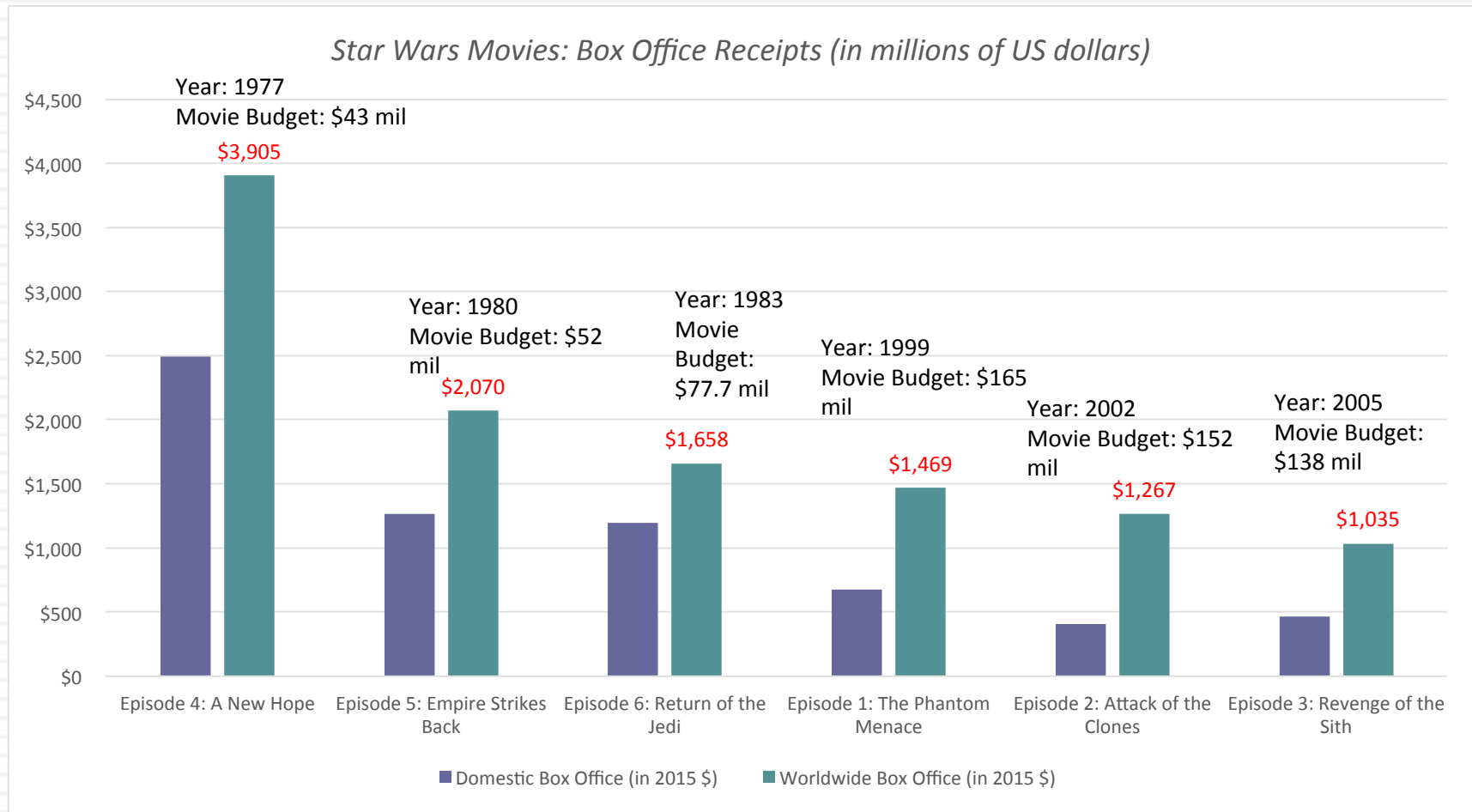




INTERGALACTIC FINANCE: VALUING THE STAR WARS FRANCHISE

Value the star wars franchise, you must...

Movie History



The Add-Ons

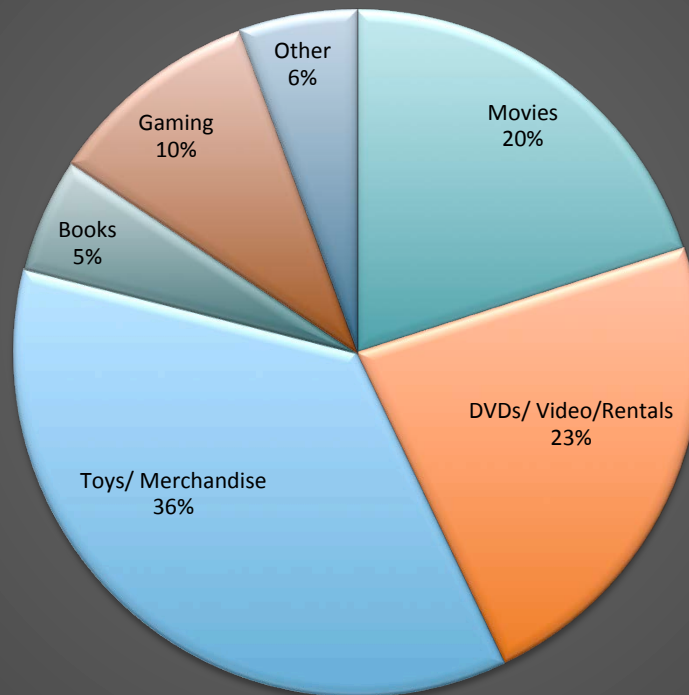
- *VHS/DVD/Rentals*: Starting with video tapes (VHS) sales and rentals in the 1970s, morphing into DVD sales in the last decade and continuing into streaming in today's environment.
- *Toys and Merchandise*: Action figures sold by Kenner (1978-1985) and Hasbro (1995-2011) amounted to almost \$10 billion (unadjusted for inflation). Other toys and collectibles as well.
- *Gaming*: Starting with an unlicensed game for the Apple II on a cassette tape, followed by table-top game by Kenner and games for the Atari. Starting in 1992, the games shifted away from the films to the expanded Star Wars universe, first with the X-wing computer games and later with Dark Forces, a shooter game.
- *Books*: There have been almost 360 books, with 76 authors, in the Star Wars series.
- *TV Series/Other*: The longest lived TV series, Clone Wars, has been running for seven seasons and a new one, Star War Rebels, has been produced by Disney for two years. There are rumors that Netflix is planning three live-action series.

The Add-Ons' Numbers

	Revenues	As % of total
Movies	\$6,739.33	20.06%
DVDs/ Video/Rentals	\$7,673.40	22.84%
Toys/ Merchandise	\$12,107.00	36.03%
Books	\$1,820.00	5.42%
Gaming	\$3,400.00	10.12%
Other	\$1,860.00	5.54%
Total	\$33,599.73	

The Star Wars Pie

Star Wars Franchise Revenues



Add-on Dollar/Box Office Dollar

	<i>Revenues</i>	<i>As % of Movie Revenues</i>
DVD & Video	\$7,673	\$1.14
Toys & Merchandise	\$12,107	\$1.80
Books	\$1,820	\$0.27
Gaming	\$3,400	\$0.50
Other	\$1,860	\$0.28
Total		\$3.99

The Disney Acquisition

- In 2012, Disney, acquired the Star Wars franchise for \$4 billion, from George Lucas, with plans to produce three more Star Wars movies.
- Disney's plans at that time were to produce three more movies in the series, with spin offs and to build on the franchise's add-ons (TV. Merchandise etc.).
- At the time of the acquisition, I argued that it was a fair price, given Disney's history with developing, maintaining and merchandising franchises, but had to draw on the potential for synergy to justify the number.
- With the release of *Star Wars: The Force Awakens* just about ten days ago, Disney seems to be more than delivering on its promise, as the movie has broken box office records and is on its way to delivering a global box office of \$2 billion or more.

Projecting Future Revenues

	<i>Main Star Wars Movies</i>			<i>Star Wars Spin offs</i>		
	<i>Star Wars VII</i>	<i>Star Wars VIII</i>	<i>Star Wars IX</i>	<i>Rogue One</i>	<i>Hans Solo?</i>	<i>Boba Fett?</i>
Years from now	0.0	2.0	4.0	1.0	3.0	5.0
	Revenues	Revenues	Revenues	Revenues	Revenues	Revenues
Movies	\$2,000.00	\$2,080.80	\$2,164.86	\$1,020.00	\$1,061.21	\$1,104.08
Streaming/Video	\$2,400.00	\$2,496.96	\$2,597.84	\$1,224.00	\$1,273.45	\$1,324.90
Toys & Merchandise	\$4,000.00	\$4,161.60	\$4,329.73	\$2,040.00	\$2,122.42	\$2,208.16
Books/eBooks	\$400.00	\$416.16	\$432.97	\$204.00	\$212.24	\$220.82
Gaming	\$1,000.00	\$1,040.40	\$1,082.43	\$510.00	\$530.60	\$552.04
Other	\$1,000.00	\$1,040.40	\$1,082.43	\$510.00	\$530.60	\$552.04
Total	\$10,800.00	\$11,236.32	\$11,690	\$5,508.00	\$5,730.52	\$5,962.04

Operating Income and Present Value

	Main Star Wars Movies			Star Wars Spin offs		
	Star Wars VII	Star Wars VIII	Star Wars IX	Rogue One	Hans Solo?	Boba Fett?
Years from now	0.0	2.0	4.0	1.0	3.0	5.0
After-tax Operating Income (movies)	\$281.96	\$293.35	\$305.20	\$143.80	\$149.61	\$155.65
After-tax Operating Income (non-movies)	\$924.00	\$961.33	\$1,000.17	\$471.24	\$490.28	\$510.09
Present Value	\$1,205.96	\$1,083.50	\$973.47	\$571.55	\$513.51	\$461.36

Value of new Star Wars movies =	\$4,809.34
Value of continuing income =	\$5,162.92 <i>! Valued as a growing perpetuity</i>
Value of Star Wars =	\$9,972.26

Valuing the Franchise

	Add-on \$ per Box Office \$	
Streaming/Video	\$1.20	
Toys & Merchandise	\$2.00	
Books/eBooks	\$0.20	
Gaming	\$0.50	
Other	\$0.50	

Star Wars Franchise Valuation: December 2015							
		Main Star Wars Movies			Star Wars Spin offs		
		Star Wars VII	Star Wars VIII	Star Wars IX	Rogue One	Hans Solo?	Boba Fett?
Years from now		0.0	2.0	4.0	1.0	3.0	5.0
Movies - Revenues		\$2,000	\$2,081	\$2,165	\$1,020	\$1,061	\$1,104
Streaming/Video - Revenues		\$2,400	\$2,497	\$2,598	\$1,224	\$1,273	\$1,325
Toys & Merchandise - Revenues		\$4,000	\$4,162	\$4,330	\$2,040	\$2,122	\$2,208
Books/eBooks - Revenues		\$400	\$416	\$433	\$204	\$212	\$221
Gaming - Revenues		\$1,000	\$1,040	\$1,082	\$510	\$531	\$552
Other - Revenues		\$1,000	\$1,040	\$1,082	\$510	\$531	\$552
Total - Revenues		\$10,800	\$11,236	\$11,690	\$5,508	\$5,731	\$5,962
After-tax Operating Income (movies)		\$ 282	\$ 293	\$ 305	\$ 144	\$ 150	\$ 156
After-tax Operating Income (non-movies)		\$ 924	\$ 961	\$ 1,000	\$ 471	\$ 490	\$ 510
Present Value		\$ 1,206	\$ 1,083	\$ 973	\$ 572	\$ 514	\$ 461
Value of new Star Wars movies =		\$4,809					
Value of continuing income =		\$5,163					
Value of Star Wars =		\$9,972					

Add on \$ per box office \$	
Operating Margin 20.14% for movies	
15% for non-movies	
30% tax rate	

Discounted back @ 7.61% cost of capital of entertainment companies	

Main Movies	
World Box office of \$1.5 billion, adjusted for 2% inflation.	

Spin Off Movies	
World Box office is 50% of main movies.	

Assumes that revenues from add ons continue after 2020, growing at 2% a year, with 15% operating margin	

The Rest of the Story

- If my estimate of the value of the franchise holds up, this has been a great deal for Disney, since it does not include any of the potential synergies from the deal.
- Coupled with the payoff that Disney got from the Marvel acquisition, it suggests that Disney has a significant advantage in creating value from at least some established movie franchises.
- Based on my small sample size (anecdotal more than statistical evidence), I would argue that Disney should be looking at franchises that
 - Are family-oriented
 - Are extendable
 - Have significant merchandizing appeal

Any suggestions for what should be next on the list?