



Renaissance Studio, Ltd.

The Future of Film Making & Investment

Renaissance Studio, Ltd. – Wanda Motion Pictures Analysis - 2

Overview

Renaissance Studio, Ltd. (“RSL”) is an emergent movie studio that has invested many years in a comprehensive analysis of the motion picture industry and the development of the means to exploit its dysfunction and the irrationality of price/earnings ratios near 300x in the public equity markets to deliver risk adjusted returns on equity that dwarf other investment alternatives.

As part of its ongoing activities, RSL tracks and analyzes major events and trends in the motion picture industry. Dalian Wanda (“Wanda”) is a major focus for RSL because:

- Wanda has invested above \$20 billion in the motion picture industry in recent years.
- **The financial success of these huge investments will be determined by Wanda’s ability to source, develop, produce, advertize and distribute huge volumes of movie content that will achieve strong market acceptance outside of China. Currently, Wanda has no major source for this content or the means to create it.**
- Focusing on content that will resonate in the China market places severe limitations on the ability of content to resonate in the above 80% of the global movie market outside of China.
- RSL is the most exceptional and cost effective source of premium movie content and sustainable film franchises in the movie industry that are skillfully designed to resonate with large global audiences outside of China.
- RSL is the most valuable investment that Wanda could make if maximizing earnings and the public equity market value of Wanda’s movie industry assets is the Wanda goal.

Full due diligence on RSL will reveal a very real opportunity for Wanda to increase the public equity market value of its motion picture investments by \$5 billion to \$25 billion.

Recent Wanda Event

On October 17, 2016, Wanda and its Qingdao studio made a major presentation to the motion picture industry. A summary of the presentation can be found in the article at the link below:

<http://deadline.com/2016/10/china-wanda-tax-credits-wang-jianlin-jack-gao-1201837822/>

The purpose of this document is to evaluate the Wanda presentation and offer professional insights on its content, strategies and assumptions. The goal is to offer compelling alternatives for Wanda and its Qingdao studio to pursue if maximizing risk adjusted returns on their investments is their primary goal.

Important References

This analysis is the third in a series on the Wanda motion pictures businesses. RSL has published two previous analyses on Wanda, the Qingdao studio and the Legendary Entertainment investment. If you have not already, please invest 10 minutes to review the analyses at the links below as very important points of reference for this summary:



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Wanda Motion Pictures Analysis - 1

<http://nebula.wsimg.com/36fd4cba0c1fde7f1eccecc89f90fa715?AccessKeyId=9E533268DA51246EF35E&disposition=0&alloworigin=1>

Wanda Legendary Entertainment Analysis

<http://nebula.wsimg.com/3079e1f2a9b3d928639e6a90dc6f2dee?AccessKeyId=9E533268DA51246EF35E&disposition=0&alloworigin=1>

These summaries make a very compelling case that RSL is the optimum source of advanced content evaluation metrics and proprietary screenwriting methodologies that produce premium movie content and sustainable film franchises that can compete successfully in the global markets outside of China.

This assertion is supported by an initial inventory of 14 major motion picture projects that are designed to launch up to 10 sustainable film franchises that can 1) achieve strong global market acceptance and 2) deliver exceptional earnings that will dramatically enhance the public equity market values of all the Wanda film industry investments. As such, RSL is the most valuable investment that Wanda could make to optimize the risk adjusted returns on its above \$20 billion investments in the motion picture industry.

The analysis in this document will not repeat these rationales but it will further enhance the case for Wanda to partner with RSL.

Analysis Of the October 17, 2016 Wanda Presentation

The Wanda presentation at the link below outlines a grand vision to make China a major new epicenter of filmmaking and investment that can compete successfully in the global markets.

<http://deadline.com/2016/10/china-wanda-tax-credits-wang-jianlin-jack-gao-1201837822/>

It also reveals the issues, assumptions, strategies and challenges that Wanda is facing to achieve its global ambitions.

Major Wanda Issues

Below is a summary of the major issues that Wanda is facing:

- Wanda has made above \$20 billion of capital investments that require huge amounts of ongoing premium movie concepts that are skillfully designed to attract large global audiences.
- The China movie market is growing rapidly but it is still less than 20% of the global movie market.
- Movies originated in China almost never achieve broad global market acceptance. Wanda cannot become the major global force in the movie industry or reach its full ROE potential for its investors by relying on China originated or focused content that targets less than 20% of the global market.
- There is a pervasive global dearth of movie content that will resonate with large international audiences.



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- The movie content that is originated by the usual “Hollywood” sources loses money for production equity investors over 80% of the time.
- Most of the 20% of film concepts that make money are owned by the large studios in the form of comic book based and other “tentpole” franchises that cannot be acquired without paying price/earnings multiple above 30x that severely dilute the ROE and IRR potential of such large investments.
- “Hollywood” talent and producers are generally reluctant to film in China because of geopolitical, cultural and production talent concerns.
- Rising geopolitical tensions between China and the USA are an increasing obstacle to Wanda’s ambitions in the movie industry.
- A huge shortfall of movie writing and production talent and “know how” to create production values that can compete successfully in the global markets.

The Wanda presentation acknowledges the reality that “Hollywood” is not producing great “story telling” concepts and is relying on very high budget, technology driven projects. High budget “tentpole” projects concentrate project risks and reduce the IRR ceilings of the projects.

The Current Wanda Content Strategy

Based on the October 17, 2016 presentation, the Wanda content strategy includes the following:

- **Production Subsidies** - Partner with Qingdao city to offer up to 40% production subsidies to film at the Qingdao studio. Major issues with this strategy are as follows:
 - This approach has the effect of reducing the profitability of the Qingdao studio venture without creating a significant incentive above other global production venues that have no geopolitical concerns, no cultural/language issues and better production talent capabilities.
 - The \$150 million annual limit on subsidies is far too small to attract the huge volumes of projects that the Qingdao studio requires to deliver an exceptional ROE on its capital investment.
 - Subsidies are very poor investments for Wanda because they provide production equity with only indirect ROEs and no direct ROEs on the earnings success of the movies themselves.
 - The details on “qualified projects” may create further time constraints, issues and obstacles. Will censorship apply to the movie content produced in China even if it targets the 80% of the global markets outside of China?
- **Easier China Market Access** – Offer access to the Wanda distribution venues in China. Major issues with this strategy are as follows:
 - Wanda may influence but does it control censorship on movie projects in China? China market access is a benefit but it is greatly diminished if it comes at the expense of the 80% of global market preferences outside of China if censorship severely limits the content options.

It is interesting that the Wanda presentation made no mention of providing substantial equity capital investments in movie projects to induce production at the Qingdao studio.



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Key Observations

The following comments are offered in the spirit of constructive candor with the end goal of optimizing financial outcome for Wanda and the Qingdao studio:

- The value proposition presented by Wanda seems unlikely to attract the huge numbers of “Hollywood” films that will be necessary to deliver strong ROEs on the very large capital investments in the Qingdao studio.
- Wanda has created huge new movie production capacity at Qingdao without creating the enormous **new** premium content sources and production talent resources that will be needed for the Qingdao studio to deliver strong risk adjusted ROEs.
- Large film subsidies reduce the profitability of the Qingdao studio without permitting access to the huge global profitability potential of the movie projects themselves. They are, in effect, equity investments without a direct ROE.
- Subsidies attract high cost transient productions rather than low cost permanent content sources.
- The \$150 million annual magnitude of the proposed subsidies is far too small to attract the huge volumes of “Hollywood” productions that Qingdao requires.
- Production subsidies are useful to producers but they are a very inefficient capital source that requires producers to acquire equity capital from other investors. This approach stops or delays the development to production process that is needed to churn out large numbers of movie projects that the Qingdao studio requires.
- Wanda paying 30x+ price earnings multiples for existing movie studios or producers would consume huge amounts of additional capital that will dwarf the amount if the marginal profits of redirecting movie projects of the acquisitions to Qingdao studio.

Key Questions

It is useful to consider the key questions in the Qingdao studio scenario:

- Are 40% production subsidies with a \$150 million annual cap likely to attract enough foreign productions to fill a significant portion of the Qingdao studio capacity?
- Is it realistic to imagine that the Qingdao studio can deliver an exceptional ROE on its huge capital investment by relying on earnings from soundstages and related services?
- Is it prudent to rely on traditional “Hollywood” content sources that lose money for equity investors over 80% of the time?
- Is it likely that Wanda can access a significant portion of the 20% of profitable movie concepts without paying 30x+ price earnings multiples that will dramatically reduce the ROE potential?
- Can Wanda dominate the global movie markets without owning effective movie content evaluation metrics and screenwriting methodologies that skillfully match a diversity of compelling resonance elements with the viewing preferences of broad spectrum international demographics?



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- Should huge additional investments in global distribution studios be made with 30x+ price earnings multiples rather than simply hiring the key professionals to replicate the distribution networks in the digital age?
- Is it wise to invest in production subsidies with no direct ROEs or in RSL movie projects with almost unlimited ROE potential?
- Is it wise to invest equity in production subsidies with no direct ROE potential to attract transient movie productions or to establish a permanent content origination capability that can create sustainable film franchises that will deliver exceptional direct ROEs?
- Is it productive to implore “Hollywood” to create better stories or to exploit “Hollywood’s” inability to create premium content by establishing the ability to create and develop the content that will resonate with large global audiences?
- Is it a better choice to invest billions of more dollars to acquire movie studios or producers that do not create substantial new content sources or to invest \$50 million of primary equity into RSL to create a perpetuity of 4 major movies per years in perpetuity and \$200+ million in annual earnings per year by year 4?

Summary

Please refer to the two previous RSL analytical summaries on Wanda at the links that were provided earlier in this article for a more complete summary of the RSL value proposition. RSL offers the following key benefits in a partnership with Wanda and/or the Qingdao studio:

- A digital age business model and plan for a virtual movie studio that can compete successfully with the “Hollywood” studios in the global movie markets.
- Highly advanced movie content evaluation metrics that avoid the 80%+ of “Hollywood” movie projects that lose money for production equity.
- Proprietary screenwriting methodologies that skillfully match a diversity of compelling resonance elements with the viewing preferences of broad spectrum international demographics. These methodologies are the sustainable source of premium movie content and film franchises that can compete successfully in the global markets and drive the Wanda business models to strong ROEs.
- The above tools have been employed to create an initial inventory of 14 movie projects that are designed to launch up to 10 sustainable movie franchises. All these projects can be produced on \$30 million budgets to compete successfully in the action/thriller/claustrophobic genres that have averaged almost \$500 million in global revenues since 2006. This is the most exceptional movie content inventory in the film industry if maximizing risk adjusted ROEs is the Wanda goal.

RSL represents a very cost effective opportunity for Wanda to control a sustainable source of premium movie content and film franchises **in China** that can 1) compete successfully in the global movie markets outside of China, 2) elevate the profitability of all the Wanda movie industry investments and 3) deliver \$5 to \$25 billion in increased public equity market value of the Wanda movie industry assets.

Full due diligence on RSL will reveal the efficacy of the RSL assertions and value proposition.