

DREAMWORKS ANIMATION MULTINATIONAL OPERATIONS

Siede Coleman, David Ferialdi, Chris Ramirez, Chinvee Lim, Isaac Rosales

INTERNATIONAL SUMMARY

China

In Shanghai, China, DWA has formed a joint venture called Oriental DreamWorks with several Chinese companies. This venture will “conduct significant operations in China, including the development and exploitation of original content.”*

DWA has also joined its Chinese partners for the release of an entertainment district in 2016, with a total investment amount of 20 billion yuan (\$3.14 billion).

India

In Bangalore, India, DWA has a studio with about 200 artists and production staff. The company has partnered with Thomson/Technicolor to build an “animation enterprise.”

Russia

DWA has licensed its characters to Regions GC, a Russian company with plans to build theme parks in Moscow, St. Petersburg, and Yekaterinburg

London, England

Office obtained through Classic Media

IDENTIFY AND ANALYZE

Theatrical Distribution growth rates (from the 2012 10K report page 37).

- Domestic 49% to 56%
- International 37% to 44%

CURRENCIES USED

Dreamwork's foreign subsidiaries are determined using local currencies. Income statement accounts are translated at average exchange rates in effect during each financial period.

CURRENCY EXPOSURE

Dreamwork's distributors provide sufficient information to identify foreign currencies to which Dreamwork's is primarily exposed to, allowing them to make general estimates on the percentage change impact of these foreign currencies. In addition, Dreamwork's film foreign currency transactions contain a natural foreign currency hedge for receipts due to significant offsetting distribution expenses made in the same local currency.

FOREIGN TAX INCENTIVES

There are no signs of tax incentives from foreign governments in their financial reports. However, there are many governments that provide incentives for production in their countries. These governments include Germany, Australia, Mexico, and India. It is possible that dreamworks does not list tax incentives because they do all their animation production in California. According to a study from the Milken Institute, “California remains a heavy hitter when it comes to digital special effects and animation. The state is home to some of the biggest companies in this field, such as Industrial Light & Magic, Digital Domain, Rhythm & Hues, Dreamworks Animation SKG, and Pixar Animation Studios.”

INTERNATIONAL ISSUES

INTERNATIONAL ISSUES (CONT.)

RISKS:

Success is dependent on audience acceptance of our films, which is extremely difficult to predict and, therefore, inherently risky. Limited number of releases each year. Revenue comes from a single source, production of animated family entertainment. Animated films are expensive to produce; uncertainties can lead to films that are abandoned or delayed. Our success depends on certain key employees (Such as Jeffrey Katzenburg)

DWA is currently in the process of developing a number of projects that are not feature films, which will involve upfront and ongoing expenses and may not ultimately be successful.

INTERNATIONAL ISSUES (CONT.)

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Marketing costs have significantly increased and may increase in the future, making it more difficult for a film to generate a profit or compete against other films. We compete for audiences based on a number of factors, many of which are beyond our control. Global economic conditions adversely affect the profitability of our business. The seasonality of our businesses could exacerbate negative impacts on our operations.

Our China Joint Venture faces restrictions in China and may not succeed

- Media and entertainment businesses in China are currently subject to a variety of restrictions, including prohibitions on the conduct of certain activities by foreign owned entities.
- There are restrictions on the repatriation of funds earned in China.
- There can be no assurances that the joint venture will be able to obtain the appropriate authorizations to engage in all contemplated aspects of its business or, if such licenses are obtained, that the joint venture will be successful.

SHAREHOLDER VALUE

DreamWorks Animation is enhancing its shareholder value in its international operations by enlarging its film library. On the Income statement, the DWA Revenue has increased and a closer examination reveals that a majority of the revenue generated by the “Library” category was earned primarily in the international television market and worldwide home entertainment.