |
| 2017 | January | Outsourced theatrical distribution and marketing in the United States. |
| June | Announced a marginal increase in revenues but a historical record loss for fiscal year 2016/17. Also, marked a high level of investment in world-class films like *Valerian* and televisions series like *Taken*. |
| July | Released France’s most expensive film, *Valerian*. |
| October | Anticipated a continuing loss in 2018. |
| November | Announced that Shmuger would leave at the end of his contract on December 31, 2017, with Besson taking over as interim CEO. Continued to sell its earlier acquired French television activity to decrease yearly overheads. Reaffirmed that its priority strategic objective was to refocus on core businesses. |

Source: Created by the case authors based on information in the case.

**Exhibit 2A: BOX OFFICE Returns for MOVIES DIRECTED BY LUC BESSON**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Title** | **Gross revenue worldwide (US$ million)** | | **Tickets sold in France (millions)** | **Budget**  **(US$ million)** | **Year of release** |
| Lucy | 463.4 | 5.2 | | 65.1 | 2014 |
| The Fifth Element | 263.9 | 7.7 | | 85.1 | 1997 |
| Arthur and the Invisibles | 113.0 | 6.4 | | 81.9 | 2006 |
| The Family | 78.4 | 1.0 | | 37.7 | 2013 |
| Joan of Arc | 67.0 | 3.0 | | 58.5 | 1999 |
| Arthur and the Invisibles 2 | 51.1 | 3.9 | | 88.1 | 2009 |
| Léon: The Professional | 45.3 | 3.5 | | 21.0 | 1994 |
| The Big Blue | 35.0 | 9.1 | | 14.3 | 1988 |
| Adèle Blanc-Sec | 34.1 | 1.6 | | 42.3 | 2010 |
| Arthur and the Invisibles 3 | 30.7 | 3.1 | | 91.2 | 2010 |
| Angel-A | 10.0 | 0.8 | | 1.6 | 2007 |
| Nikita | 6.7 | 3.8 | | 9.7 | 1990 |
| The Lady | 3.8 | 0.5 | | 28.4 | 2012 |
| Subway | 1.7 | 2.9 | | 1.8 | 1985 |
| Total | 1204.0 | 52.5 | | 626.8 |  |
| Average per title | 86.0 | 3.8 | | 44.8 |  |

Source: Created by the case authors based on “Luc Besson, Producteur Français,” JP's Box-Office, accessed December 3, 2017, www.jpbox-office.com/fichacteur.php?id=654&view=5.

**Exhibit 2B: BOX OFFICE REturns for TOP-10 FRENCH MOVIES in Foreign Countries**

|  |  |  |  |
| --- | --- | --- | --- |
| **Title** | **Number of tickets sold worldwide (millions)** | **Year of release** | **Remarks** |
| Lucy | 52.1 | 2014 | Produced by EuropaCorp, Directed by Luc Besson |
| Taken 2 | 47.8 | 2012 | Produced by EuropaCorp |
| The Fifth Element | 35.7 | 1997 | Directed by Luc Besson |
| The Intouchables | 31.9 | 2011 |  |
| Taken | 31.8 | 2008 | Produced by EuropaCorp |
| Amélie | 23.1 | 2001 |  |
| March of the Penguins | 20.0 | 2005 |  |
| The Pianist | 17.8 | 2002 |  |
| The Transporter | 17.1 | 2002 | Produced by EuropaCorp |
| Asterix and Obelix vs. Caesar | 15.9 | 1999 |  |

Source: Created by the case authors based on Thomas Destouches, “De Lucy à Intouchables: Les 10 plus gros succès du cinéma français dans le monde,” Allociné, November 7, 2014, accessed December 3, 2017 www.allocine.fr/diaporamas/cinema/diaporama-18637954/?page=2.

**Exhibit 3: EUROPACORP S. A.’s KEY FINANCIALS, 2011–2017 (IN € MILLION)**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Financials as of March 31st** | **2011** | | **2012** | | **2013** | | **2014** | |
| International sales | 34.9 | 19.5% | 73.9 | 43.9% | 71.7 | 38.6% | 112.0 | 52.9% |
| Distribution | 36.7 | 20.5% | 14.0 | 8.3% | 16.2 | 8.7% | 10.5 | 4.9% |
| Video/VoD (video on demand) | 24.7 | 13.8% | 18.4 | 10.9% | 15.1 | 8.1% | 9.3 | 4.4% |
| Television | 43.1 | 24.1% | 37.7 | 22.4% | 41.4 | 22.3% | 26.8 | 12.6% |
| Subsidies | 11.7 | 6.5% | 8.5 | 5.0% | 6.8 | 3.6% | 5.0 | 2.4% |
| Television series | 15.7 | 8.8% | 8.8 | 5.2% | 28.4 | 15.3% | 36.2 | 17.1% |
| Events | 0.0 | 0.0% | 0.0 | 0.0% | 0.0 | 0.0% | 2.9 | 1.4% |
| Multiplexes | 0.0 | 0.0% | 0.0 | 0.0% | 0.0 | 0.0% | 1.5 | 0.7% |
| Other activities | 11.9 | 6.7% | 7.1 | 4.2% | 6.1 | 3.3% | 7.6 | 3.6% |
| **Revenues** | **178.7** | **100.0%** | **168.3** | **100.0%** | **185.8** | **100.0%** | **211.8** | **100.0%** |
| Cost of sales | (195.2) | (109.2%) | (137.3) | (81.6%) | (129.7) | (69.8%) | (154.1) | (72.7%) |
| **Operating margin** | **(16.5)** | **(9.2%)** | **30.9** | **18.4%** | **56.1** | **30.2%** | **57.7** | **27.3%** |
| Overheads | (30.9) | (17.3%) | (24.1) | (14.3%) | (25.8) | (13.9%) | (49.3) | (23.3%) |
| Operating profit (loss) | (47.4) | (26.5%) | 6.8 | 4.1% | 30.3 | 16.3% | 8.5 | 4.0% |
| **Net income (loss)—group share** | **(30.2)** | **(16.9%)** | **0.1** | **0.1%** | **19.6** | **10.5%** | **0.2** | **0.1%** |
|  |  |  |  |  |  |  |  |  |
| **Financials as of March 31st** | **2015** | | **2016** | | **2017** | |  |  |
| International sales | 95.7 | 42.2% | 55.5 | 37.7% | 48.8 | 32.2% |  |  |
| Distribution | 29.2 | 12.9% | 9.8 | 6.6% | 13.7 | 9.0% |  |  |
| Video/VoD (video on demand) | 13.7 | 6.0% | 15.2 | 10.3% | 17.4 | 11.5% |  |  |
| Television | 29.1 | 12.8% | 23.8 | 16.2% | 29.9 | 19.7% |  |  |
| Subsidies | 9.8 | 4.3% | 4.2 | 2.9% | 3.9 | 2.6% |  |  |
| TV Series | 32.8 | 14.5% | 21.8 | 14.8% | 23.6 | 15.5% |  |  |
| Events | 4.4 | 1.9% | 2.6 | 1.8% | 1.0 | 0.7% |  |  |
| Multiplexes | 5.8 | 2.6% | 7.5 | 5.1% | 5.2 | 3.4% |  |  |
| Other activities | 6.4 | 2.8% | 7.0 | 4.8% | 8.2 | 5.4% |  |  |
| **Revenues** | **226.9** | **100.0%** | **147.3** | **100.0%** | **151.7** | **100.0%** |  |  |
| Cost of sales | (155.4) | (68.5%) | (110.0) | (74.7%) | (221.4) | (145.9%) |  |  |
| **Operating margin** | **71.5** | **31.5%** | **37.3** | **25.3%** | **(69.7)** | **(45.9%)** |  |  |
| Overheads | (52.0) | (22.9%) | (59.6) | (40.5%) | (52.9) | (34.7%) |  |  |
| Operating profit (loss) | 19.5 | 8.6% | (22.3) | (15.1%) | (122.2) | (80.6%) |  |  |
| **Net income (loss)—group share** | **16.2** | **7.2%** | **(27.7)** | **(18.8%)** | **(119.9)** | **(79.0%)** |  |  |

Note: € = Euro; €1 = US$1.06551 on March 31, 2017.

Source: Created by the case authors based on EuropaCorp, *Registration Document* [Annual Report] *2010/11* (July 22, 2011), accessed December 3, 2017, http://quote.morningstar.com/stock-filing/Annual-Report/2011/3/31/t.aspx?t=XPAR:ECP&ft=&d=

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uploads/Registration\_document\_2015-2016.pdf; EuropaCorp, Registered Document [Annual Report] 2016/17 (July 27, 2017), accessed December 2, 2017, www.europacorp.com/assets/uploads/EuropaCorp\_Registration\_Document\_FY\_2016-20174.pdf, page 8–9, 82, 91.

**Exhibit 4: EUROPACORP S. A.’S HISTORICAL REVENUES**

Note: € = Euro; €1 = US$1.06551 on March 31, 2017

Source: Created by the case authors based on EuropaCorp, *Registration Document* [Annual Report] *2010/11* (July 22, 2011), accessed December 3, 2017, http://quote.morningstar.com/stock-filing/Annual-Report/2011/3/31/t.aspx?t=XPAR:ECP&ft=&d=

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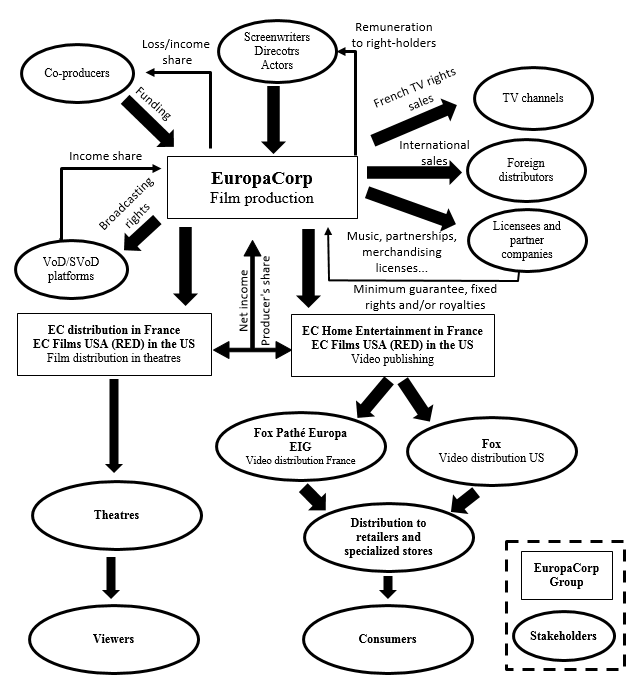
**Exhibit 5: EUROPACORP S. A.’s Corporate Governance, SINCE 2000**

|  |  |  |
| --- | --- | --- |
| **Name** | **Position** | **Tenure Period** |
| Luc Besson | Board Chairman | 2000 – |
| Pierre-Ange Le Pogam | CEO | 2000 – 2008 |
| Jean-Julien Baronnet | CEO | November 2008 – July 2010 |
| Christophe Lambert | CEO | July 2010 – February 2016 |
| Marc Shmuger | CEO | February 2016 – |

Note: CEO = chief executive officer

Source: Created by the case authors based on David Hayhurst, “Baronnet Joins EuropaCorp as CEO,” *Variety*, October 24, 2008, accessed December 3, 2017, http://variety.com/2008/film/news/baronnet-joins-europacorp-as-ceo-1117994581; Rebecca Leffler, “EuropaCorp Taps Christophe Lambert,” *Hollywood Reporter*, July 7, 2010, accessed December 3, 2017, www.hollywoodreporter.com/news/europacorp-taps-christophe-lambert-25297; Jeff Sneider, “Christophe Lambert Resigns as EuropaCorp CEO, Marc Shmuger to Replace Him,” The Wrap, February 17, 2016, accessed November 24, 2017, www.thewrap.com/christophe-lambert-resigns-as-europacorp-ceo-marc-shmuger-to-replace-him.

**Exhibit 6: EUROPACORP’S INTEGRATED STUDIO MODEL**



Note: EC = EuropaCorp; Fox = Twentieth Century Fox Film Corporation; RED = Relativity EuropaCorp Distribution; SVod = subscription video on demand; US =The United States; TV = television; VoD = video on demand.

Source: EuropaCorp, *Registration Document* [Annual Report] *2015/16* (July 26, 2016), 135, accessed December 3, 2017, www.europacorp.com/assets/uploads/Registration\_document\_2015-2016.pdf.

**Exhibit 7: EUROPACORP S. A.’s STOCK PERFORMANCE COMPARED TO PEERS**

Percentage of stock price relative to the price in 2007

Note: EuropaCorp = EuropaCorp S.A.; Gaumont = The Gaumont Film Company; Disney = The Walt Disney Company; 21st Century Fox = Twenty-First Century Fox, Inc.

Source: Created by the case authors based on “EuropaCorp (ECP.PA),” Yahoo Finance, accessed June 18, 2017.

**EXHIBIT 8: CINEMA in France—HISTORICAL BOX OFFICE AND TICKET SALES**

Note: € = Euro; €1 = US$1.06551 on March 31, 2017.

Source: Based on CNC (Centre national du cinema et de l’image animée), *Les principaux chiffres du cinéma en 2015* (May 2016), accessed December 3, 2017, www.cnc.fr/web/fr/publications.

**Exhibit 9: average admissions per film for THEATRE DISTRIBUTORS IN FRANCE (2016)**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Rank** | **Distributor** | **Admissions (millions)** | | **Films released in 2016** | | **Market share (%)** |
| **For all films shown in 2016** | **For films released in 2016** | **Total number of films** | **Average admissions per film** |
| 1 | The Walt Disney Company France | 31.1 | 26.4 | 12 | 2.2 | 15.0 |
| 2 | Twentieth Century Fox | 27.6 | 26.7 | 19 | 1.4 | 13.3 |
| 3 | Pathé Distribution | 16.9 | 16.9 | 15 | 1.1 | 8.2 |
| 4 | Warner Bros. Entertainment France | 18.5 | 18.2 | 19 | 1.0 | 8.9 |
| 5 | Gaumont Distribution | 11.8 | 11.0 | 14 | 0.8 | 5.7 |
| 6 | SND | 10.6 | 10.5 | 15 | 0.7 | 5.1 |
| 7 | Universal Pictures International France | 13.3 | 12.1 | 21 | 0.6 | 6.4 |
| 8 | Mars Distribution | 9.6 | 9.6 | 19 | 0.5 | 4.6 |
| 9 | Paramount Pictures France | 5.5 | 4.9 | 11 | 0.4 | 2.6 |
| 10 | Studiocanal | 7.1 | 7.0 | 16 | 0.4 | 3.4 |
| 11 | Sony Pictures Releasing France | 6.9 | 6.9 | 16 | 0.4 | 3.3 |
| 12 | UGC Distribution | 4.8 | 4.4 | 11 | 0.4 | 2.3 |
| 13 | Le Pacte | 6.0 | 5.6 | 17 | 0.3 | 2.9 |
| 14 | EuropaCorp Distribution | 1.6 | 1.6 | 6 | 0.3 | 0.8 |
| 15 | Metropolitan Filmexport | 5.6 | 5.2 | 20 | 0.3 | 2.7 |
| 16 | La Belle Company | 1.6 | 1.6 | 7 | 0.2 | 0.8 |
| 17 | Wild Bunch Distribution | 4.3 | 3.5 | 16 | 0.2 | 2.1 |
| 18 | Diaphana Distribution | 3.4 | 2.6 | 16 | 0.2 | 1.6 |
| 19 | Ad Vitam Distribution | 1.8 | 1.3 | 12 | 0.1 | 0.9 |
| 20 | ARP Sélection | 1.5 | 1.2 | 14 | 0.1 | 0.7 |

Source: Created by the case authors based on EuropaCorp, *Registration Document* [Annual Report] *2016/17* (July 27, 2017), 46, accessed December 2, 2017, www.europacorp.com/assets/uploads/EuropaCorp\_Registration\_Document\_FY\_2016-20174.pdf.

**Exhibit 10: INTERNATIONAL BOX OFFICE, HISTORICAL AND FORECAST DATA**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Box office**  **2012\*** | **Portion of world sales** | **Box office**  **2016\*** | **Portion of world sales** | **CAGR**  **2012–16** | **Box office**  **2021\*\*** | **Portion of world sales** | **CAGR**  **2016–21** |
| **United States** | 10.0 | 33.4% | 10.6 | 28.5% | 1.5% | 11.2 | 24.4% | 1.2% |
| **China** | 2.5 | 8.5% | 6.2 | 16.6% | 24.9% | 10.7 | 23.2% | 11.6% |
| **France** | 1.4 | 4.8% | 1.5 | 4.1% | 1.7% | 1.6 | 3.6% | 1.3% |
| **World** | 29.8 | 100.0% | 37.1 | 100.0% | 5.6% | 46.0 | 100.0% | 4.4% |

\*

Note: \* US$ billion; \*\* Forecast, in US$ billion; CAGR = compound annual growth rate

Source: Created by the case authors based on “Global Entertainment and Media Outlook 2017–2021,” PwC, accessed June 19, 2017, www.pwc.com/gx/en/industries/entertainment-media/outlook.html.

**Exhibit 11: EUROPACORP’S PROFITABILITY, 2004–2016**

Note: EBIT = earnings before interest and taxes; € = Euro; €1 = US$1.06551 on March 31, 2017

Source: Created by the case authors based on “Periodical Financial Reports,” EuropaCorp, accessed December 3, 2017, www.europacorp.com/corporate/periodical-financial-reports\_1.

Exhibit 12: FUNDAMENTAL FILMS—KEY FINANCIALS, 2014–2015 (IN € MILLION)

|  |  |  |
| --- | --- | --- |
| Key Financials | 2015 | 2014 |
| Operating income | 25.7 | 20.5 |
| Operating costs | 16.7 | 6.3 |
| Gross margin | 35.1% | 69.2% |
| **Operating profit** | **5.9** | **10.0** |
| **EBIT margin** | **23.0%** | **48.7%** |
| Net profit | 4.8 | 7.1 |

Note: € = Euro; €1 = US$1.06551 on March 31, 2017; EBIT = earnings before interest and taxes.

Source: Created by the case authors based on Fundamental Films, *Annual Report 2015*, 12, accessed December 3, 2017, www.neeq.com.cn/disclosure/2016/2016-04-27/1461747000\_646813.pdf.

**Exhibit 13: EUROPACORP’S HISTORICAL STOCK PRICE SINCE Initial Public Offering**

Note: € = Euro; €1 = US$1.06551 on March 31, 2017

Source: Created by the case authors based on “EuropaCorp (ECP.PA),” Yahoo Finance, accessed May 20, 2017.

**Exhibit 14: EUROPACORP’S SHAREHOLDING STRUCTURE—CHANGES BEFORE AND AFTER THE DEAL FOR CAPITAL INCREASE WITH FUNDAMENTAL FILMS**

|  |  |  |
| --- | --- | --- |
| **Shareholders** | **Before the deal** | **After the deal** |
| **Luc Besson** | **44%** | **32%** |
| Christophe Lambert | 10% | 7% |
| **Fundamental** | **—** | **28%** |
| Habert Dassault | 9% | 7% |
| Public float | 31% | 22% |
| Others | 7% | 5% |
| **Total number of shares** | **29,548,937** | **40,977,509** |

Source: Created by the case authors based on EuropaCorp, *Registration Document* [Annual Report] *2015/16* (July 26, 2016), 154, accessed December 3, 2017, www.europacorp.com/assets/uploads/Registration\_document\_2015-2016.pdf; EuropaCorp, “Successful Completion of the €60 Million Capital Increase Reserved for FF Motion Invest,” press release, November 21, 2016, accessed December 3, 2017, www.europacorp.com/assets/uploads/161121\_Reserved\_capital\_increase\_completed.pdf.

Endnotes

1. This case has been written on the basis of published sources only. Consequently, the interpretation and perspectives presented in the case are not necessarily those of EuropaCorp S.A., Shanghai Fundamental Films Inc., or any of their employees. [↑](#endnote-ref-1)
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16. “Box office” was the amount of business a particular production received. Box office business could be measured by the number of tickets sold or the amount of money raised by ticket sales (revenue). Worldwide box office sales were a total of domestic and international or foreign sales. [↑](#endnote-ref-16)
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