Renaissance Studio, Ltd. – Dalian Wanda Motion Pictures Analysis

Overview

Renaissance Studio, Ltd. is an emergent movie studio and premium movie content source that has invested many years in a comprehensive analysis of the motion picture industry and the development of the means to exploit its dysfunction to earn extraordinary risk adjusted returns on equity ("ROE"). The RSL R&D process has produced:

- **A Visionary Business Strategy** - A digital age business model and a 160 page business plan for a virtual movie studio. The RSL strategy focuses on origination of premium, cost effective movie content and sustainable film franchises that 1) can compete successfully in very high revenue ceiling genres in the global markets and 2) deliver consistent earnings growth that will drive a strong public equity market profile that can exploit irrational price/earnings multiple in the 30x to 300x range.
- **Effective Tools to Avoid Poor Movie Projects** - Advanced movie content evaluation metrics that avoid the 85% of movie projects that lose money for production equity investors.
- **Superior Movie Content Creation Processes** - Proprietary screenwriting methodologies that skillfully match a diversity of compelling resonance elements with the viewing preferences of broad spectrum international audiences to insure strong global market acceptance.
- **Advanced Business Practices** - State of the art risk management strategies and financial controls that minimize costs, maximize earnings and safeguard equity capital investors.

The above tools have been employed to create an initial inventory of 14 cost effective ($30 million budgets each) movie screenplays that are designed to launch up to 10 sustainable film franchises in the action/thriller/clandestine genres that have averaged near $500 million in revenues since 2006.

Are The RSL Projects Superior To The Movie Industry?

A careful review of the RSL movie and franchise profiles at the link below will reveal the most exceptional movie project inventory in the movie industry for maximizing risk adjusted ROE:

http://www.renaissancestudio.org/movie-projects.html

The links below include summaries of recent movies in theaters and the RSL project inventory:

Recent Movies In Theaters

http://nebula.wsimg.com/c0a6678acf45e732d9ff91e5651a83f5?AccessKeyId=9E533268DA51246EF35E&disposition=0&alloworigin=1

The RSL Project Inventory (May require the use of the zoom feature on your browser to read)

http://nebula.wsimg.com/d79e3655bd0ecf78408b23bc05a5d4e0?AccessKeyId=9E533268DA51246EF35E&disposition=0&alloworigin=1

These links show that all the RSL projects have more superior market acceptance and ROE profiles than all of the recent movie projects in theaters. Below are links to the RSL website and business plan:

http://nebula.wsimg.com/8bd44614a66bbda1c5d4a8dc654c9ecc?AccessKeyId=9E533268DA51246EF35E&disposition=0&alloworigin=1 http://www.renaissnacestudio.org

Dalian Wanda

Dalian Wanda ("Wanda") is a major China based conglomerate that has made huge investments in the motion picture industry over the last 5 years. Below are estimates from publicly available data:

Description	Estimated Investment	Estimated Annual Earnings	ROI
Qingdao Studio	$ 8.0 billion	N/A	N/A
Legendary Entertainment	$ 3.5 billion	$122 million	3.49%
Wanda Pictures China	$ 2.0 billion	$ 45 million	2.25%
AMC & Carmike Theaters	$ 3.6 billion	$103 million	0.03%
Odeon & Other Theater Chains Outside of China	$ 1.0 billion	$130 million	13.00%
Total estimated capital investment	$18.1 billion	$400 million	2.21%
Without Qingdao Studio	$10.1 billion	$400 million	3.96%
Equity Investment - Assume 50% Debt	$ 5.1 billion	$400 million	7.92%

* Note: Most of the estimates above are derived from the Wall St. Journal article at the link below:

http://www.wsj.com/articles/wanda-group-seeks-1-5-billion-for-piece-of-movie-business-1456313951

Large investments in theater chain expansion in China, working capital and production incentives for the Qingdao studio, growth capital for Legendary and other expenditures likely push the total capital expenditures above $20 billion. This enormous capital investment is very impressive but it creates a major challenge to create an appropriate risk adjusted return on investment from operations. Currently, the **7.92%** estimated ROE is well below a typical 15% ROE expectation from operations.

Capital Markets Exploitation Opportunities

The Wall St. Journal link in the section above includes the following key paragraph:

"Even after last summer's stock-market debacle, Chinese movie companies trade at lofty valuations—Shenzhen-listed Beijing Enlight Media Co., at 74 times estimated 2015 earnings; and U.S.-listed Bona Film Group Ltd., which has received a going-private offer from Alibaba Group Holding Ltd. and other investors, at a whopping 1,261 times 2014 earnings."

The extreme irrationality of the huge Price/earnings multiples in the 74x to 1,261x range that are available in the China capital markets make it more rational to acquire companies like Legendary Entertainment in the 30x range and flip them into the China markets at much higher multiples. However, this ability to arbitrage the global equity markets to create large profits from irrational market behavior does not diminish the value of maximizing the earnings from operations.

In theory, every additional dollar of earnings equates to $74 to $1,261 of value in the China equity markets so there are huge incentives to maximize operating earnings. Similarly, any reduction in earnings should have a reverse effect on the equity market value.

In these very high P/E ratio scenarios, the costs of interest on debt are very high because each dollar of interest reduces earnings that can receive 74x to 1,261x multiples in the equity markets.

The Wanda Qingdao Studio

The Qingdao studio is very impressive but it is also an enormous $8 billion+ capital investment that will require huge volumes of movie projects to deliver a 15% ROE from operations each year. Please consider the following:

- The Qingdao studio must earn $600 million of earnings annually to deliver a 15% ROE from operations each year assuming 50% debt capital.
- Office, retail, theme park and other commercial projects are unlikely to deliver a substantial portion of the $600 million earnings goal each year.
- Movie and TV productions that focus on the China markets alone are unlikely to be large enough to deliver the volume and magnitude of projects to earn $600 million annually.
- Wanda must also compete with other production studios in China that may have lower capital and operating costs.
- The business model of providing soundstages and related production and post production services has very limited ROE potential because of the very high capital costs and the challenges of competing with other global studios with lower capital costs and established track records.
- Therefore, the Qingdao studio must attract very many movie projects from outside of China that are well designed to compete in the global markets. However, it may be a major challenge to induce "Hollywood" and other international studios and producers to operate at the Qingdao studios given current geopolitical friction, significant cultural differences, possible censorship issues, difficulties attracting directing and acting talent to China and the need to deliver exceptional production values that can compete successfully in the international markets outside of China.

  These issues likely mean that the Qingdao studio will have to provide 1) superior production rebates to global competitors and/or 2) substantial production capital to producers. These additional incentives would typically drive down the operating margins of the Qingdao studio versus their international studio competitors. This would make it much more difficult to deliver a 15% ROE from operations of the Qingdao studio.

  In addition, the provision of production rebates or capital to producers without a proportional interest in the upside of the movie projects themselves has the effect of taking on more risk while suppressing ROEs. This issue is compounded by the reality that 85% of movie projects lose money for production equity even if a proportional equity interest in the projects can be secured.

Given all of the above realities, a very strong case can be made that the Qingdao studio should become a fully integrated movie studio with the ability to conceive, write, develop, produce, advertise, market and distribute superior motion pictures that can compete successfully in the global markets.

This approach would enable the Qingdao studio to avoid the 85% of movie projects that lose money for production equity and enjoy the profitability from exploiting the global movie markets that can deliver profit margins that dwarf the earnings from providing soundstages and related production and post production services. This alternative also eliminates the need to provide rebates and other production incentives while allowing the studio to retain the full rights to the movies themselves.

Qingdao Studio Reality Check

Providing soundstages and related production and post production services for a $30 million movie at the Qingdao studio might deliver a $5 million net profit to the studio. This means that the Qingdao studio must average the equivalent of **120** $30 million dollar movies each year to reach $600 million of earnings and deliver a 15% ROE from operations. Even if the other studio activities deliver a $300 million profit each year, the studio must access **60** $30 million movies per year in perpetuity to sustain a 15% ROE.

By contrast, the financing of the production of each $30 million RSL movie at the Qingdao studio should deliver a $50 million profit to the Qingdao studio. This translates to $200 million on four RSL projects per year that can be delivered on an initial equity investment of $50 million plus access to $100 million of debt capital that can be that can all be returned in month 30 while preserving a perpetuity of $200 million per year is the RSL projects average 45% of the genre average revenues.

Summary

Dalian Wanda has invested over $20 billion of capital in the motion picture industry. The magnitude of the financial success of those investments rests on the ability of Wanda to access premium, cost effective movie content and sustainable film franchises that can compete very successfully in the global movie markets outside of China and deliver exceptional earnings.

Renaissance Studio Ltd. ("RSL") is a very capital and cost effective source of advanced movie content evaluation metrics, proprietary screenwriting methodologies, premium movie content and sustainable film franchises that can produce $200 million of the $600 million of annual earnings that the Qingdao studio needs to deliver an annual 15% ROE.

RSL would also deliver substantial additional profits by providing four $30 million motion pictures for production at the Qingdao studio each year and an additional four high revenue ceiling movies for exhibition in Wanda's international movie theater chains.

All together, RSL should deliver up to $250 million in annual earnings to the Dalian Wanda entertainment group. These earnings translate to huge valuations in the public equity markets:

$ 7.5 billion - At the 30x P/E multiple Wanda paid for Legendary Entertainment

$18.5 billion - At the 74x P/E multiple paid for Shenzhen-listed Beijing Enlight Media Co.

$75.0 billion - At the 300x P/E multiple that Lions Gate ("LGF") and Netflix ("NFLX") are receiving

Yes, RSL is a start up virtual studio without a production or earnings track record. However, RSL is very real opportunity to acquire a future $250 million annual earnings perpetuity that would be about twice Legendary Entertainment earnings of $122 per year and RSL can be acquired for a tiny fraction of the $3.5 billion acquisition price. Full due diligence on RSL will reveal the plausibility of the $250 million annual earnings goal. Does the magnitude of the RSL earnings opportunity not justify full due diligence?

Can the Qingdao studio reach a 15% annual ROE without becoming a fully integrated movie studio? Is there a better or more capital and cost effective source of advanced methodologies, premium movie content and sustainable film franchises that the Qingdao studio can acquire?