Economics and Finance of Entertainment (Film!)

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And now for crazy...
Despite the guidance revision, we remain convinced that the splitting of our services was the right longterm strategic choice. The strategy behind the split of our services is four-fold:

(1) to create a dedicated DVD rental division that takes pride in great execution and maximizes the opportunity for disc rental over the coming decade;
(2) to enable us to improve our global streaming service even more rapidly, because it is not meshed with a domestic DVD business;
(3) to enable us, with the growth in revenue, to license more streaming content and thereby improve our streaming service even more;
(4) to remain very price aggressive, with $7.99 per month for unlimited streaming of a huge library of TV shows and movies, and $7.99 per month for unlimited DVD rentals, 1 out at-a-time.

We know our decision to split our services has upset many of our subscribers, which we don’t take lightly, but we believe this split will help us make our services better for subscribers and shareholders for years to come.
Impact

- Price increases by 60% (from $10.00 to $16.00)
- Demand decreases from 25M to 24M

\[ \varepsilon = \frac{\% \Delta Q}{\% \Delta P} = \frac{-4\%}{60\%} \]
Maybe...not so fast...

Guidance July 25th

22m Streaming
12 million Both
10 million Streaming Only

$79.9M

15m DVD
3 million DVD Only

$23.9M

Current Expectations

21.8m Streaming
9.8 million Streaming Only

$78.3M

14.2m DVD
12.0 million Both
2.2 million DVD Only

$192M

$119.8M

$17.5M
John Carter

(AKA How to Get Your Chairman Fired)
The Finances of this are...

- **Budget**: $300,000,000
- **P&A**: $100,000,000 - $150,000,000

- **Domestic Box Office**
  - $73,058,679 * 0.55 = $40,182,273

- **International Box Office**
  - $208,100,000 * 0.40 = $83,240,000

- **CD Sales**
  - $19,102,370 * 0.7 = $13,371,659
Bottom Line

- Profit = $136,700,000 - $450,000,000 = $313,300,000
  (give or take a hundred million)
THE WALT DISNEY COMPANY REPORTS
SECOND QUARTER EARNINGS

BURBANK, Calif. – The Walt Disney Company today reported earnings for its second fiscal quarter and six months ended March 31, 2012. Diluted earnings per share (EPS) for the second quarter increased 29% to $0.63 from $0.49 in the prior-year quarter. EPS for the current quarter included a gain related to an acquisition and restructuring and impairment charges, which together resulted in a net $0.05 benefit to EPS. Excluding these items, EPS for the quarter increased 18% to $0.58 compared to $0.49 in the prior-year quarter. Diluted EPS for the six-months ended March 31, 2012 was $1.43 compared to $1.16 in the prior-year period.
Why?

**Studio Entertainment**

Studio Entertainment revenues decreased 12% to $1.2 billion and segment operating income decreased $161 million to a loss of $84 million.

The decline in operating income was primarily due to lower worldwide theatrical results reflecting the performance of *John Carter* in the current quarter along with the related film cost write-down. Other titles in the current quarter include *The Muppets* and *Beauty and the Beast 3D* while the prior year included *Tangled, Tron: Legacy* and *Mars Needs Moms.*
So Why John Carter

• Pet Project of the Director of Pixar Cars
• He earned Disney $1.2 billion
• Let him make a movie he really wants...we owe him...
Questions

• Short-run versus long-run
• Market power
• 28-day window
• Strategy
Outline

- 3-days (Thursday, Friday & Monday)
- Industry based – industry data
- Deliverable is data driven
- Guest Speakers
  - TBS
  - NCR
  - Sun Trust
  - Other???