

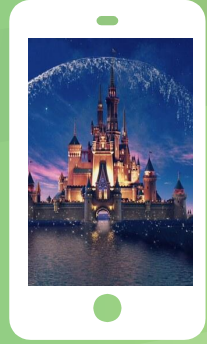
The Winning Formula



Christine Egan, Joe Sanders,
and Lavender Zhang

The market is crowded

But with the expansion of movie consumption through streaming services, now is the perfect time to get into the movie industry.



The Winning Formula

Foundation Built on Low Risk, Low Reward Films

By putting out several films with modest budgets that are more likely to turn a profit, the company has a solid foundation to build upon.

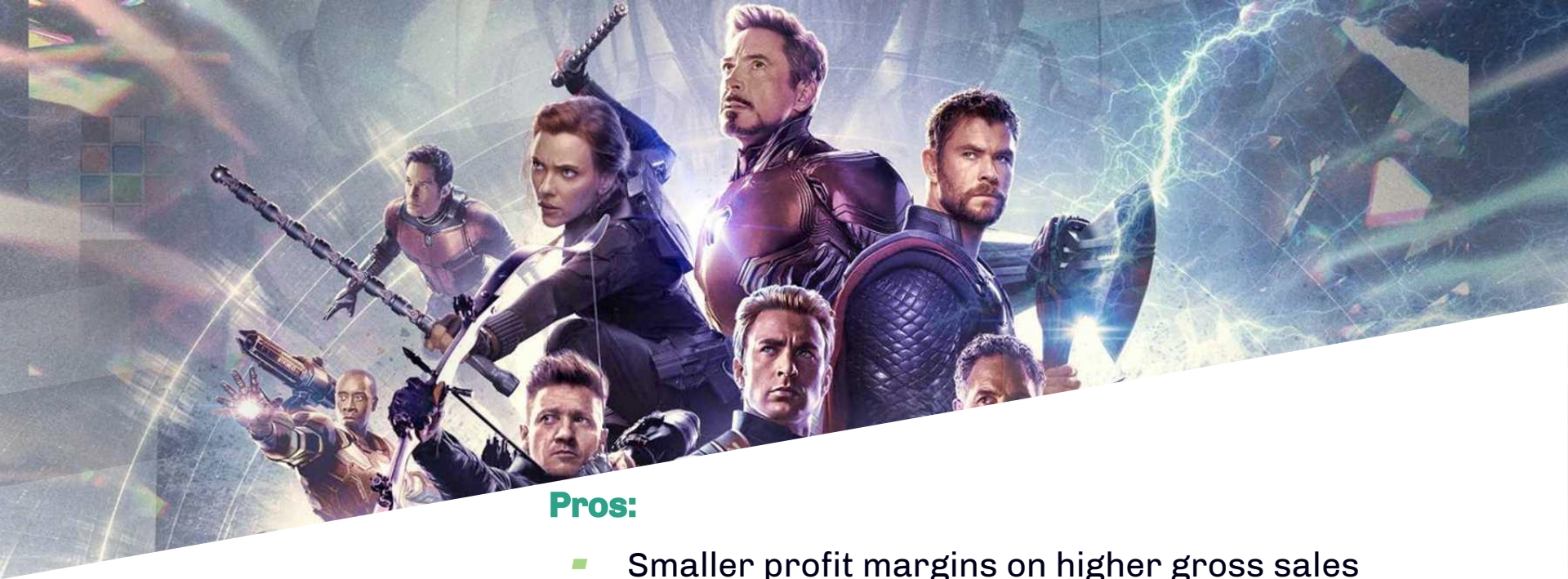


One or more marquee projects that are High-Risk, High Reward

Focusing on a few high-budget films that have the potential for high-grosses is a great way to earn both revenue and acclaim.



GO BIG OR GO HOME
High Risk, High Reward



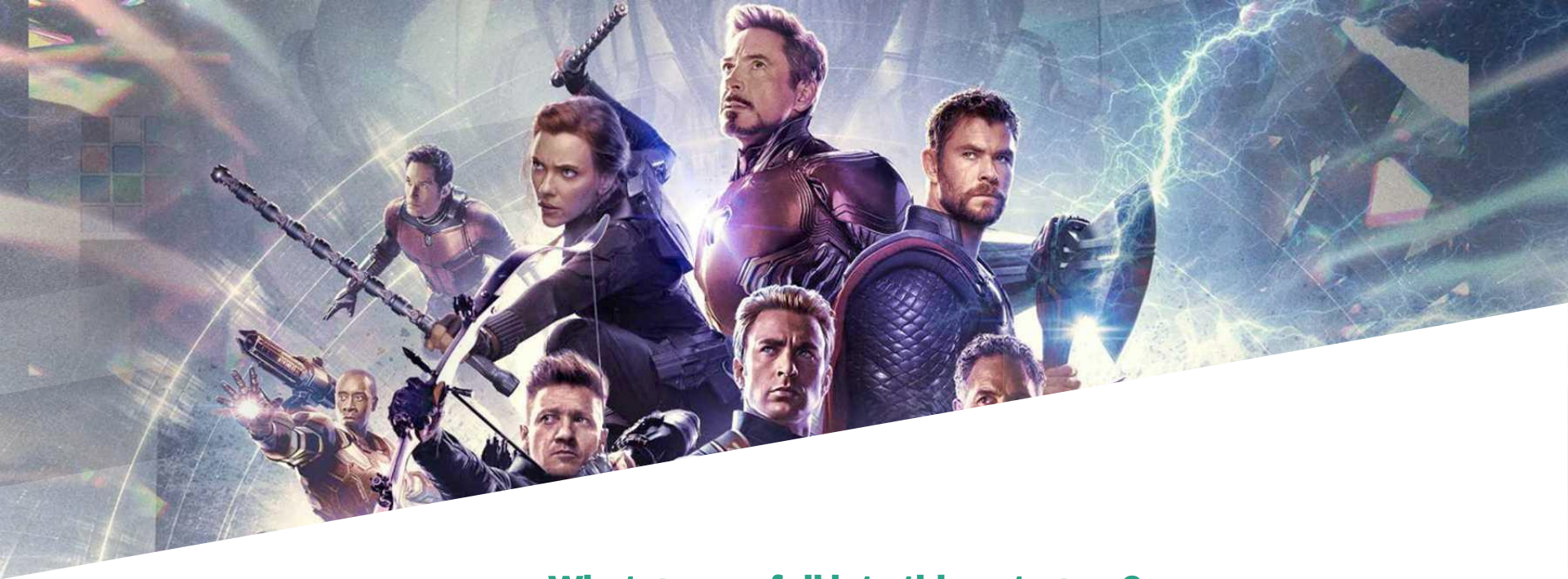
Pros & Cons

Pros:

- Smaller profit margins on higher gross sales

Cons:

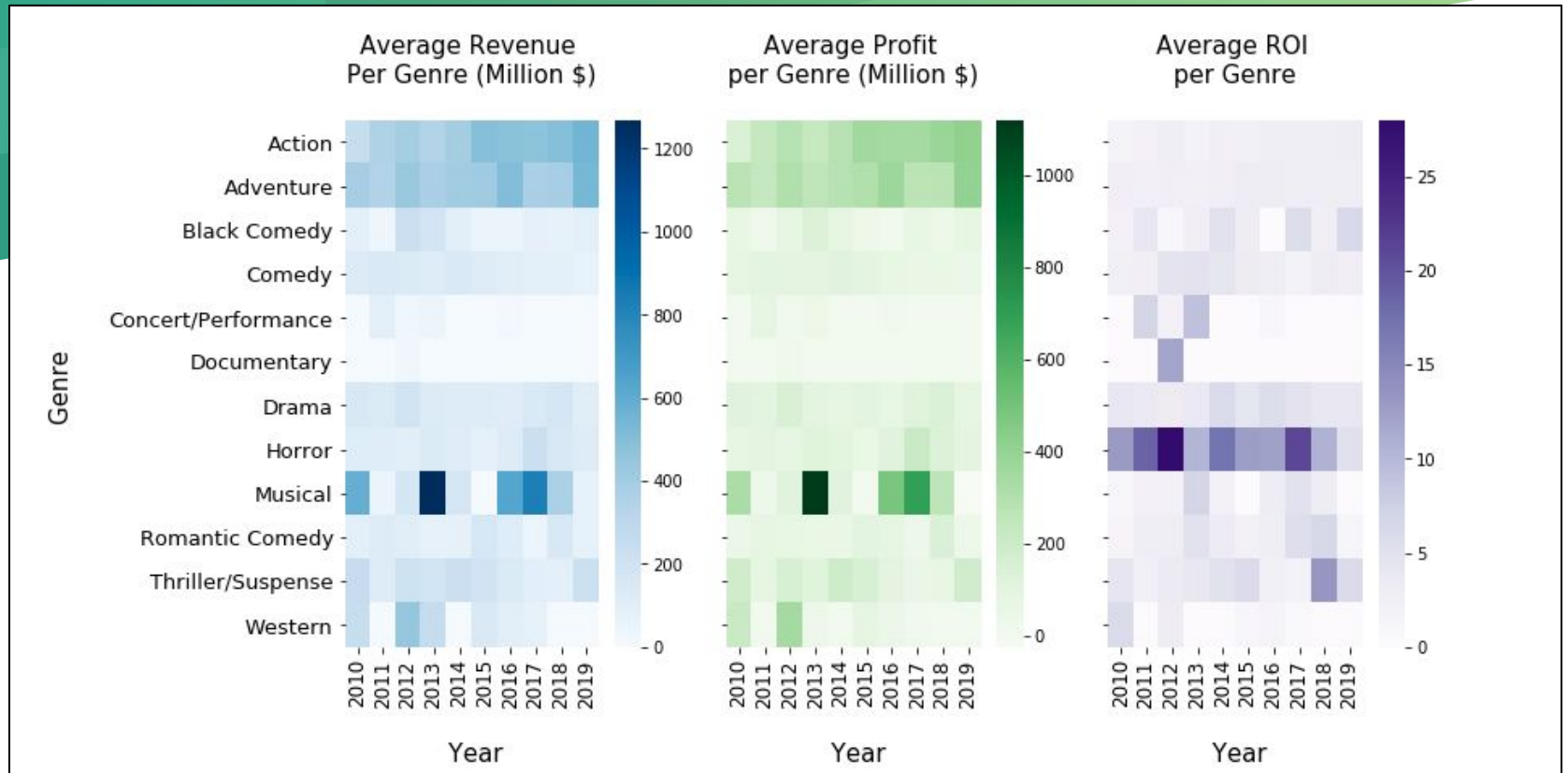
- Budgets must be carefully managed to avoid profit erosion
- Typically more complex and thus harder to mass-produce



Classification

What genres fall into this category?

- Action
- Adventure
- Musical



- Action, Adventure, and Musicals are the clear genres with both highest revenues and highest profits.

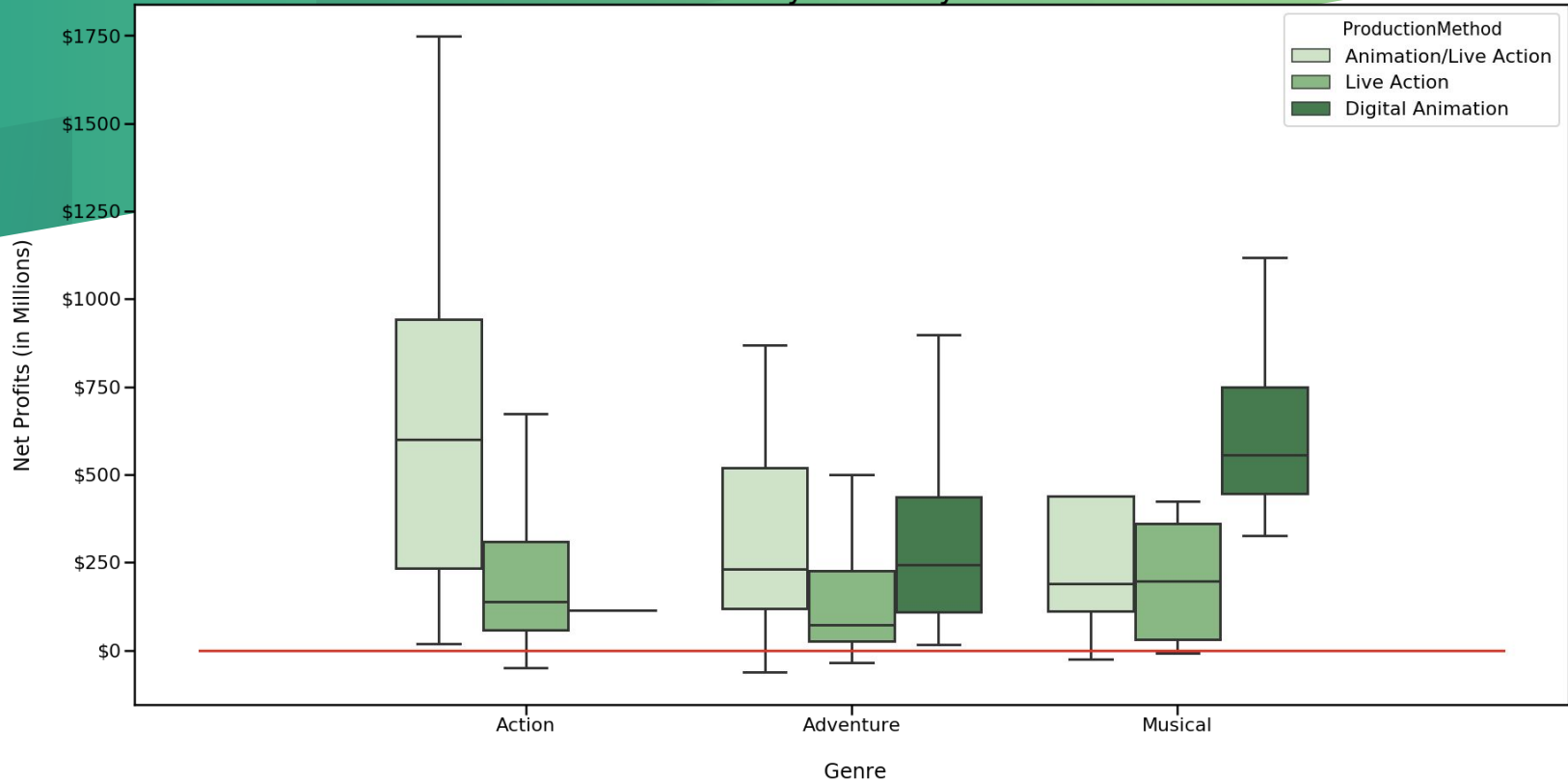


Where to Invest

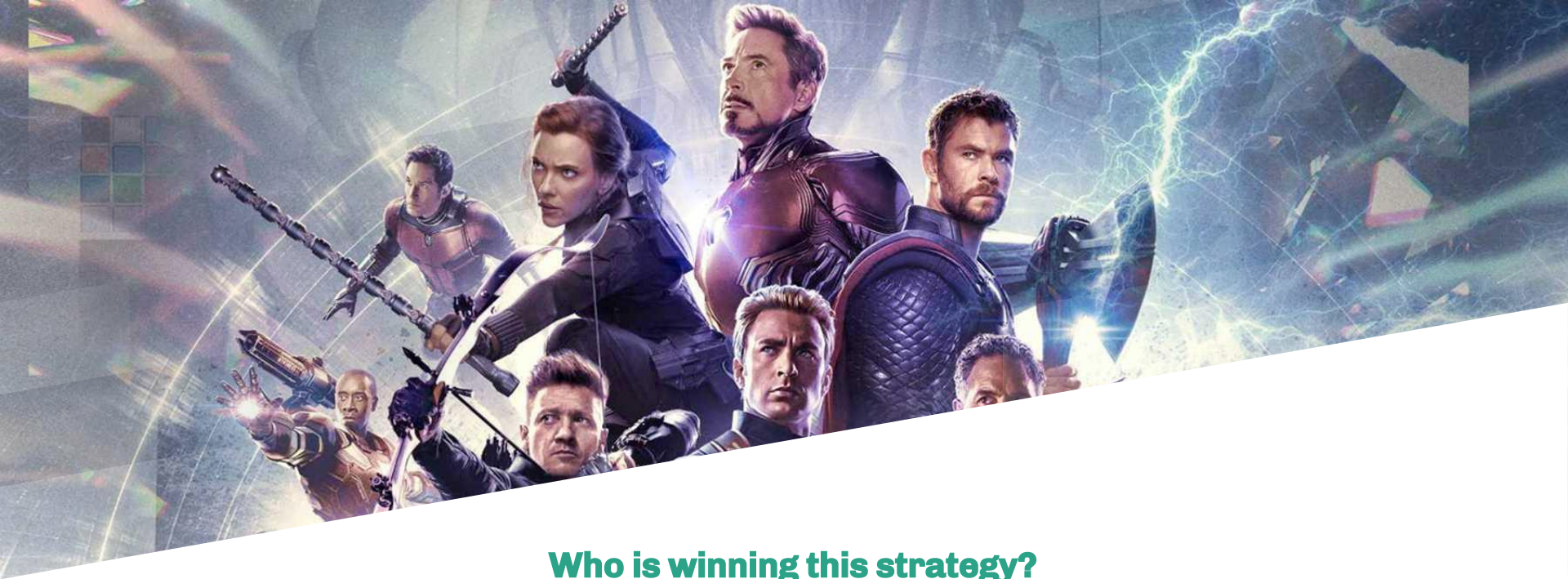
What types of films have historically done the best?

- Live Action/Animation Hybrid Action Films
 - Think: *The Marvel Cinematic Universe*, *Sonic the Hedgehog*
- Animated Musicals
 - Think: *Frozen*, *Moana*, *Tangled*

Distribution of Profit by Genre by Production Method



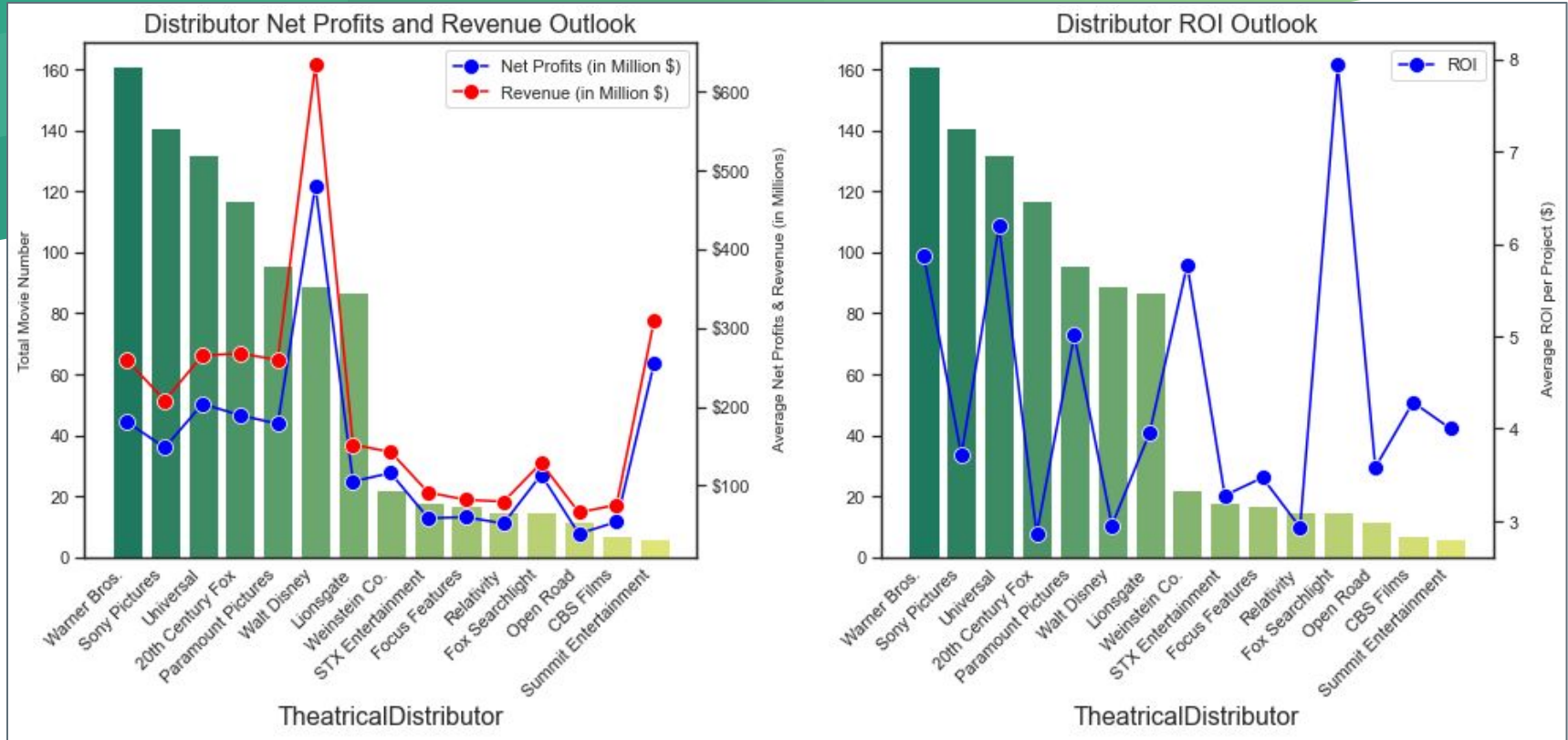
- Animation/Live Action Hybrid Action films have a wide range of profitability, but nearly always turn a profit
- Animated musicals have a smaller profitability range, but consistently turn high profits.



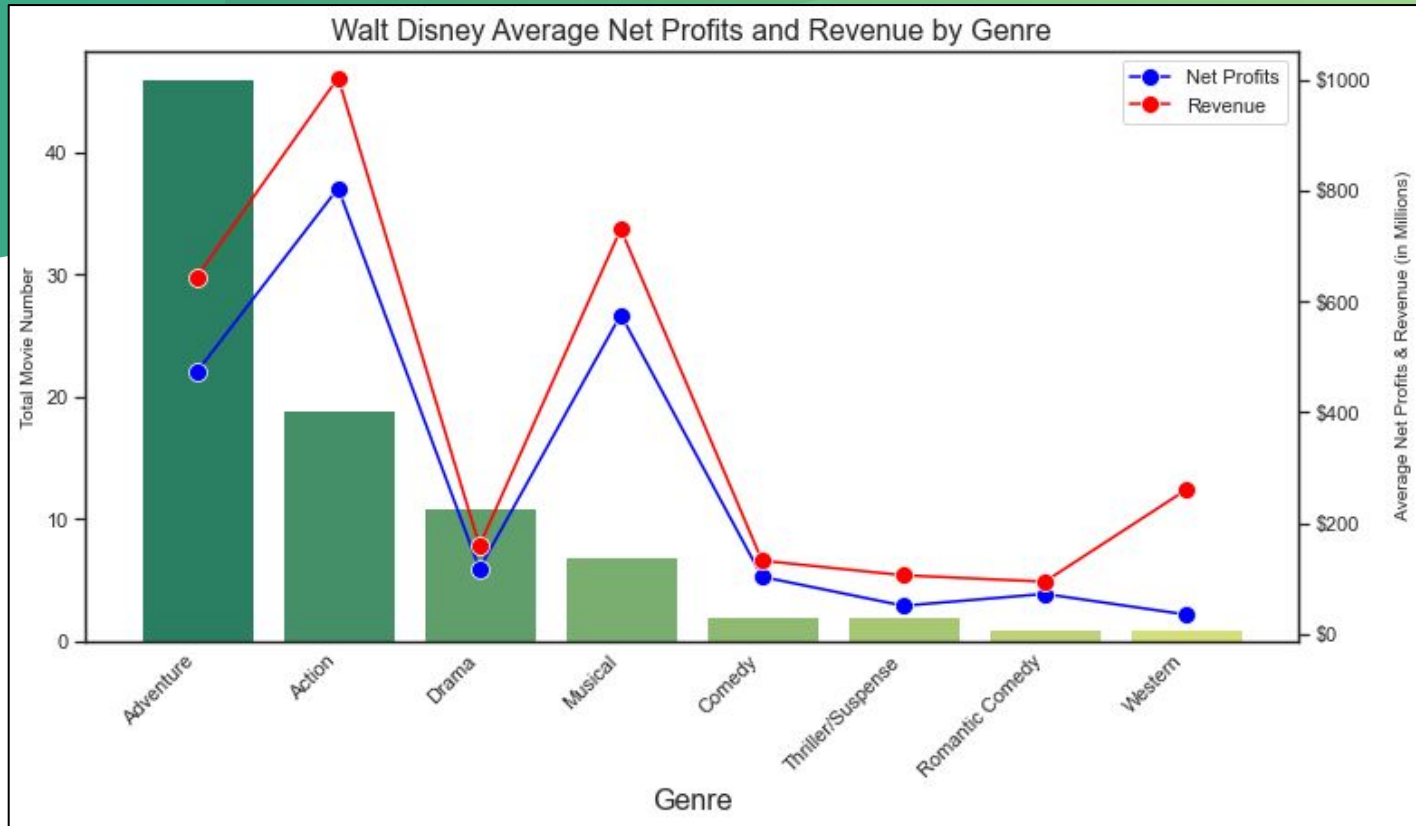
Strategy Leader

Who is winning this strategy?

Walt Disney Studios and its subsidiaries: Walt Disney Pictures, Pixar Animation Studios, Marvel Studios, Lucasfilm, 20th Century Studios, Searchlight Pictures, Blue Sky Studios)



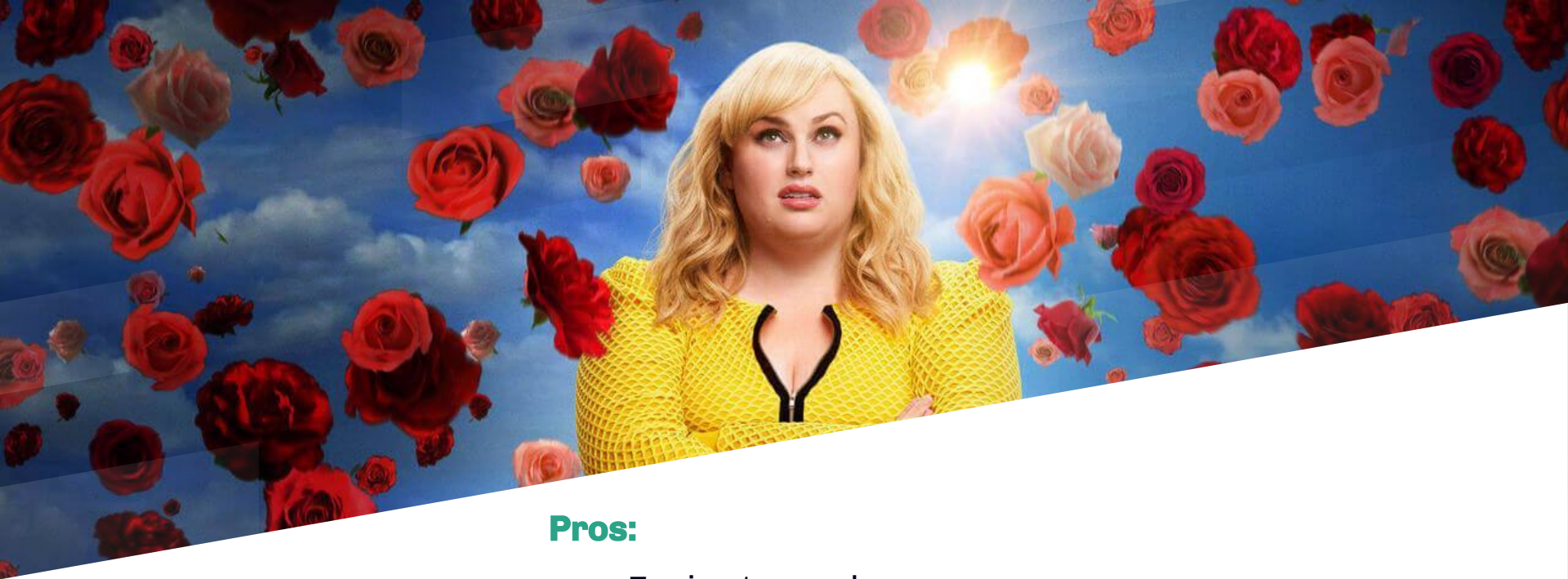
- Disney has shown that they know how to turn each of their films into high-profit ventures by focusing on high risk, high reward movies and putting them out less regularly; Universal and Fox Searchlight demonstrate great investment efficiency.



- We can see that in both revenues and profits that Disney produces on both Action films and Musicals are disproportionate to other genres.



SLOW AND STEADY
Low Risk, Low Reward



Pros & Cons

Pros:

- Easier to produce
- Less upfront costs

Cons:

- These films are more likely to “flop” and thus not achieve a return on investment

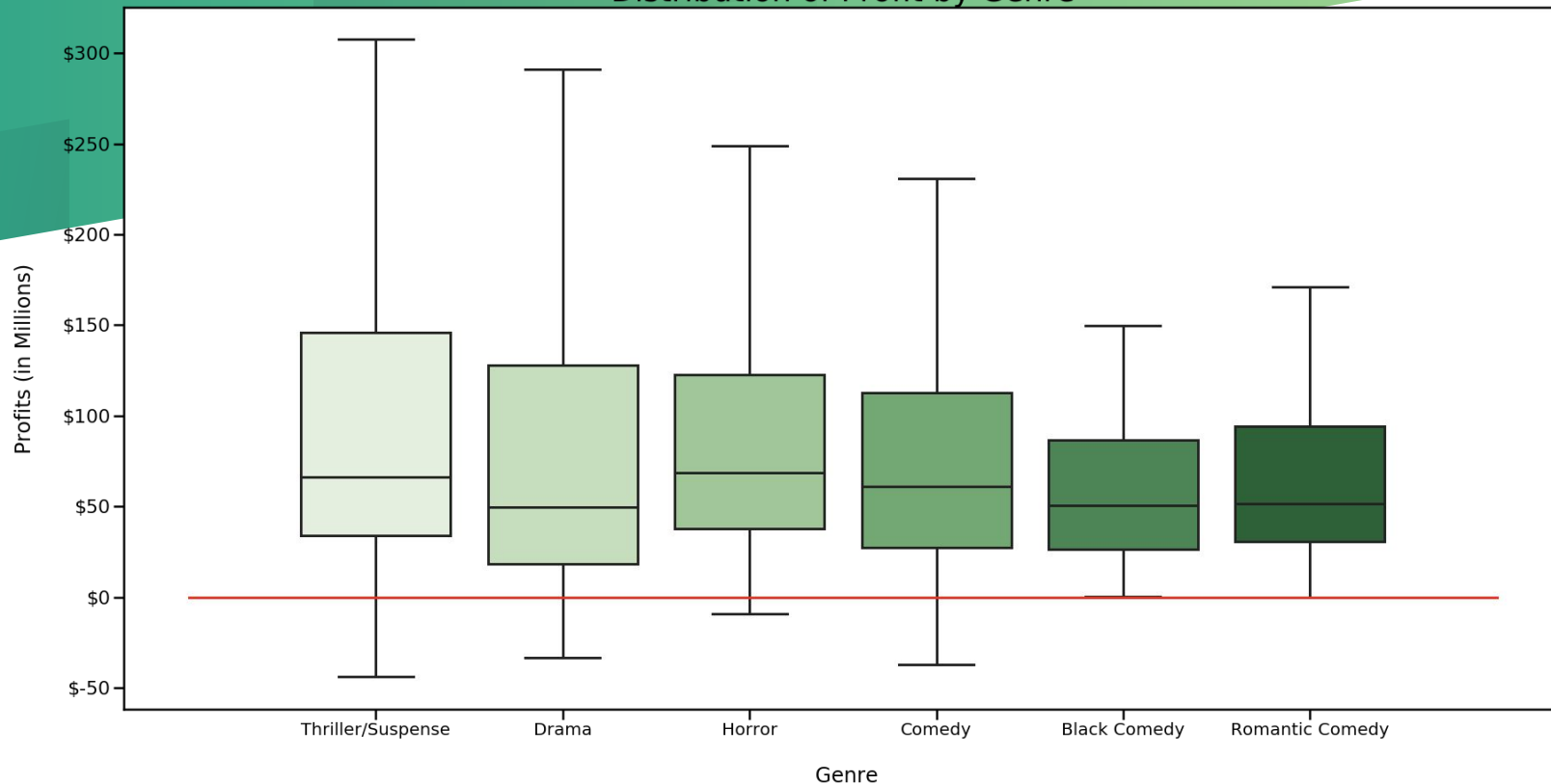


Classification & Where to Invest

What types of movies fall into this category?

- Comedy and its subtypes, Romantic Comedy and Black Comedy
- Drama
- Horror
- Thriller/Suspense

Distribution of Profit by Genre



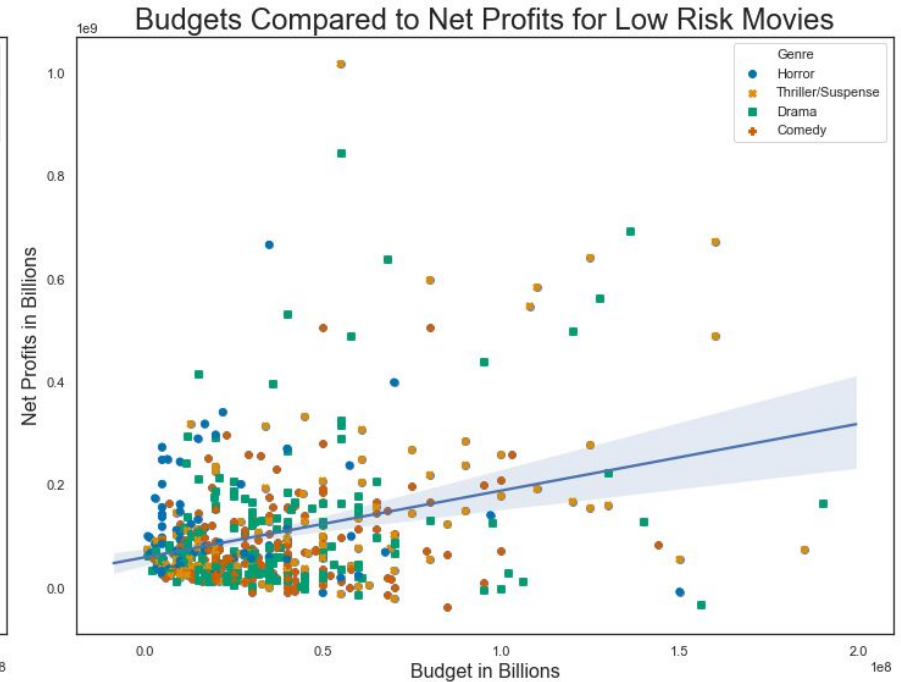
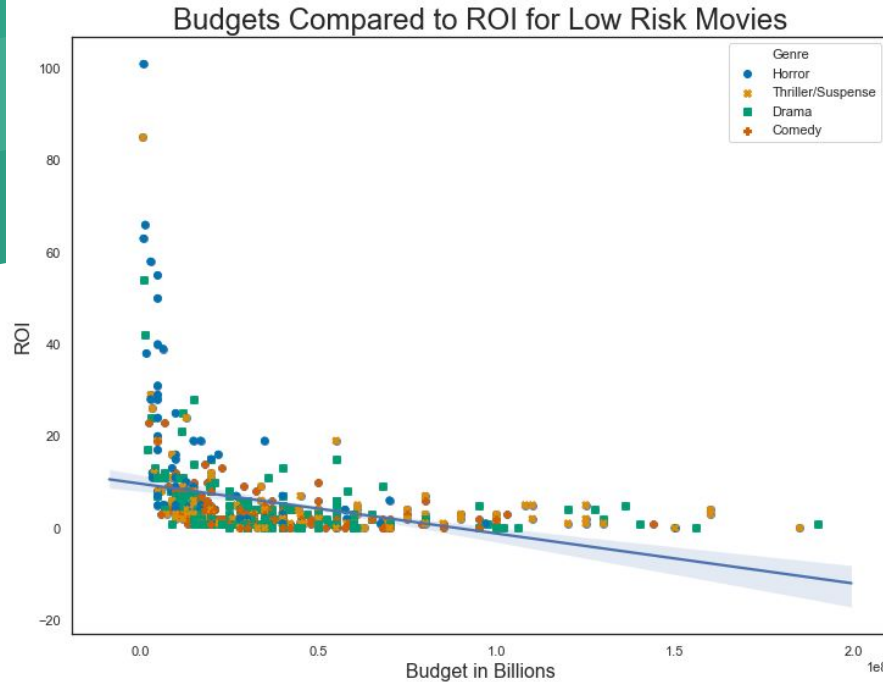
- These genres usually produce small but predictable net profits, averaging around \$50 million per film
- Black Comedies & Romantic Comedies have very low risk for “flopping”



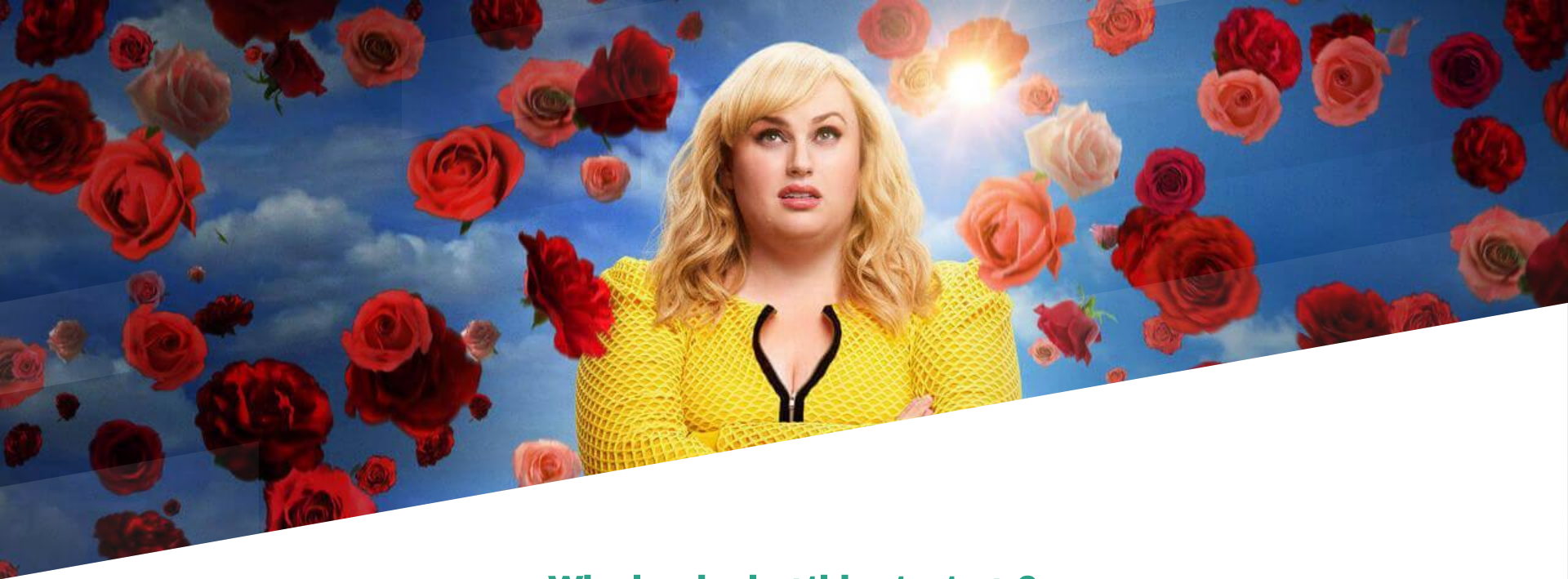
How to Invest

As the foundation of the business, the best way to ensure profitability is:

- Select projects within the 4 low-risk genres
- Keep budgets under 25 million to maximize ROI, and under 75 million to reduce risk of a “flop”
- Reduce project complexity to manage budget and increase volume



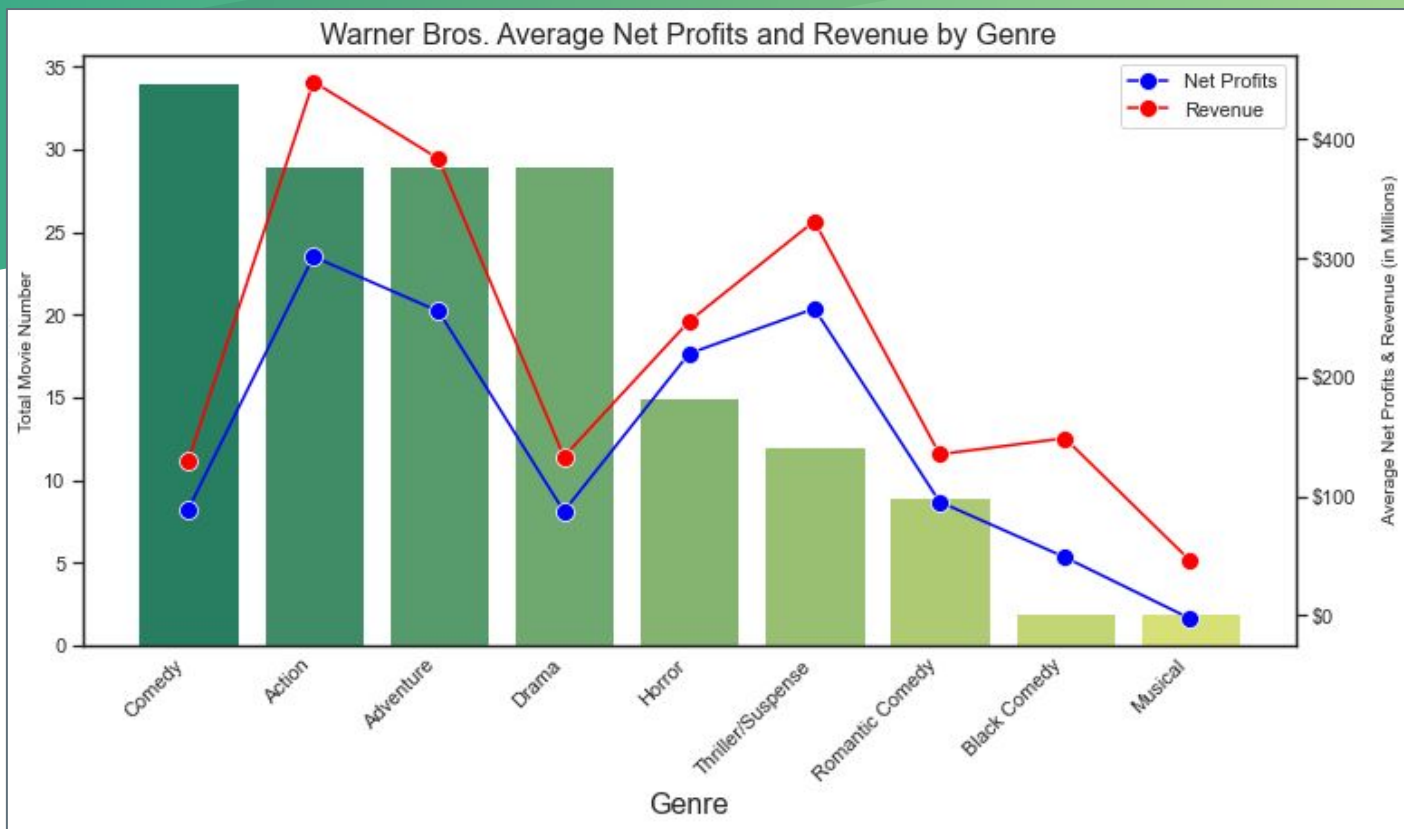
- Comparing Budget to Net Profit clearly shows that profit becomes less predictable as budget increases.
- Comparing Budget to ROI shows that ROI follows a nearly-logarithmic pattern with a majority of the films in the elbow.
 - A low budget more consistently produces an exponentially higher ROI
 - Budgets beyond \$25 million produce fairly uniform ROI.



Strategy Leader

Who is winning this strategy?

Warner Bros. and its subsidiaries: Warner Bros. Pictures Group, Alloy Entertainment, DC Entertainment, and Turner Entertainment



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PROVEN SUCCESS

What the Winning Formula Looks Like in Practice



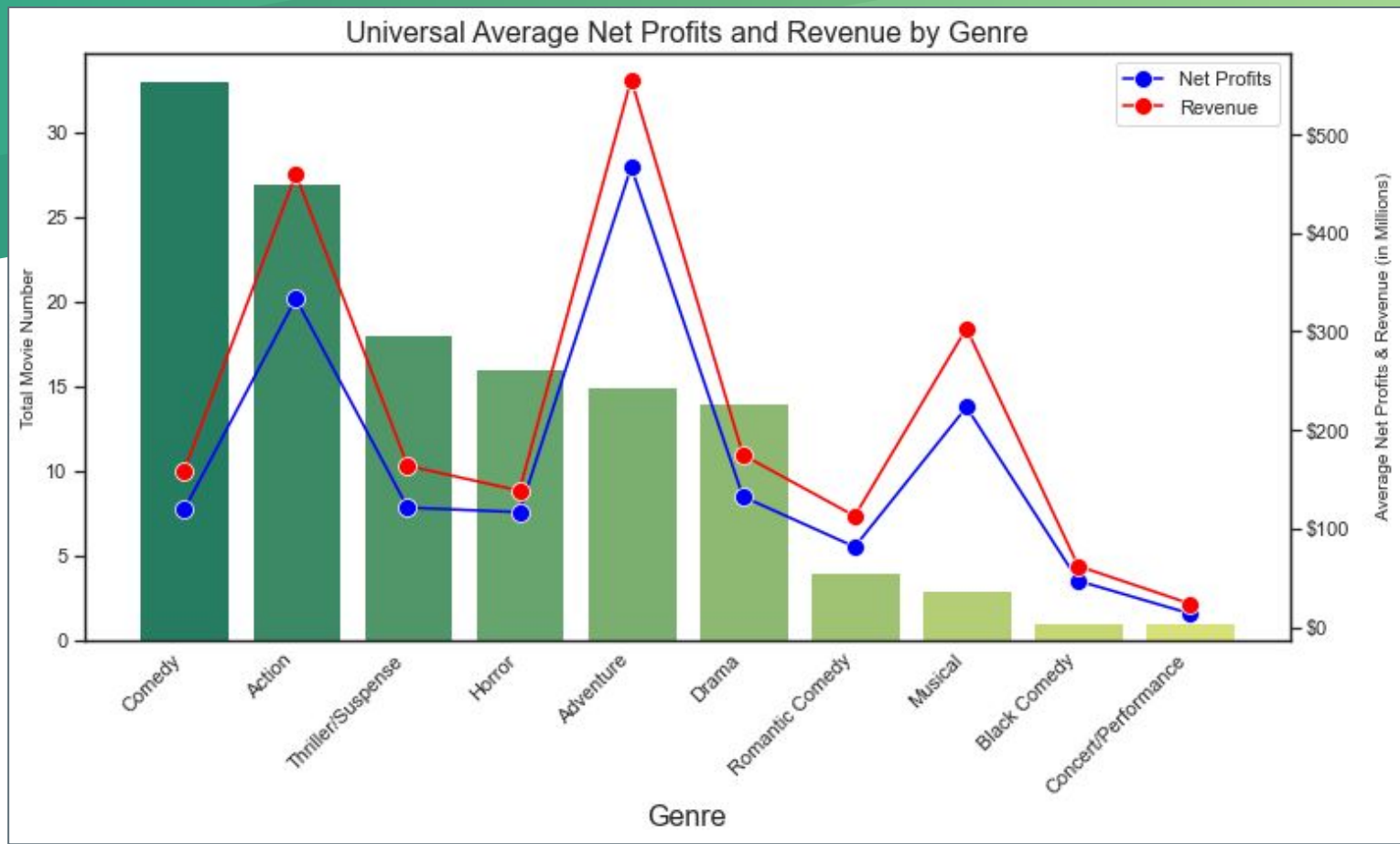
Strategy Leader

Who is mostly closely implementing the Winning Formula?

Universal Pictures and its subsidiaries: DreamWorks Animation, Working Title Films, NBCUniversal Entertainment

What is their portfolio breakdown?

~35% High Risk films and ~60% Low Risk films



- ~60% of Universal's films are Low Risk, and they produce ~38% of their total profit
- ~35% of Universal's films are High Risk, and they produce ~62% of their total profit

Future Work

What is the impact of “award-worthiness”?

- Do award-winning films turn more profit?
- What is the ROI on winning a major award?

What is the best way to leverage the international market?

- Is there ever justification to release only domestically?
- Are there opportunities for joint-ventures with international firms, similar to Netflix's model?

How do successful film houses pivot into television?

- Should we consider a separate television division?
- Do these firms start with TV or with film?



Thanks!