

A decorative graphic on the left side of the slide, consisting of a network of white lines and circles on a blue gradient background, resembling a circuit board or a stylized tree structure.

MICROSOFT MOVIE STUDIO

CAPITAL ALLOCATION ANALYSIS

MOTIVATION FOR STUDY

- Microsoft is a 1.77 T technology company that wants to compete with other similarly sized fortune 100 and 500 companies in the entertainment/movie production business.
- The size of the company will necessitate large investment to change Microsoft's overall business. In order to give itself the highest probability of making the best ROI decision, historic analysis should be contemplated.

KEY QUESTIONS TO BE ANSWERED

- Should Microsoft invest in the largest scale, largest budget productions possible? Or is an approach of more lower budget productions more prudent?
- Should Microsoft target a specific genre that provides a higher ROI vs. other genres?
- Should Microsoft take into account critical rating when ROI is the key metric that any for profit-company focuses on.

DATA USED AND ANALYTICAL PROCESS EXPLANATION

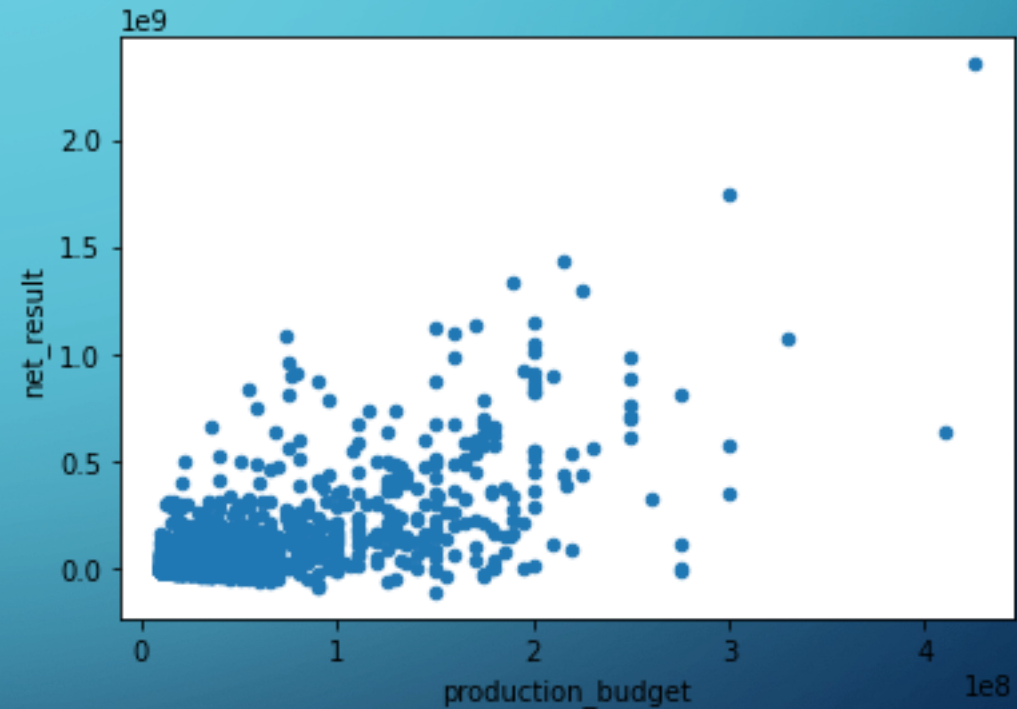
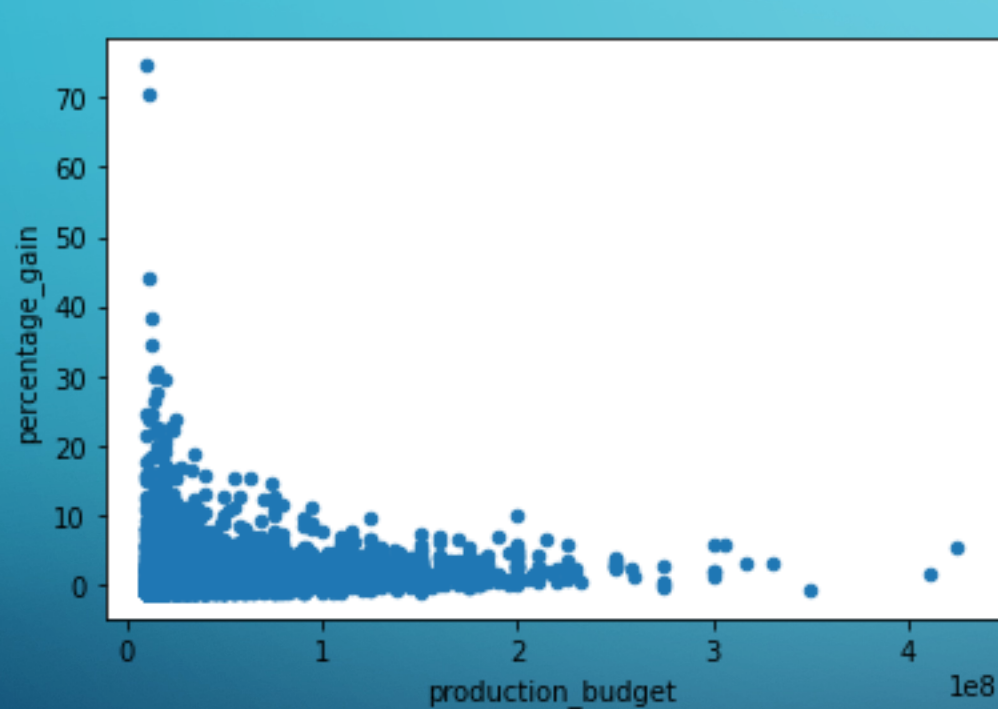
- For this project we looked at historical major motion film records from Box Office Mojo, IMDB, Rotten Tomatoes, TheMovieDB, and The Numbers.
- Pulling together different data sets we calculated net return as worldwide gross minus production budget.
- We calculated percentage gain as net return divided by production budget
- We grouped movies by genre by counting any movie having a tag of a genre as part of that genre.

MOVIE RETURNS VS. PRODUCTION BUDGET

PRODUCTION BUDGET IN 100'S OF MILLIONS

PERCENTAGE GAINS IN 10S OF %

NET RESULT IN BILLIONS

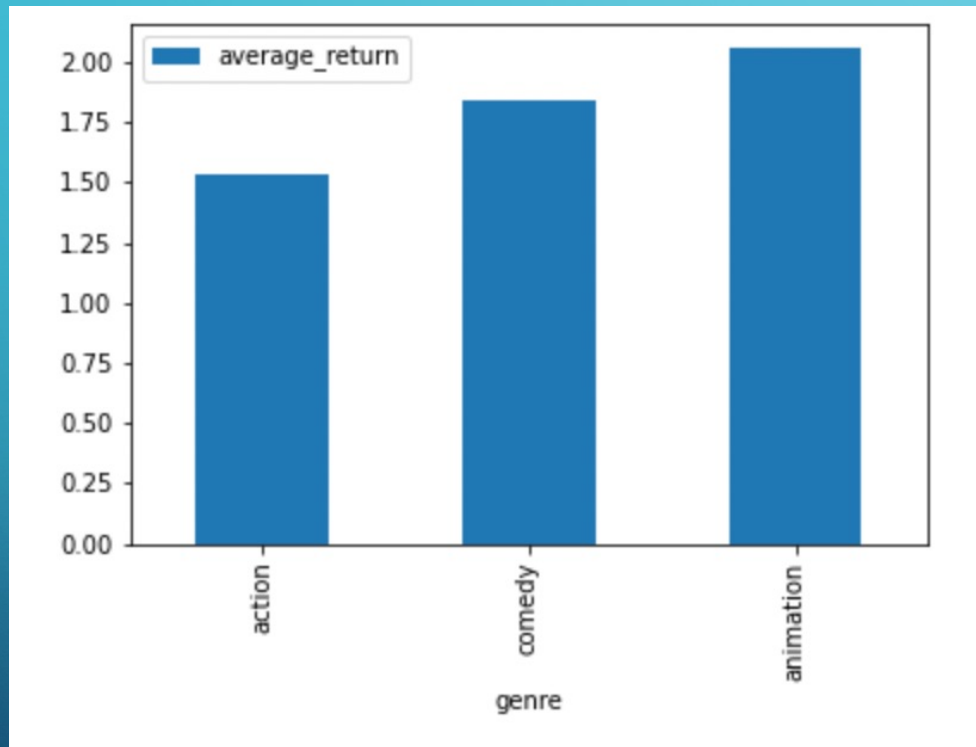


MOVIE RETURNS VS. PRODUCTION BUDGET

- The previous slide shows the greatest percentage return on investments happen at the lowest investment level- these are the low budget films that become huge hits.
- However for a 100mm or below production budget the odds of a 1 B net profit become increasingly rare where this occurs multiple times with a budget over 100mm.

GENRE VS. RETURNS

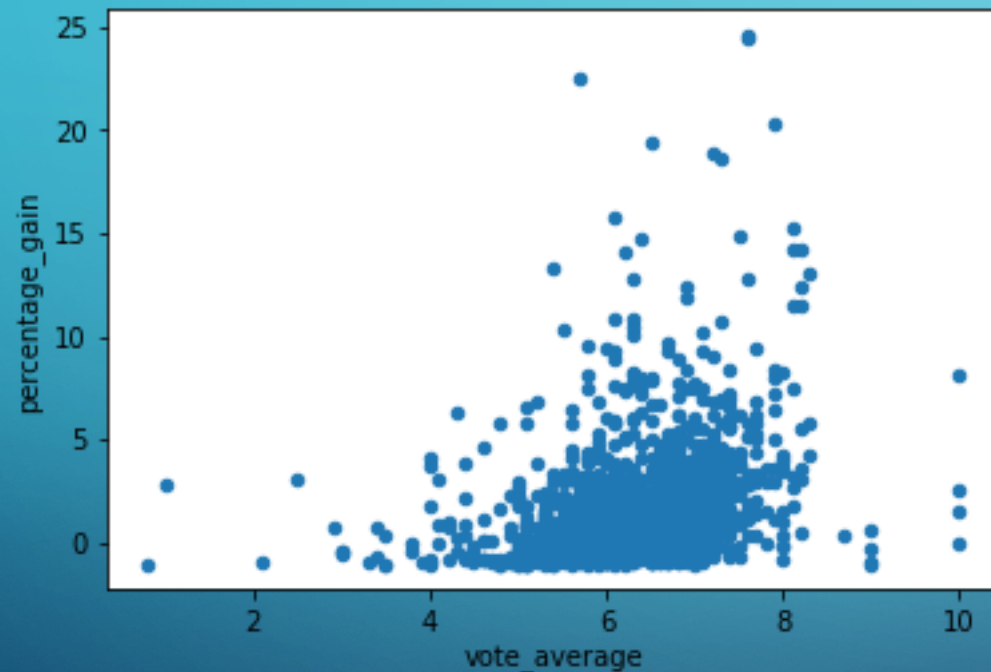
AVERAGE RETURNS IN MULTIPLES OF RETURN



- Looking through the average return by genre label- we can see animated films returning significantly higher vs. comedy and action.

CRITICAL RATING VS. RETURNS

PERCENTAGE GAIN IN 10S OF PERCENT



- Sub 6 rated films rarely more than 100%
- Films that pass the hurdle rating of 6 can have similar percentage gains between 6 and eight.

CONCLUSION

- For this study we asked three questions 1) Should Microsoft invest in big budget or low budget films 2) Should Microsoft focus on a specific genre and 3) how focused should Microsoft be on critical ratings.
1. Low budget films offer the best opportunity for extremely high percentage returns. But given Microsoft's size and capital the absolute returns possible through large budget productions is more appropriate.
 2. Microsoft should focus on animation which not only provides higher historic avg. returns but also would play to their technology strengths
 3. Microsoft should focus on hiring a team able to deliver well received movies critically, but not feel the need to overpay for prestige films (marginal net returns past a ratings of 6 and potentially negative past 8).

The image features a blue gradient background with white circuit-like lines and circles in the corners. The word "QUESTIONS?" is centered in the upper left area.

QUESTIONS?