



The Movie Market In China

Overview

Renaissance Studio, Ltd. (“RSL”) is a nascent movie studio that is currently engaged in capital formation. RSL has invested many years evaluating the global movie markets as part of developing its business plan and movie market exploitation strategies. This research and development phase has produced 1) professional metrics for successfully predicting the financial success potential of movie concepts over 90% of the time and 2) screenwriting methodologies that employ these metrics to skillfully create movie content that matches a diversity of compelling resonance elements with the viewing preferences of broad international demographics. Additional information on RSL can be found in the presentation at the link below:

<http://nebula.wsimg.com/a37869d267b432617d2ba9e04d1f1731?AccessKeyId=9E533268DA51246EF35E&disposition=0&alloworigin=1>

RSL has carefully surveyed all the major global markets and China is worthy of special consideration because it is a large movie market that is rapidly expanding. The movie market in China has grown dramatically over recent years and this has caused the major studios and large producers to refocus on revenue opportunities in the China markets. The purpose of this summary is to review the realities of the China movie markets and place them into a global context in terms of their earnings potential for movie producers.

RSL is not a China market expert so please consider this analysis to be opinion grounded in known data.

Statistics

Below is a chart that summarizes key statistics for evaluation of the China movie market:

Description (\$ Billions)	2013	Change	2014
China Box Office Revenues	\$3.6	+ 33%	\$4.8
As % Global Box Office	10%		13%
North America Box Office Revenues	\$10.6	(2%)	\$10.4
As % Global Box Office	30%		29%
Global Box Office Revenues	\$35.9	1.4%	\$36.4
China Tickets Sold (millions)	612	36%	830
North America Tickets Sold (millions)	1,340	(5%)	1,270
China Theater Screens	18,195	30%	23,600
North America Theater Screens	42,814	2%	43,265
Description	China	USA	China as % Of USA
Average Price Per Ticket (2014)	\$5.88	\$8.17	72%
Population (millions) (Current)	1,402	325	431%
GDP Per Capita (2014)	\$7,594	\$54,630	14%



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Comments:

- The theatrical China movie market is growing much faster than the global and North American markets but China still made up only 13% of the theatrical global market in 2014.
- While North America is losing ground to China as a proportion of the global market, North America is likely to continue to be a much larger theatrical market than China for some time.
- Admissions are growing much faster in China but average ticket prices in China are 72% of the North America market.
- China's population is over 4x the USA but its GDP per capita is only 14% of the USA so there are likely to be economic limits to continued rapid expansion of theatrical movie revenues in China absent dramatic increase in GDP per capita.

There is no known reliable public source of data on non-theatrical revenues such as online streaming and other viewing options. These sources may be substantial but reliable financial reporting of revenues, taxation, netback sharing and piracy are all major issues for movie producers who release films in China. The actual gross revenues may be very large but the ability of producers to collect a reasonable and reliable share if these non-theatrical revenues is much less certain than in North America and other Western markets.

The China Box Office

The chart below lists the top 10 movies released in China over the last two years as points of reference:

Rank 2014	Movie Title	China Box Office	Global Box Office	China As % Global	Produced By	Production Budget	Comment
1	Transformers: Extinction	\$320	\$1,104	29%	USA	\$210	
2	Breakup Buddies	\$188	N/A	N/A	China	N/A	Not released in USA
3	The Monkey King	\$168	N/A	N/A	China	N/A	Not released in USA
4	The Taking of Tiger Mountain	\$141	N/A	N/A	China	N/A	Not released in USA
5	Interstellar	\$122	\$665	18%	USA	\$165	
6	X-Men: Days of Future Past	\$116	\$748	16%	USA	\$200	
7	Captain America: Winter Soldier	\$116	\$714	16%	USA	\$170	
8	Dad, Where Are We Going?	\$112	N/A	N/A	China	N/A	Not released in USA
9	Dawn of the Planet of the Apes	\$107	\$704	15%	USA	\$170	
10	The Breakup Guru	\$107	N/A	N/A	China	N/A	Not released in USA
	Total Revenues	\$1,497				N/A	31% of China total 2014
	Average for all the films	\$150					
	Average for the China films	\$143					
	Averages for the USA Films	\$156	\$787	19%		\$183	

Comments:

- Transformers: Age of Extinction was an anomaly with China revenues that were 2.2x the average of the top 5 China films.
- The productions budgets of the USA films averaged \$183 million and only major studios can play this game.



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- All of the USA films fell into the big budget/gratuitous action/computer generated effects genre.
- China revenues were 19% of the global revenues on the USA films. This is 46% above the 13% of total China revenues as a percentage of total global revenues in 2014. This means that this genre resonates more with China audiences than other global audiences.
- None of the top five China films achieved wide USA release or significant box office revenues.

The following 30 USA films are the movies that earned above \$10 million in box office revenue in China in 2014. (\$ millions):

Rank 2014	Movie Title	China Box Office	Ext. Net Revenue Proportion	Ext. Net Revenue To Producer	Global Box Office	China As % Global Box Office	Production Budget
1	Transformers: Age of Extinction	\$320	15%	\$48	\$1,104	29%	\$210
2	Interstellar	\$122	15%	\$18	\$665	18%	\$165
3	X-Men: Days of Future Past	\$116	15%	\$17	\$748	16%	\$200
4	Captain America: Winter Soldier	\$116	15%	\$17	\$714	16%	\$170
5	Dawn of the Planet of the Apes	\$107	15%	\$16	\$704	15%	\$170
6	Guardians of the Galaxy	\$96	15%	\$14	\$771	12%	\$170
7	The Amazing Spider-Man 2	\$94	15%	\$14	\$709	13%	\$200
8	Godzilla (2014)	\$78	15%	\$12	\$508	15%	\$160
9	The Desolation of Smaug	\$75	15%	\$11	\$960	8%	\$250
10	The Expendables 3	\$73	15%	\$11	\$209	35%	\$100
11	Need for Speed	\$66	15%	\$10	\$194	34%	\$66
12	Edge of Tomorrow	\$66	15%	\$10	\$364	18%	\$178
13	How to Train Your Dragon 2	\$65	15%	\$10	\$616	11%	\$145
14	Teenage Mutant Ninja Turtles	\$62	15%	\$9	\$475	13%	\$125
15	Despicable Me 2	\$53	15%	\$8	\$975	5%	\$76
16	Robocop (2014)	\$51	15%	\$8	\$243	21%	\$120
17	Frozen (2013)	\$48	15%	\$7	\$1,274	4%	\$150
18	Maleficent	\$48	15%	\$7	\$758	6%	\$180
19	Lucy	\$45	15%	\$7	\$451	10%	\$40
20	Penguins of Madagascar	\$41	15%	\$6	\$368	11%	\$132
21	Rio 2	\$39	15%	\$6	\$493	8%	\$130
22	Jack Ryan: Shadow Recruit	\$26	15%	\$4	\$131	20%	\$60
23	The Maze Runner	\$24	15%	\$4	\$346	7%	\$34
24	Ender's Game	\$23	15%	\$3	\$90	26%	\$110
25	Transcendence	\$20	15%	\$3	\$90	22%	\$100
26	Fury (2014)	\$19	15%	\$3	\$212	9%	\$80
27	Mr. Peabody & Sherman	\$19	15%	\$3	\$270	7%	\$145
28	Pompeii	\$16	15%	\$2	\$108	15%	\$80
29	Hercules (2014)	\$13	15%	\$2	\$243	5%	\$100
30	Divergent	\$12	15%	\$2	\$276	4%	\$85
	Average	\$65		\$10	\$502	14%	\$131



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Comments:

- There are no truly independent films on the list.
- The average China box office revenue was 14% of the global box office revenues of these 30 USA films versus total box office revenues in China that were 13% of total global movie revenue in 2014.
- The estimate of an average of only \$10 million in net revenues per film to producers raises the question of whether the difficulties and costs to meet China requirements justify the effort to operate in China. The estimate to producers drops from \$10 million to \$8 million if the Transformers anomaly is dropped from the average.
- The average production budget of \$131 million for these films is very high. So far, very costly investments in action and effects have been required to play the movie game in China but making such investment is no guaranty of major financial success in China.
- The 30 USA films mostly fell into the big budget/gratuitous action/computer generated effects genre.
- Is there any material financial justification to adapt film content to meet China censorship requirements, especially on films that are not in the above genre?
- Can producers who cannot play the huge production budget game realistically expect to compete in the China market and with the big studios for the limited number of foreign originated film slots?

China Market Considerations

The China movie markets are heavily controlled and censored by the government of China and there are many issues to be considered about the China movie markets.

- China's censorship practices eliminate many USA films that include criminal activity, drug abuse, conspiracies, sexuality, terrorism, government corruption or political or geopolitical content, etc.
- Financial transparency and accounting practices are not as reliable in China as in the Western world.
- It can be very difficult for USA producers to collect net revenues that they are owed versus western markets and the legal system often does not offer reliable or timely recourse to producers. An uncomfortable leap of faith on net revenues and collections is required to operate in China.
- Reliable data on net revenues actually collected by USA producers is very difficult to find. The best available estimate on box office net revenues to producers (not studios) is 15% of gross revenues. Reliable data on actual non-theatrical net revenues to producers is not easy to find so it is difficult to count on such revenues when producers consider movie releases in China.
- Arbitrary taxation of movie revenues at different levels of government can be a significant issue that limits net revenues to producers.
- Piracy is a major issue in China, especially with DVDs and streaming content. These issues limit the revenue and productivity of theatrical and non-theatrical revenue sources. Piracy that originates in China can spread to other countries and adversely affect revenues from those markets.
- Films that are not in the big budget, shallow story telling, gratuitous action/computer generated effects genres struggle to pass censorship and quotas and resonate in the China markets.
- Adaptation of movie content to match China market censorship and viewing preferences may significantly reduce the appeal of films in other global markets.



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- The China movie market and culture are very different from Western markets. Operating in China and meeting all of the government requirements can be more difficult and costly than in North America and other Western markets. These additional difficulties and costs can be significant.
- The China capital markets can be very volatile with uncertain political, earnings and unpredictable implications for producers. The risks of doing business in China are higher on almost all levels.

Summary

The movie market in China is substantial and growing rapidly but is still only 13% of the global theatrical market. To date, China has been a movie market where big budget action/CGI extravaganzas are the only films that are being released and achieving significant box office success. The cultural, business and political difficulties, obstacles and costs of doing business in China are substantial and the net revenue benefits are limited and uncertain.

There is a very large potential non-box office market in China where hundreds of millions of people have access to online and other non-theatrical sources of content if they have the means to use them. However, reliable financial data on the net revenues that movie producers can expect to collect from non-theatrical sources in China is very difficult to find. Rampant piracy and the unwillingness of the government to address it in a serious way calls into question the predictability and reliability of non-theatrical revenue sources in China as well as the orders of magnitude of the net revenues they can be expected to produce.

Non-theatrical gross revenues are typically proportional to box office revenues but the magnitude of the net revenues can vary significantly across the globe. Absent clear evidence of net revenue proportions that can be reliably collected by USA producers, it is difficult to rely on these revenue sources as a justification for market entry into China by independent producers. Absent such reliable data on non-theatrical revenues and a resolution to the piracy issues, the net revenues from box office sources in China will often not justify the efforts to operate in China for most producers.

RSL has been unable to find any readily available public evidence that China is a fertile market for independent producers. For now, China is a source of marginal revenues for big studios that can afford to play the big budget action/CGI game. Creating content specifically for China is not attractive because very few China focused productions ever achieve broad international distribution beyond China or Asia. It is not rational to ignore up to 87% of the potential global market to make China focused movies.

Based on all of the available data that RSL has been able to find, RSL will not be adapting its content development activities to match China market preferences and China government requirements. Most of the other 87% of the global market is being dramatically underserved by the content the movie industry is producing. These assertions are confirmed by the consistently uninspiring choices in the theaters and the 90% of movie goers in North America who see only 2 movies on average in theaters each year.

Almost everyone likes movies and everyone who searches movie listings is confronted with the recurring frustration of very few movie options that inspire them to go to theater. This reality is not a reflection of a demand shortage or a major shift away from theater attendance. It is compelling evidence of a quantity of quality supply problem. There is no industry that has a greater disconnect between product features and consumer preferences. This reality is a major global market opportunity that RSL was created to exploit.