

*HAZELTON CAPITAL PARTNERS*

*Proudly Presents*



*Valuation Takes Imagination*

# *Dream Works Animation – Overview*

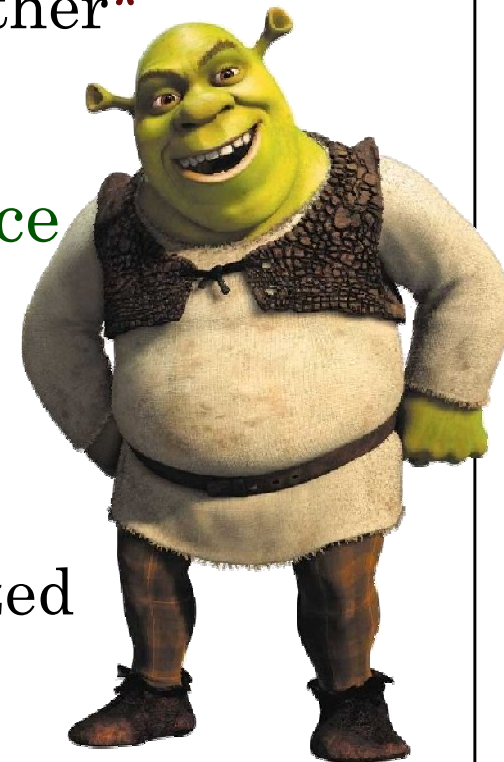
Division of DreamWorks Studios → IPOed 2004 (\$28)

- Animated Feature Films, TV Series & Live Shows
- 1<sup>st</sup> yr Revenue 40/40/20 – Film/DVD/Other\*
- After 1<sup>st</sup> yr Rev → DVD, PPV, VOD, EST & Other\*

Film takes 3-4 years ~ \$150 million to Produce

- Production Costs Capitalized
- Amortization - Ultimate Revenue Accounting
  - Total revenue over 10 Year Schedule
  - 4<sup>th</sup> year ~70-80% Production Costs Amortized

\* Cable, Licensing & Merchandising



# Movie Industry - Box Office

## Attendance in Decline

- 1946 Movie Theaters Sold ~ 4 Billion Tickets
  - Ticket Prices = \$0.35 → \$1.4 Billion (pop. 141m)
- 2011 Attendance 1.3 Billion vs. 873 Million in 1973
  - Ticket Prices = \$7.85 → \$10.2 Billion (pop. 300m)

## Theatre / Ticket Prices Increasing

- 39k Indoor Movie Screens CAGR ~1% Past 10 Years
  - ↑ Multi Theatre Complex - ↓ Individual Theatres
- Ticket Prices ↑ ~ 4.6% CAGR Past 65 Years
  - ↑ 3D Tickets Offset ↓ Attendance



# *Movie Industry - Profitability*

## Animation Consistently Most Profitable Genre

- Movies Released Domestically in 2011 = 632
  - 7 Animated Features > \$100m (1.1%)
- Total US Box Office for 2011 = \$10.6 Billion
  - 7 Animated Films = \$1.075 Billion (10.1%)

## Increased Competition

- 29 Animation Studios – Only 4 Profitable
  - Pixar, DreamWorks, Illumination, Blue Sky



# Movie Industry - Distribution

## Paramount Pictures – World Wide Distributor

- Responsible for the P&A ~ \$150 Million
  - Box Office Split - Theatre & Distributor
  - Paramount Recovers P&A → 8% Box Office
  - Model Same for DVD, VOD, PPV, EST



## Contract up EOY – Paramount Want ↑ %

- DreamWorks 3 Choices
  - New Distributor (Warner Bro, Sony, Fox)
  - Self Distribute (\$3m CapEx + Credit Facility)
  - Deal w/Paramount (Nickelodean Tv Series – Penguins)



# Film Releases

<u>Movie Franchises</u>	#	Title	Release Date	Budget	Distribution	WW Box office Gross
<b>Shrek (5)</b> \$3.51 billion	1	Antz	10/2/98	\$60,000,000	\$150,000,000	\$171,757,863
	2	The Prince of Egypt	12/18/98	\$60,000,000	\$150,000,000	\$218,613,188
	3	The Road to El Dorado	3/31/00	\$95,000,000	\$150,000,000	\$76,432,727
<b>Madagascar (2)*</b> \$1.14 billion	4	Chicken Run	6/23/00	\$45,000,000	\$150,000,000	\$224,834,564
	5	Shrek	5/18/01	\$60,000,000	\$150,000,000	\$484,409,218
<b>Kung Fu (2)</b> \$1.3 billion	6	Spirit: Stallion of the Cimarron	5/24/02	\$80,000,000	\$150,000,000	\$122,563,539
	7	Sinbad: Legend of the 7 Seas	7/2/03	\$60,000,000	\$150,000,000	\$80,767,884
	8	Shrek 2	5/19/04	\$70,000,000	\$150,000,000	\$919,838,758
<u>1<sup>st</sup> 4 years of Rev</u> -Shrek 2 - \$900m -Shrek 3 - \$600m -Shrek 4 - \$323m -Madagas - \$446m -Madagas2 - \$333m -KFP - \$390m -KFP2 - \$145m	9	Shark Tale	10/1/04	\$75,000,000	\$150,000,000	\$367,275,019
	10	Madagascar	5/27/05	\$75,000,000	\$150,000,000	\$532,680,671
	11	Wallace & Gromit: The Curse of the Were-Rabbit	10/7/05	\$30,000,000	\$150,000,000	\$192,610,372
	12	Over the Hedge	5/19/06	\$80,000,000	\$150,000,000	\$336,002,996
	13	Flushed Away	11/3/06	\$149,000,000	\$150,000,000	\$178,120,010
	14	Shrek the Third	5/18/07	\$160,000,000	\$150,000,000	\$798,958,162
	15	Bee Movie	11/2/07	\$150,000,000	\$150,000,000	\$287,594,577
	16	Kung Fu Panda	6/6/08	\$130,000,000	\$150,000,000	\$631,744,560
	17	Madagascar: Escape 2 Africa	11/7/08	\$150,000,000	\$150,000,000	\$603,900,354
	18	Monsters vs. Aliens	3/27/09	\$175,000,000	\$150,000,000	\$381,509,870
*Madagascar 3 released 6/8/2012	19	How to Train Your Dragon	3/26/10	\$165,000,000	\$150,000,000	\$494,878,759
	20	Shrek Forever After	5/21/10	\$165,000,000	\$150,000,000	\$752,600,867
	21	Megamind	11/5/10	\$130,000,000	\$150,000,000	\$321,885,765
	22	Kung Fu Panda 2	5/26/11	\$150,000,000	\$150,000,000	\$665,692,281
	23	Puss in Boots	10/28/11	\$130,000,000	\$150,000,000	\$554,130,561

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# Bangalore, China & Netflix

## Bangalore → 24-Hour Production

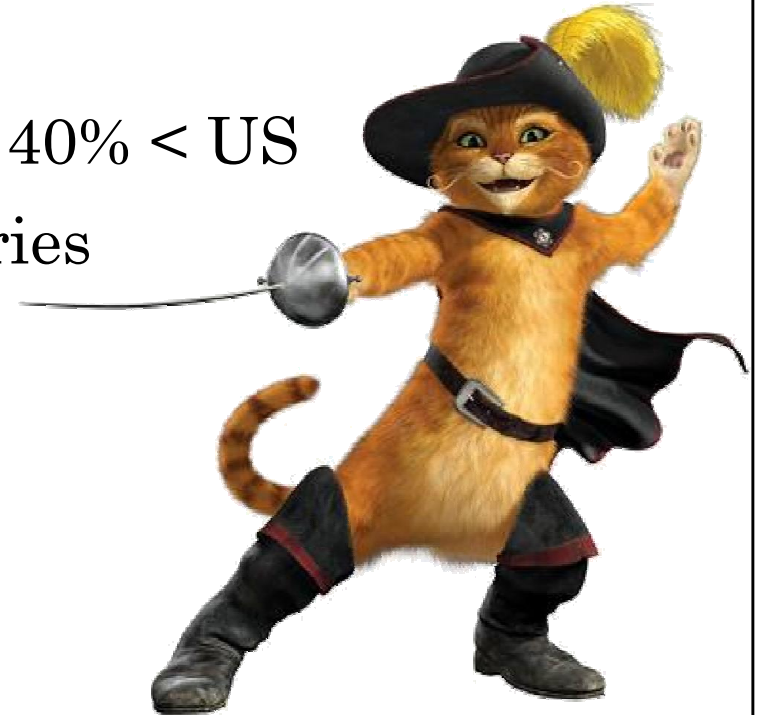
- Tap India's Computer Skills – Labor 40% < US
- 4yrs → Puss N' Boots, Future TV Series

## China

- Oriental DreamWorks – 55/45 Split
- JV DWA & 3 Chinese Companies

## Netflix

- \$30m/Movie for 6-8 Years (vs. \$20m/Movie Over 10 Years)
- Retain Digital Rights – EST During Exclusive Window



# *Barriers & Key Metrics*

## *Barriers:*

- Low: Technology Barriers
- High: Challenging & Costly Learning Curve
  - 3-4 yrs & \$150m/Film
  - Multiple Films → Critical mass
  - Not Technology → Franchise → Story Telling

## *Metrics:*

- Library: Size & Number of Franchises
- # New Releases/yr & Profitability 1<sup>st</sup> Few Weeks
  - Profitability → ↑ DVD Sales → L&M → Franchise

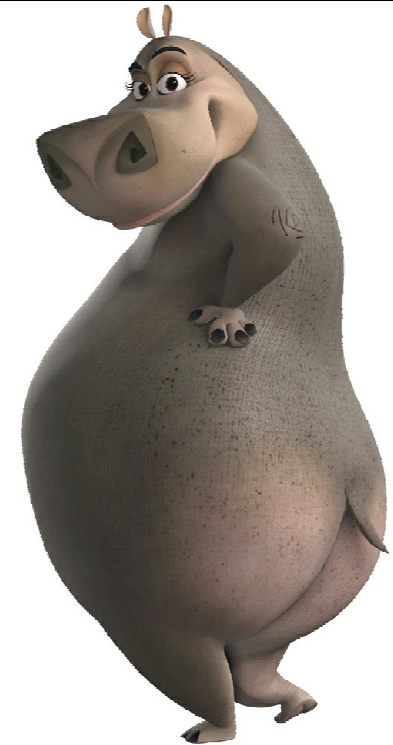




# *Hippo In The Room*

## DreamWorks Headwinds:

- 1) ↓ Attendance & DVD sales
- 2) ↑ Competition for Family Viewing
- 3) ↑ Production Cost
- 4) Uncertainty Surrounding Distribution



## DreamWorks Tailwinds:

- 1) Ticket Costs 4% CAGR & Blu-Ray Slow Down DVD ↓
- 2) Demand Franchise Content (Library) – Netflix, Tv Shows
- 3) Bangalore – 24 Hour Studio & ↓ Production Costs
- 4) Katzenberg Carries Significant Weight in Industry

# Valuation

## DreamWorks = 2 Revenue Streams

- Growing Library of 19 Released Movies
  - 2012 Contribute \$130m & Growing
  - $\$130 \times .95$  (gm)  $\rightarrow \$123.5 \times .65$  (tax)  $\times 10x \rightarrow$  **\$803 Million**
- Movies In Release & Other\*
  - 2012 Contribute \$570m
  - $\$570 \times .35$  (gm) – 110 (sga)  $\rightarrow \$90 \times .65$  (tax)  $\times 10x \rightarrow$  **\$582 Million**
- **Combination = \$1.385 Billion  $\rightarrow$  \$16.40/share**



## Book Value = \$1.375b, No Intangibles, No Debt

- **\$925m Amortized  $\rightarrow$  2.3b  $\rightarrow$  \$27/share**

\* Licensing, Merchandising, Live Shows, TV Series and Specials

# Key Takeaway

- Animation Content Highly Coveted
  - DWA Has the Content
- Successful Movies → Profits
  - Profits → Franchises → Critical Mass
- Book Value Understated
  - Replicating Movie Library > \$1.4 billion
- Revenue Growth
  - Overseas, ↑ Library, L&M, #Franchises & Production
- Katzenberg Key Person in Key Position
  - Revitalized DIS, Visionary, Deal Maker, Greater Aspirations





## *Valuation Takes Imagination*

Barry Pasikov

Managing Member

*HAZELTON CAPITAL PARTNERS*

VALUE<sup>x</sup> Vail

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# *The End*



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