

MARKETING

THE ENTERTAINMENT INDUSTRY

Theatrical Distribution & Exhibition:
The ultimate “love/hate” relationship



THE LEONARD N. STERN SCHOOL OF BUSINESS AT NEW YORK UNIVERSITY

THE ENGINE OF VALUE: DOMESTIC THEATRICAL RELEASE

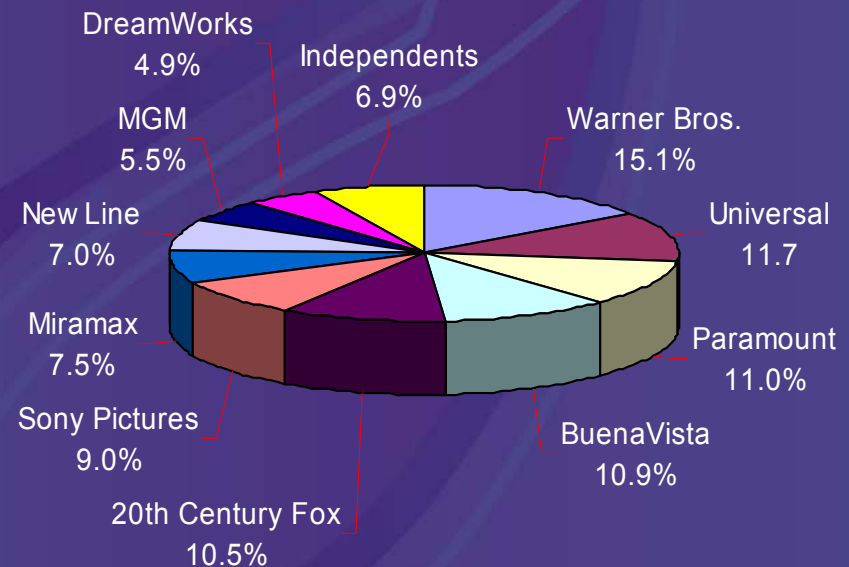


Fact: Successful domestic theatrical release creates long-term asset for a studio's library (portfolio).

DOMESTIC THEATRICAL MARKET

2001		Domestic	
Theatrical Window		B.O.	Mkt. Share
1	Warner Bros.	\$1,227.0	15.1%
2	Universal	955.9	11.7%
3	Paramount	891.8	11.0%
4	BuenaVista	886.1	10.9%
5	20th Century Fox	855.6	10.5%
6	Sony Pictures	729.3	9.0%
7	Miramax	608.6	7.5%
8	New Line	573.2	7.0%
9	MGM	448.4	5.5%
10	DreamWorks	400.4	4.9%
	Independents	563.7	6.9%
Total Domestic BO		\$8,140.0	100.0%

Source: AC NeilsonEDI



Country	Box Office	Admissions	Average Ticket Price	Screens
United States	\$7,752.9	1,342.6	\$5.77	33,237
Canada	387.1	97.4	3.97	2,263
Total Domestic	8,140.0	1,440.0	5.67	35,500

Note: Domestic Theatrical Includes United States & Canada
All figures in US\$ millions

DOMESTIC DISTRIBUTION: RELEASE PATTERNS

- Competitive dating – Seasonality - Holidays
- Film Zones – Clearances
- Multiple prints per theatre
- Types of Releases
 - *Saturation* – more than 3,000 prints
 - *Wide* – between 2,000 & 2,999 prints
 - *Limited* – typically less than 1,000 prints
 - *Platform* – 1 to 4 prints released in NYC and/or LA maybe Toronto

	<i>Amelie</i>	<i>Harry Potter</i>		<i>Behind Enemy Lines</i>		<i>In the Bedroom</i>	<i>Black Hawk Down</i>	
	Theatres/Screens	Theatres	Screens	Theatres	Screens	Theatres/Screens	Theatres	Screens
Week 1	4	3672	7344	2770	3463	4	4	4
Week 2	48	3672	7344	2844	3413	5	4	4
Week 3	163	3672	7344	2792	2792	6	16	16
Week 4	217	3672	5508	1808	1808	6	3101	4031
Week 5	218	3422	5133	1332	1332	58	3101	4031
Week 6	221	3311	4139	1079	1079	103		
Week 7	221	3186	3186	963	963	207		
Week 8	250	2681	2681	874	874	424		
Week 9	232	2170	2170	503	503	457		
Week 10	227	1851	1851					
Week 11	260							
Week 12	298							

DOMESTIC DISTRIBUTION: FILM ECONOMICS

	Shrek #14	Harry Potter #10 (2)	Titan A.E.
Box Office	\$267.7	\$300.0	\$23.0
Film Rental	141.9 53% rental	180.0 60% rental	12.7 55% rental
Prints	5.3 3,500 prints	9.0 6,000 prints	4.5 3,000 prints
Advertising	45.0	60.0	35.0
Total P&A	\$50.3	\$69.0	\$39.5
Gross Profit (1)	\$91.6	\$111.0	-\$26.9
Prod. Cost	\$60.0	\$130.0	\$93.0
Profitability Index	1.53	0.85	na

(1) Before talent participation.

(2) Still in release.

Note: Harry Potter and Shrek are the number 10 and 14 films of all-time.

Amounts in US\$ millions.

HOW TO CALCULATE DOMESTIC FILM RENTAL

First Step: Calculate house allowance (negotiated annually).

House Allowance: the weekly box office that theoretically allows a theatre to break-even.

Example: Assume a 2,000 seat multiplex needs \$40,000 to break-even. Then each seat would have an allowance of \$20 per week. And a 400 seat auditorium would have a house allowance of \$8,000 per week (400 seats x \$20).

Second Step: Negotiate floors.

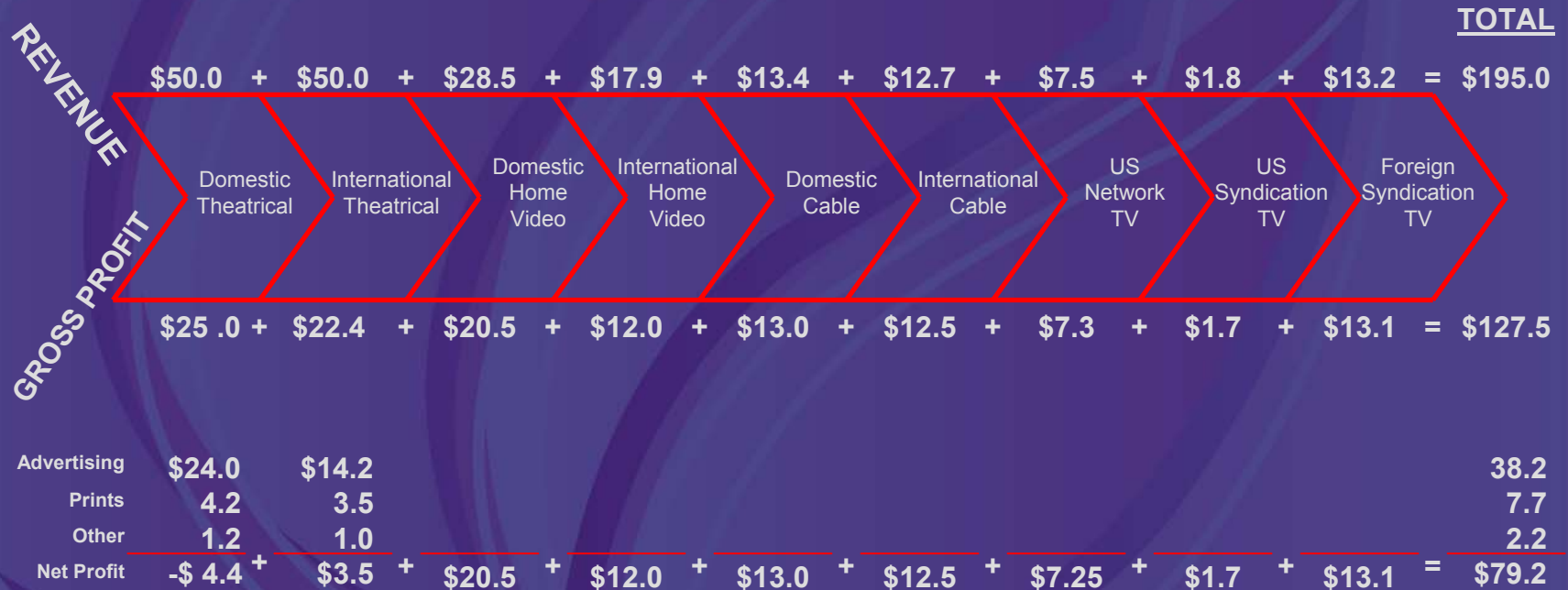
Floors: percentage minimum terms that are negotiated before the release of a film.

HOW TO CALCULATE DOMESTIC FILM RENTAL

Example: The basic structure of floors are: 1st week, 70%; 2nd week, 60%; 3rd week, 50%; 4th week, 40%; 5th week, 35%. This is called a *one-down*.

Week of Release	1	2	3	4	5	Total
Box office	\$30,000	\$18,000	\$10,800	\$6,480	\$3,888	\$69,168
House Allowance	8,000	8,000	8,000	8,000	8,000	na
Excess over House allowance	22,000	10,000	2,800	na	na	na
90% of excess	19,800	9,000	2,520	na	na	na
Floor %	14,000	10,800	5,400	2,592	1,361	na
Amount to be Paid	\$19,800	\$10,800	\$5,400	\$2,592	\$1,361	\$39,983
Aggregate Film Rental Percentage	na	na	na	na	na	57.80%

PROFIT PROFILE: MODERATELY SUCCESSFUL FILM



NEGATIVE COST: \$41.9

INTERNAL RATE OF RETURN: 37.0%

Note: Amounts in US\$ millions

INTERNATIONAL THEATRICAL MARKET

- The studios combine or distribute their films in the international theatrical window through joint-ventures & distribution agreements.
 - United International Pictures (UIP) is a joint-venture of Universal & Paramount and distributes DreamWorks.
 - 20th Century Fox distributes MGM.
 - Sony & Buena Vista have several JVs.
 - Miramax generally tries to sell off foreign rights.
- Repositioning marketing by country.
 - Prints & advertising should represent between 30% to 40% of a film's projected theatrical rental revenue.
- No film zones – no clearances.
- Release strategies are similar to domestic theatrical.
- Film marketing may be regulated.
- National film content laws.
- Fixed terms vs. Scales.

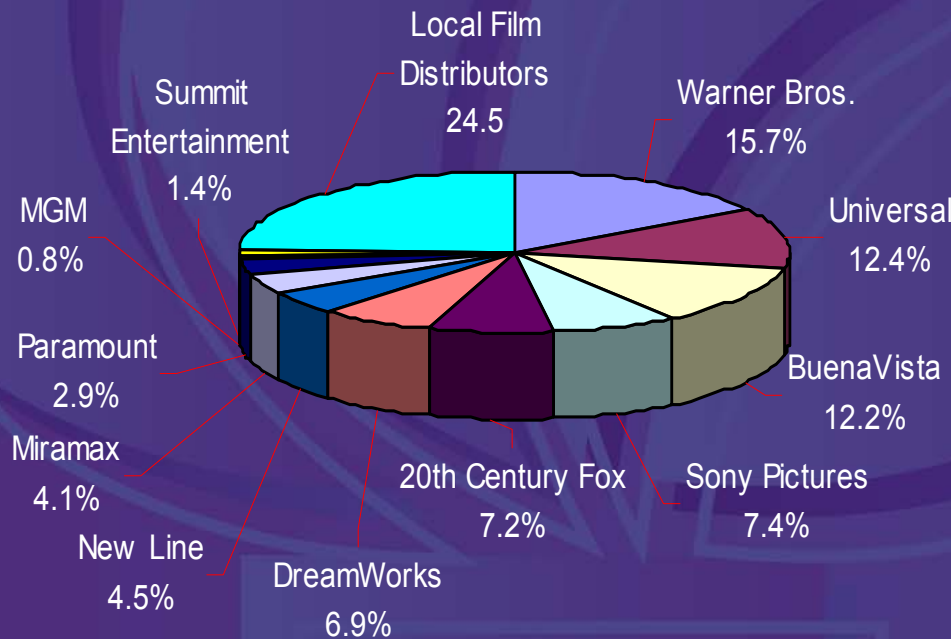
INTERNATIONAL THEATRICAL MARKET

Country	Box Office	Admissions	Average Ticket Price	Screens
Japan	1,584.1	135.4	11.70	2,524
United Kingdom	1,003.2	152.0	6.60	2,954
Germany	860.9	166.2	5.18	4,783
France	894.6	180.0	4.97	5,180
Spain	517.6	136.0	3.81	3,465
Mexico	438.4	143.1	3.06	3,050
Total/Average	\$5,298.8	912.7	\$5.81	21,956

Source: AC NeilsonEDI; 20th Century Fox; Variety, Matthew Heyman

2001 Theatrical Window	International	
	B.O.	Mkt. Share
1 Warner Bros.	\$1,340.0	15.7%
2 Universal	1,060.0	12.4%
3 BuenaVista	1,041.0	12.2%
4 Sony Pictures	633.9	7.4%
5 20th Century Fox	613.9	7.2%
6 DreamWorks	584.3	6.9%
7 New Line	380.0	4.5%
8 Miramax	350.0	4.1%
9 Paramount	248.0	2.9%
10 MGM	69.0	0.8%
Summit Entertainment	123.0	1.4%
Local Film Distributors	2,085.6	24.5%
Total International BO	\$8,528.7	100.0%

Source: Hollywood Reporter



Note: International theatrical excludes the United States & Canada
All figures in US\$ millions

INTERNATIONAL REPOSITIONING: Individual Territory Marketing

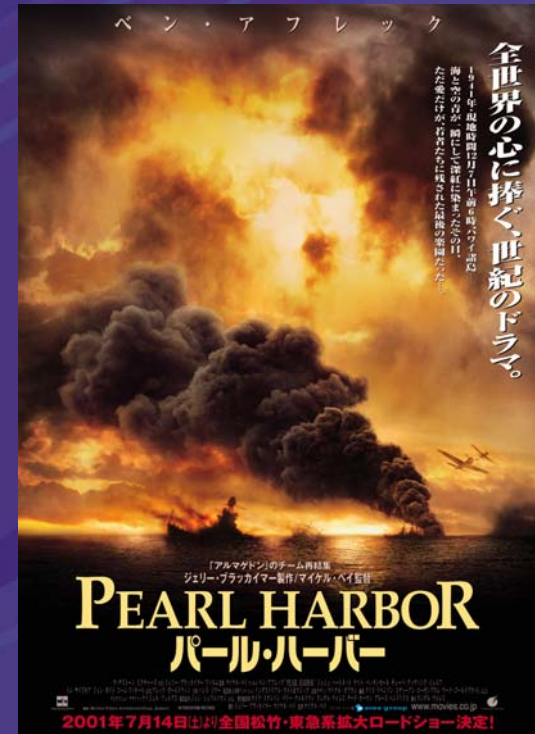
Domestic



International



Japan



HOW TO CALCULATE INTERNATIONAL FILM RENTAL

CHILE: An example of Scales

Theory: On average, film rental should be 45% of net BO.

Terms

1. Calculate weekly average admissions per screen to set 45% film rental (negotiated annually).
2. Type of film terms:
 - AAA - 60%, 1st week; 55%, 2nd week; scales thereafter.
 - AA – 55%, 1st week; 50%, 2nd week; scales thereafter
 - A – 45%, 1st week, scales thereafter.
 - 6th week terms drop to 35% irrespective of performance.
3. All independents receive 43% flat film rental.

HOW TO CALCULATE INTERNATIONAL FILM RENTAL

CHILE: An example of Scales

3. Set scales that reflect performance relative to the weekly average:

Performance Levels	Admission Levels	Film Rental (%)
140%	4,502 admits or more	55%
120%	3,601-3708 admits	50%
100%	3003-3123 admits	45%
85%	2550- 2645 admits	40%
70%	1 – 2192 admits	35%

EXHIBITION ECONOMICS: DOMESTIC VS. INTERNATIONAL

Country	Box Office	Admissions	Average Ticket Price	Screens	Attend. Per Screen/week	Capacity Utilization	Population		Frequency
							Total	per Screen	
United States	\$7,752.9	1,342.6	\$5.77	33,237	777	13.9%	280.0	8,424	4.80
Canada	387.1	97.4	3.97	2,263	828	14.8%	31.6	13,964	3.08
Total Domestic	8,140.0	1,440.0	5.67	35,500	780	13.9%	311.6	8,777	4.62
Japan	1,584.1	135.4	11.70	2,524	1,032	18.4%	127.1	50,357	1.07
United Kingdom	1,003.2	152.0	6.60	2,954	990	17.7%	60.0	20,311	2.53
Germany	860.9	166.2	5.18	4,783	668	11.9%	82.2	17,186	2.02
France	894.6	180.0	4.97	5,180	668	11.9%	59.2	11,429	3.04
Spain	517.6	136.0	3.81	3,465	755	13.5%	39.8	11,486	3.42
Mexico	438.4	143.1	3.06	3,050	902	16.1%	102.0	33,443	1.40
Total/Average	\$13,438.8	2,352.7	\$5.71	57,456	787	14.1%	781.9	13,609	3.01

Source: AC NeilsonEDI; 20th Century Fox; Variety, Matthew Heyman

Note: Amounts in US\$ millions.

EXHIBITION ECONOMICS: PROFITABILITY FACTORS

- Competitor locations
 - Existing theatres
 - New developments
- Dominant position in a zone, city or region should allow an exhibitor some negotiating leverage.
- Well conceived & executed concession operation
- Screen Advertising
- Minimization of multiple prints
- Megaplex vs. Multiplex

WHO HAS THE NEGOTIATING LEVERAGE?

MEDIA CONGLOMERATE	Market Capitalization
Warner Bros./New Line (AOL)	111.0
Universal (V)	48.0
Paramount (VIA.B)	66.5
BuenaVista/Miramax (DIS)	42.2
20th Century Fox (FOX)	16.9
Sony Pictures (SNE)	39.1
MGM (MGM)	4.6

VS.

THEATRE CIRCUIT	Screens		Market Value
	Total	Share	
Regal/United Artists/Edwards	6,207	17.5%	1.0
AMC Entertainment	2,836	8.0%	0.3
Carmike Cinemas	2,431	6.8%	0.2
Loews Cineplex Entertainment	2,323	6.5%	0.3
Cinemark USA	2,223	6.3%	0.3
Other	19,480	54.9%	
Total Screens	35,500	100.0%	

Note: Market values are in US\$ billions

MARKET FRAGMENTATION: U.S. vs. MEXICO

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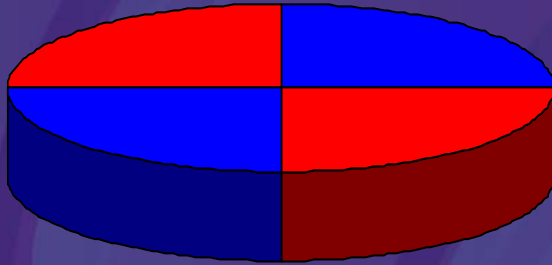
THEATRE CIRCUIT	Screens		Admissions		Market Value
	Total	Share	Total	Share	
Ramirez Organization	840	27.5%	53.7	37.5%	0.6
Cinemex	337	11.0%	28.9	20.2%	0.2
Estrella de Oro	483	15.8%	17.9	12.5%	0.1
Cinemark USA	256	8.4%	16.1	11.3%	0.3
Other	1,134	37.2%	26.5	18.5%	na
Total Screens	3,050	100.0%	143.1	100.0%	

OBSERVATION: The top 5 US exhibitors have 45% screen share, while the top 4 Mexican exhibitors have 82% screen share.

Note: Market values are in US\$ billions

EXHIBITION'S DISASTER

2 COMPETITORS



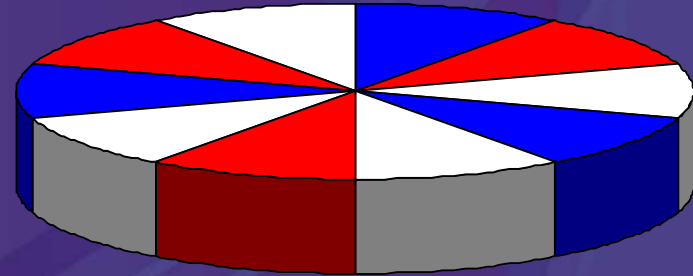
- One 12-plex per competitor.
- Box Office equals \$100.
- Blockbuster release is 4 prints.
- Each print/screens earns \$25.

50
50
na
100

Box Office per Film
Original Competitor 1
Original Competitor 2
New Competitor
Total Box Office

39
39
52
130

3 COMPETITORS



- New entrant's 24-plex.
- One 12-plex per old competitor.
- Box Office equals \$130.
- Blockbuster release is 10 prints.
- Each print/screens earns \$13.

FACT: Gross profit for the studios grows by 21%!

EXHIBITION ECONOMICS: DOMESTIC VS. INTERNATIONAL

US\$ millions	AMC		Cinemex	
	39weeks 2001 (1)	% Rev	FY 2001	% Rev
Box Office	\$670.5	66.8%	\$81.3	58.4%
Concessions	268.5	26.8%	43.9	31.6%
Other	64.0	6.4%	13.9	10.0%
Total Revenue	\$1,003.0	100.0%	\$139.1	100.0%
Film Rental	367.1		33.2	
Concession	34.0		11.2	
Cost of Sales	\$401.1		\$44.4	
Gross Profit	601.9		94.7	
Operating Exp.	454.4		42.2	
Theatre Level Cash Flow	\$147.5	14.7%	\$52.5	37.7%
Gen. & Adm. Exp.	25.4		8.7	
EBITDA	\$122.1	12.2%	\$43.8	31.5%
Total Admissions	118,425		28,934	
Screens in Operation	2,836		337	
Admissions per Screen Week	1,071		1,651	
Capacity Utilization (%) (2)	19.1%		29.5%	
Film Rental (% of BO)	54.8%		40.8%	
Concession Cost (% of COGS)	12.7%		25.5%	

Source: Company Information

(1) Includes some international assets.

(2) Assumes 200 seats per auditorium at 4 shows per day.

Note: Amounts in US\$ millions.

Observations

- The domestic theatrical window drives the entire value chain of a film's asset potential.
- The critical importance of the domestic theatrical window offers exhibition a *modicum* of negotiating leverage.
- If an exhibitor is located in a zone with a competitor, or a new competitor enters, the distributor **HAS** negotiating leverage.
- The limited number of sellers (film distributors) and a fixed number of long-term buyers (exhibitors) creates an unusual personal relationship among the corporate managers.
- Negotiating power is generally resident in the hands of the studios due to their control of copyrights and economic diversification.

Observations

- An exhibitor is only as strong as its portfolio of cinemas; but, any real leverage is derived by having cinema assets in non-competitive zones.
- Exhibition can exert *minimal* leverage by clustering in zones, cities and/or regions (the cable industry's strategy).
- The only negotiating tactic an exhibitor possesses is not booking a particular film in a cinema or throughout its circuit (passing a film).
- Theatre circuits can garner some leverage by controlling zones or markets; however, excess capacity (screens) leads to higher film rental.
- Traditional consolidation strategies based on economies of scale will lead to higher film rental unless an entire country has 4 or fewer exhibitors, or such consolidation is focused on clustering.
- The international market is characterized by less fragmentation in both exhibition & distribution.

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