

Profitability Study of MPAA-Rated Movies

For movies released between 1989-2003

Commissioned by
The Dove Foundation
Grand Rapids, Michigan
May 2005



Greetings!

In the summer of 1990, a group of fathers approached me and asked if I would join them in a search for ways to accumulate enough knowledge so we could talk to our kids about which movies were or were not compatible with our values.

The Dove Foundation was born out of that meeting. We decided early on that we were not interested in "slamming" Hollywood for making movies we didn't feel were appropriate for our families. Instead, we focused on a positive approach. In other words, our strategy was to COMMEND them for the high-quality, wholesome movies they made, rather than CONDEMN them for the other stuff.

We launched the Dove FAMILY APPROVED Seal to entice filmmakers into creating more wholesome movies that would appeal to us and millions of others like us. Entertainment legend and Dove advisory board member, the late Steve Allen called the Dove Seal "the Good Housekeeping Seal for family entertainment."

In keeping with our positive approach, The Dove Foundation's mission was drafted to *"encourage and promote the creation, production, distribution and consumption of wholesome family entertainment."*

In my many visits with studio executives and filmmakers during the past 15 years, disagreements would inevitably crop up about which movie categories were the more profitable. My friends in Hollywood would use anecdotal arguments to defend their beliefs that a movie needed a bit of "salt" in order to attract an audience. That was their rationale for producing so much R-rated fare.

In order to settle this dispute once and for all, Dove commissioned a landmark study in January of 1999 called the PROFITABILITY STUDY OF MPAA-RATED MOVIES. The report of 2,380 movies released between 1988 and 1997 demonstrated that the average G-rated movie was eight times more profitable than its R-rated counterpart.

Our updated MOVIE RATINGS STUDY for 2005 is *VERY* interesting; especially if you are a filmmaker or an investor in movies. The numbers have changed dramatically.

R-rated movie production is down by 12% and G-rated production is up 38%. During the past four years, the average G-rated movie was 11 times more profitable than an R-rated movie.

There are compelling comparisons between PG and PG-13 films as well.

If you want more detailed information, including a list of the movies that were used in this latest study, just go online to <http://www.dove.org/research>.



Read on and enjoy!

Dick Rolfe, Chairman

"I hope more distributors will utilize the Dove Seal so that the film industry and parents can form a partnership promoting wholesome entertainment for the families."

-Cardinal Roger Mahony, Archbishop of Los Angeles

"We need a national conscience telling those of us in Hollywood where the boundaries of decency are to be set. People should look for the Dove Seal on videos whenever they rent or buy them. It means they won't find any unsavory surprises."

-Dean Jones, Actor, Producer

"The Dove Foundation has contributed significantly to making the case that family-friendly fare represents good business as well as good citizenship."

-Michael Medved, Radio Host, Author, Film Critic

"For good or bad, movies definitely impact the way we think and act. The Dove Foundation is helping families everywhere select films that are safe for family viewing."

-Lisa Whelchel, Actress, Author



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Executive Summary

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Concerned with the limited number of family-oriented films currently produced each year, and an increase in the number of films containing sex and violence, The Dove Foundation is interested in determining which films, by MPAA rating, produce the greatest profits as well as the highest rates of return on investment (ROI).

In 1998, the foundation commissioned a study of all theatrical films rated by the MPAA released to 800 or more U.S. screens, from January 1, 1988 through December 31, 1997. Kagan Media Appraisals, Inc. compiled the data as requested by The Dove Foundation.

Dove released a comprehensive report of these data in January of 1999. The 1999 DOVE PROFITABILITY STUDY OF MPAA-RATED MOVIES pointed out that, while the major motion picture studios produced 17 times more R-rated movies than G (1291 to 73 respectively); the average G-rated movie made eight times the profit as its R-rated counterpart (\$93 million vs. \$11 million, respectively.)

Now that five years have passed since the initial study, Dove Foundation executives felt it was time to produce an updated report for two purposes; first, to track the latest films as to profitability; and second, to evaluate any changes, e.g., did the results of the initial study leave any lasting impressions on the film studios?

This study uses a slightly different database than the 1999 study. Since exhibitors have dramatically increased the number of multiplexes over recent years, the number of screens is more difficult to track than the number of theaters. Therefore, this report tracks the 200 most widely distributed films each year based on the number of theaters.

The films used in this study cover a 15 year period from 1989 through 2003. In order to produce an accurate rate of return, consideration was given to the time value of money. Hence, all costs and revenues used were limited to the first 24 months from the date of each release.

The data for the current study was compiled and provided by Kagan Media Appraisals, Inc. The first part of the analysis examined the data to identify how frequently each production company produced films in each rating during the study period. The reported data will include the total number of movies produced in a year by a theatrical distribution company, the number of movies made with a particular rating, and a comparison of production companies.

The second part of the analysis examined the profitability of films by each rating for the study period. Profitability is reported both in aggregate figures and per film.

Results

Ratings categories by studio:

One function of this study is to identify changes that took place after the initial Dove Foundation report was released in January of 1999.

There are significant differences in the number of G and R-rated films released before and after the 1999 study.

Table 1 covers the period of 2000 – 2004. It includes the quantity, percent of own production, and percent of total films released by each of the 12 largest theatrical distribution companies, broken down into MPAA ratings.

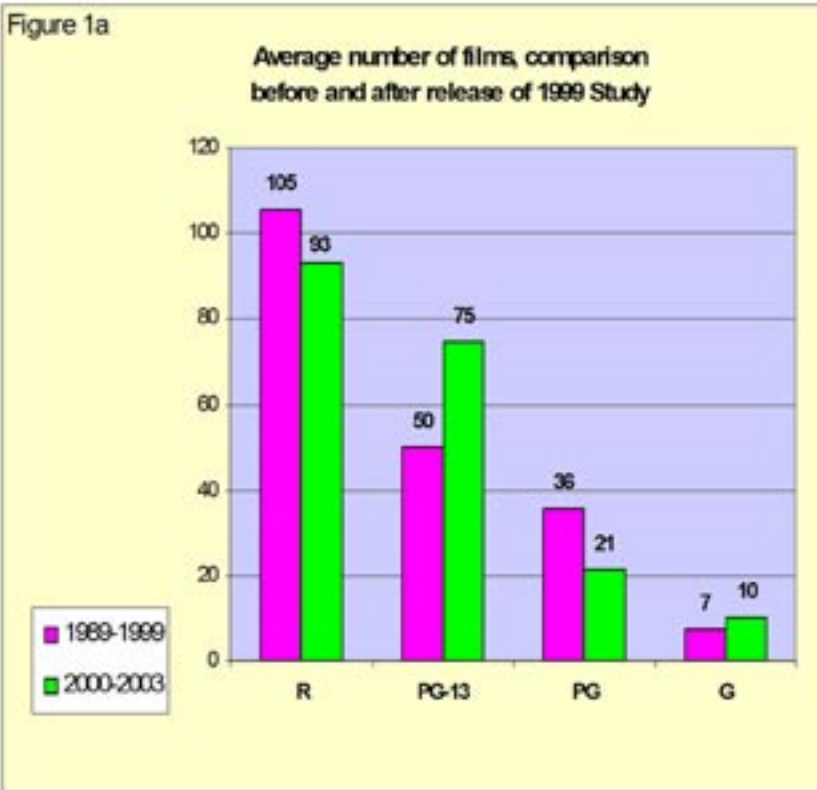
Buena Vista (Disney) produced the largest proportion of G (52.27%) and PG films (16.26%) released during the study period. That is significantly greater than their average number of releases from 1988 – 1997.

Buena Vista (Disney) also ranked first with nearly one-half (47.8%) of its own films produced in the top two family-oriented ratings categories; G (25.6%) and PG (22.2%).

Miramax/Dimension (a Disney subsidiary) released the most R-rated films from 2000-2004 with 61 titles, or 11.4% of the total. Warner Bros. was close behind with 50 titles, or 11.3%.

Studio		NC-17	R	PG-13	PG	G	TOTAL
Buena Vista (Disney)		0	12	35	20	23	90
	% of self	0.0%	13.3%	38.9%	22.2%	25.6%	
	% of total	0.00%	2.68%	9.19%	16.26%	52.27%	
Columbia/ TriStar/ Screen Gems		0	40	53	8	1	102
	% of self	0.0%	39.2%	52.0%	7.8%	1.0%	
	% of total	0.00%	8.95%	13.91%	6.50%	2.27%	
Dreamworks SKG		0	11	16	5	2	34
	% of self	0.0%	32.4%	47.1%	14.7%	5.9%	
	% of total	0.00%	2.46%	4.20%	4.07%	4.55%	
FOX		0	18	36	14	1	69
	% of self	0.0%	26.1%	52.2%	20.3%	1.4%	
	% of total	0.00%	4.03%	9.45%	11.38%	2.27%	
MGM/ UA		0	16	22	9	0	47
	% of self	0.0%	34.0%	46.8%	19.1%	0.0%	
	% of total	0.00%	3.58%	5.77%	7.32%	0.00%	
Miramax/ Dimension		0	51	21	7	4	83
	% of self	0.0%	61.4%	25.3%	8.4%	4.8%	
	% of total	0.00%	11.41%	5.51%	5.69%	9.09%	
New Line/ Fine Line		1	39	21	4	1	66
	% of self	1.5%	59.1%	31.8%	6.1%	1.5%	
	% of total	20.00%	8.72%	5.51%	3.25%	2.27%	
Paramount		0	27	34	9	2	72
	% of self	0.0%	37.5%	47.2%	12.5%	2.8%	
	% of total	0.00%	0.79%	1.00%	0.26%	0.06%	
Universal		0	19	41	8	0	68
	% of self	0.0%	27.9%	60.3%	11.8%	0.0%	
	% of total	0.00%	4.25%	10.76%	6.50%	0.00%	
Warner		0	50	43	18	4	115
	% of self	0.0%	43.5%	37.4%	15.7%	3.5%	
	% of total	0.00%	11.19%	11.29%	14.63%	9.09%	

Figure 1a

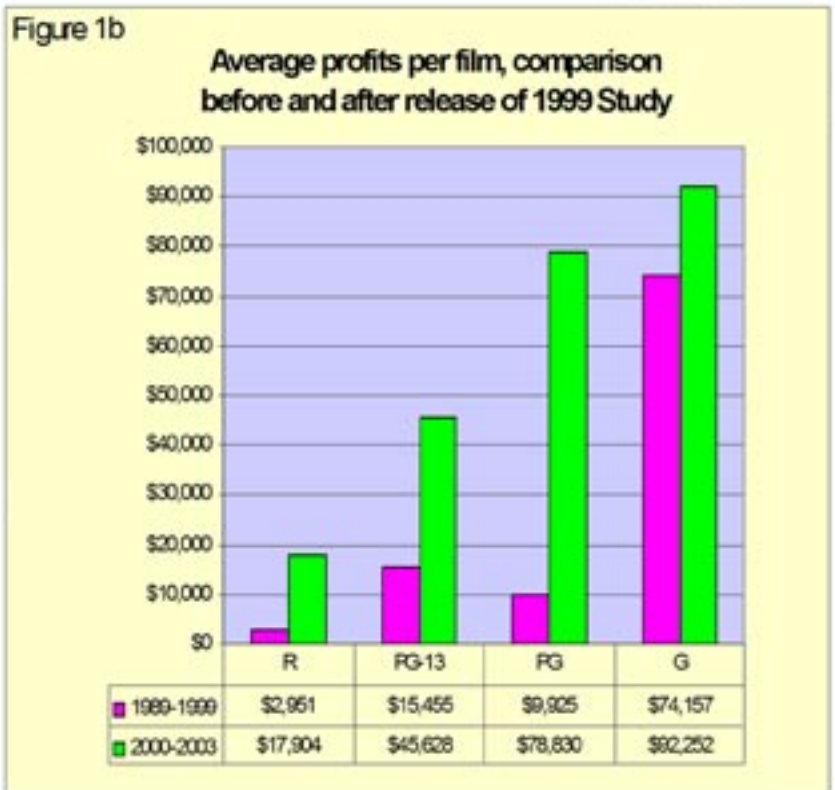


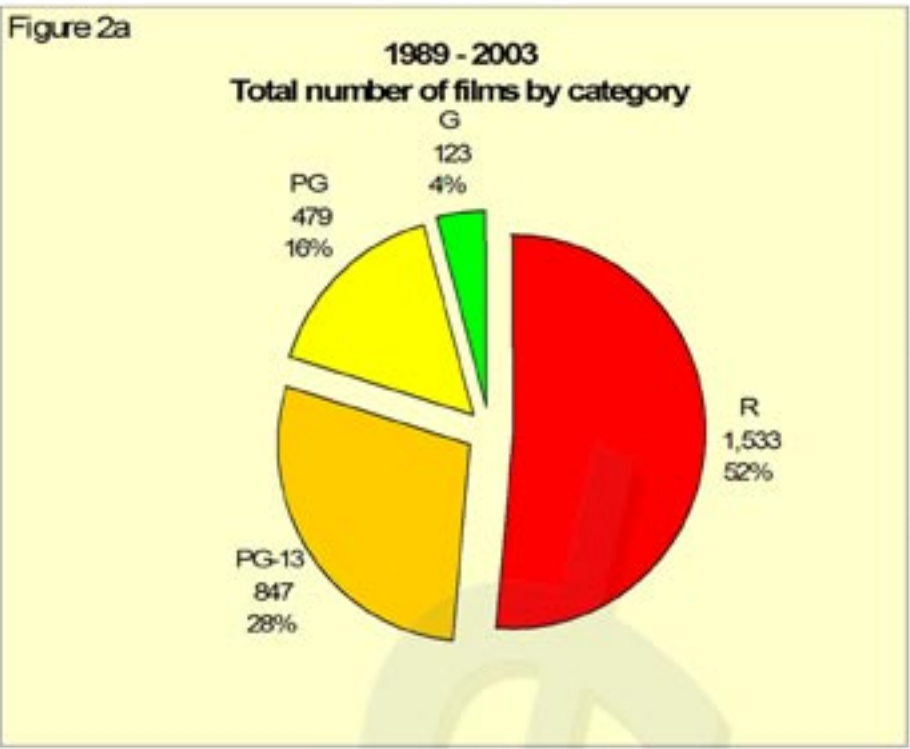
Quantity vs. Profitability:

Figure 1a illustrates variations in the annual average number of movies by MPA rating before and after the release of Dove’s initial Study on January 4, 1999. The average number of R-rated films dropped 12% from 105 to 93. This compares to G-rated movies, which increased from an average of 7 to 10, up 38%. PG-13 increased from 50 to 75 films per year, up 49%. PG films dropped from an average of 36 to 21, or 41%.

Figure 1b demonstrates a consistent increase in average profits per film in all categories beginning in 2000. The profits of an average R-rated film increased from \$3 million to \$18 million. Comparatively, the average G-rated film profits grew from \$74 million to \$92 million. The changes are probably due to an increase in ticket prices, coupled with a decrease in certain manufacturing costs, such as DVD’s compared to VHS tapes.

Figure 1b





Figures 2a and 2b represent the number of films and the average profits per film for the entire survey period (1989 – 2003).

The major Hollywood film studios produced 123 G-rated films in 15 years for 4% of the total. These films produced an average profit of \$79 million each.

During the same period, 1,523 R-rated films made up 51% of the 3,000 most widely distributed films.

R-rated films produced an average profit of \$7 million each.

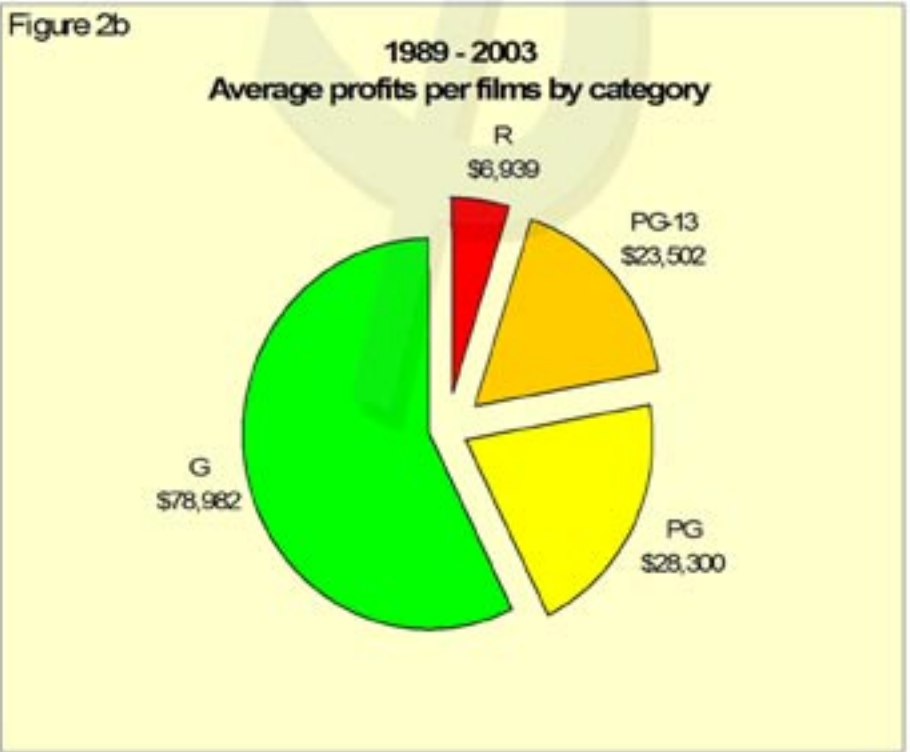


Figure 3a charts the annual distribution of films by MPAA rating for each year from 1989-2003.

The number of R-rated films released began to decrease steadily each year, beginning in 2000.

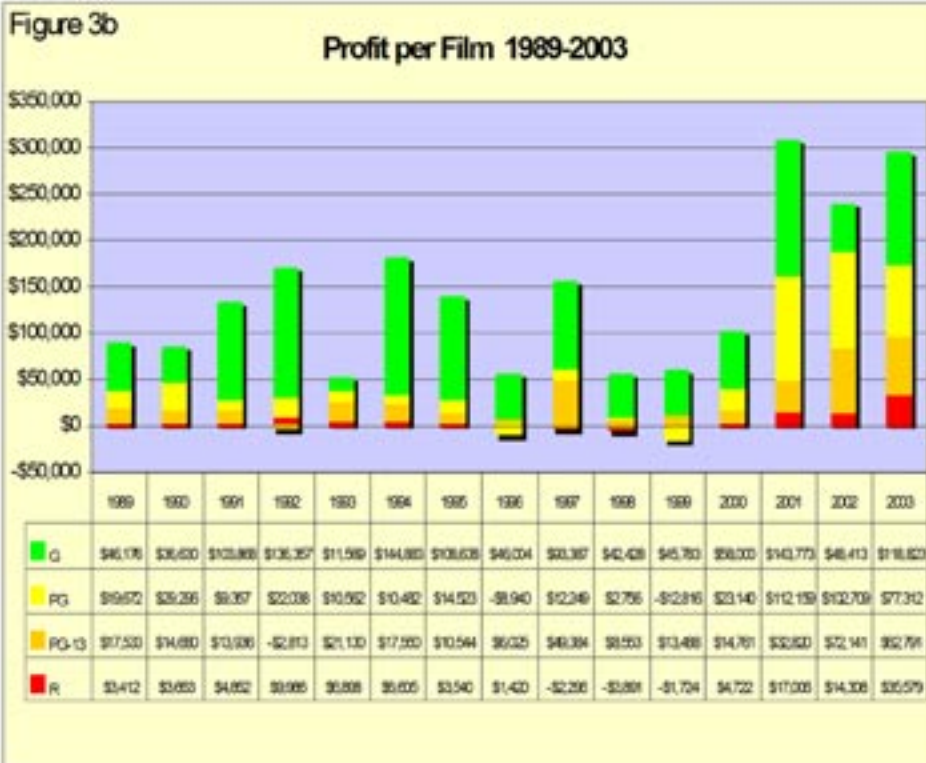
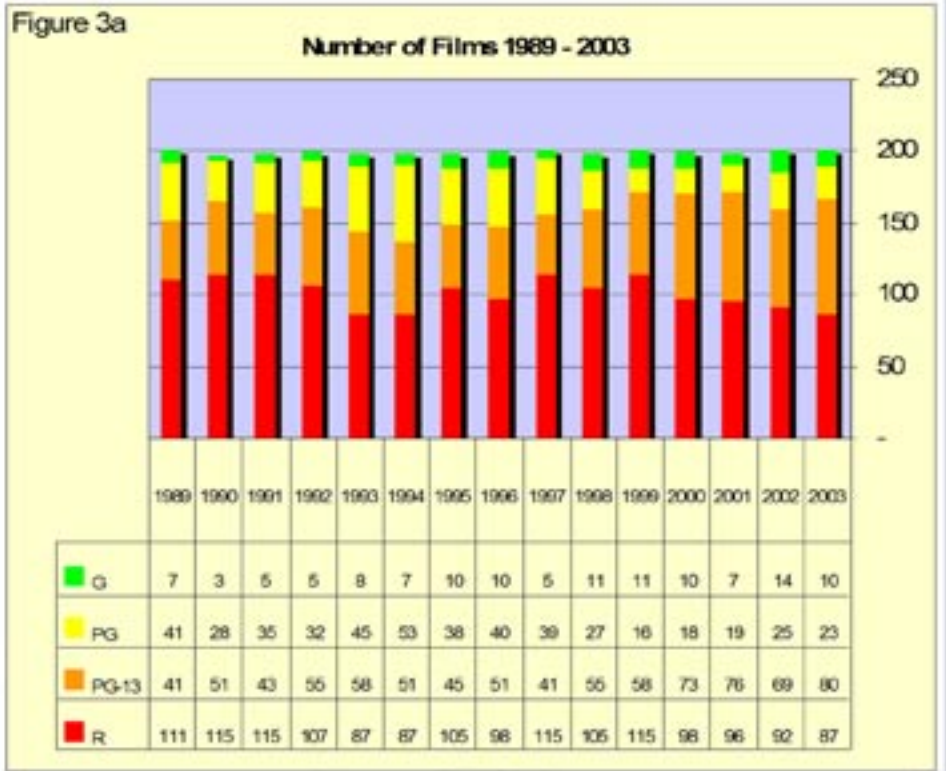


Figure 3b shows the average annual profits per film by the same categories and time frame.

In 2001, 2002, and 2003, PG films experienced the most significant increase in profits per film.

Rate of Return (ROI) per Film by Category:

An important consideration when computing rate of return on investment (ROI) is the time value of money. Since the study includes only revenue generated within two years of each film's release date, the Discounted Cash Flow Analysis method was not used in this study.

The average rate of return per film was determined by dividing the average net profit per film in each category by the average cost (negative costs, print & advertising, worldwide video costs). The revenue was determined by adding the domestic and foreign box office (after exhibitor's cut), worldwide television revenue and worldwide video revenue.

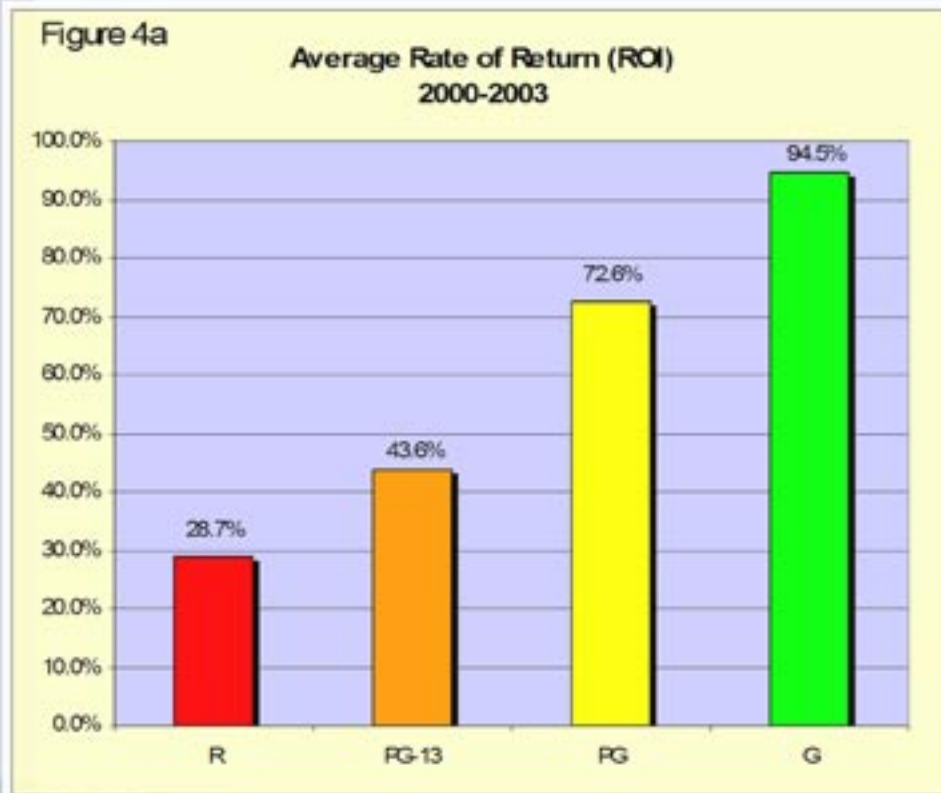
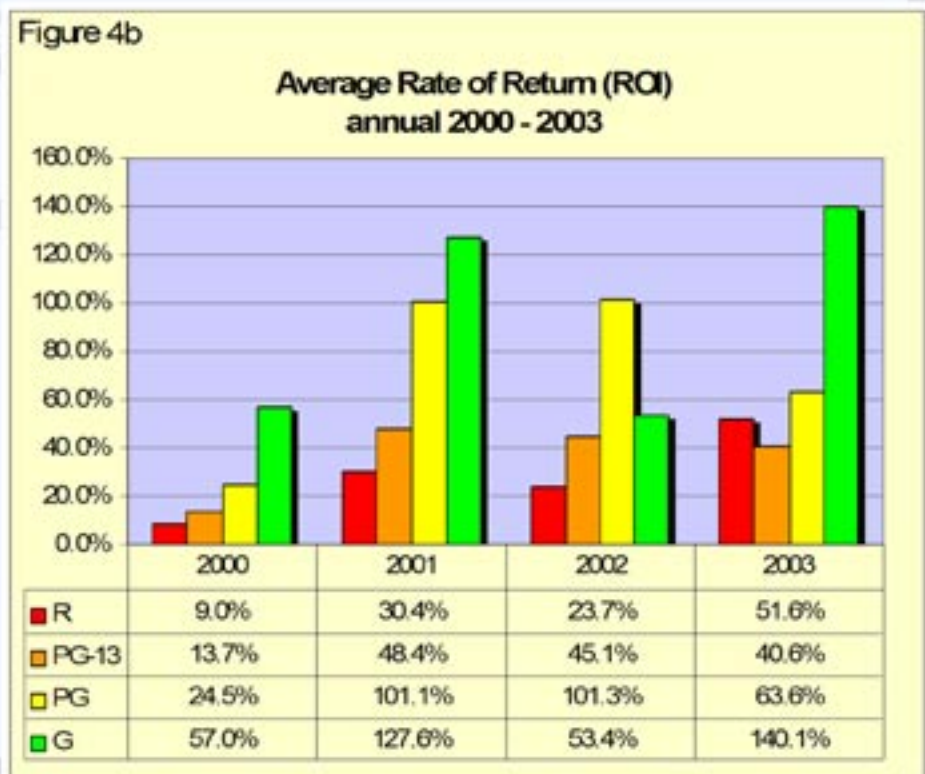


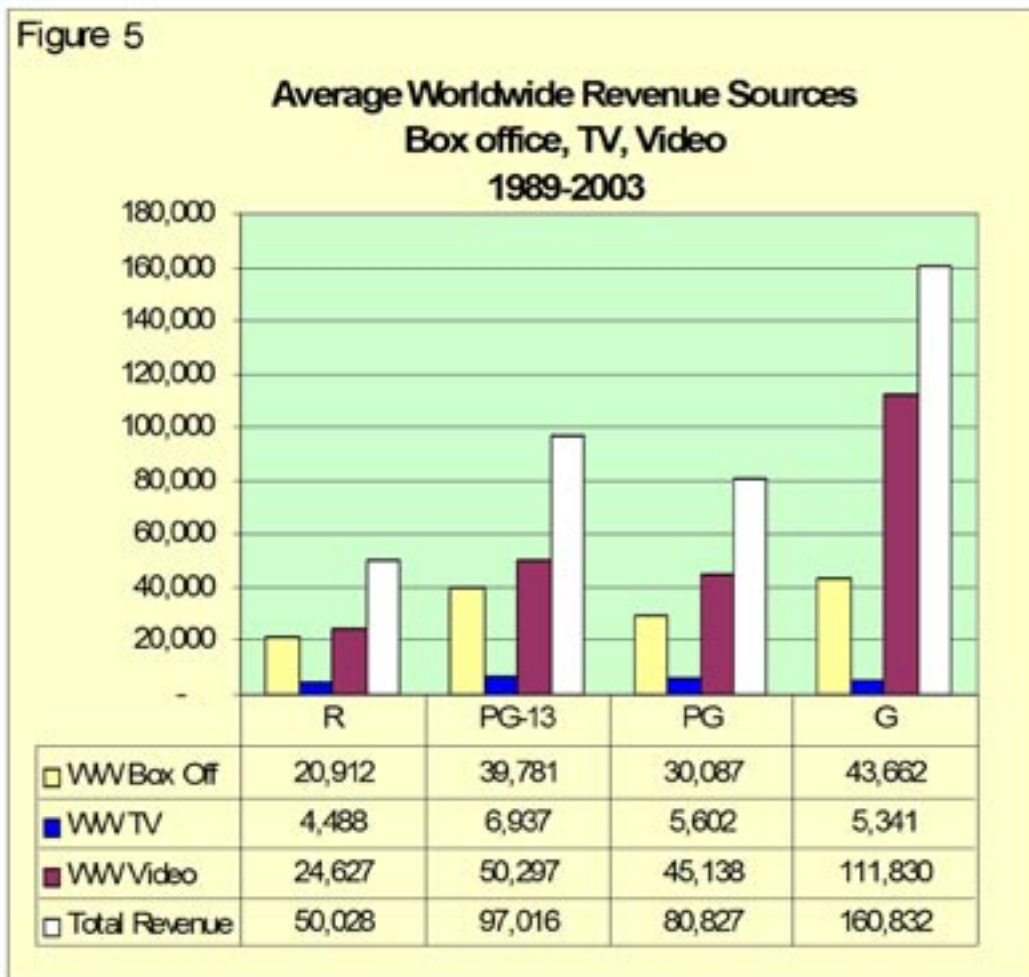
Figure 4a shows the average rates of return for the films from 2000-2003. These are the years following the Dove Foundation's initial 1999 study. G-rated films averaged 94.5% ROI followed by PG (72.6%), PG-13 (43.6%) and R (28.7%).

Figure 4b breaks down the average rates of return for each year.



Worldwide Box Office, Television and Home Video Revenues:

Figure 5 compares the average gross revenue per film, and the relative roles played by worldwide box office, television and home video sales. Two realities are clearly represented in this graph: First of all, worldwide home video revenue surpasses worldwide box office revenue (after deducting the exhibitors' cut), in all MPAA categories. Additionally, movies with a G rating report the highest total revenue per film, the largest portion of which was from video. PG-13 worldwide home video sales were slightly higher than PG. R-rated per-film revenues trailed all other categories.



Conclusion

While the movie industry produced nearly 12 times more R-rated films than G-rated from 1989 – 2003 (1,533 and 123 respectively), the average G-rated film produced 11 times greater profit than its R-rated counterpart (\$78,982 and \$6,939 respectively).

G-rated films also produced an average rate of return on investment (ROI) three times greater than R-rated films. (94.5% vs. 28.7%)

Between 2000 and 2003, Hollywood produced nearly four times as many PG-13 films as PG. (75 vs. 21). During that same time, the average PG film produced \$33 million greater profit than a PG-13 film (\$78.8 million vs. \$45.6 million).

G-rated films were identified overall as most lucrative in all of the following categories:

- Net profit per film
- Theatrical box office per film
- Video revenue per film
- Rate of return per film

Films with a PG rating consistently report higher profits and rates of return than PG-13 and R-rated films.

" For several decades, Hollywood has tried to ignore the increasingly overwhelming evidence that edgy, adult-themed entertainment usually constitutes a bad investment and a sucker bet at the box office. Meanwhile, the Dove Foundation has contributed significantly to making the case that family-friendly fare represents good business as well as good citizenship. Their latest study provides such an avalanche of proof for the advisability of creating more general audience alternatives that even the most stubborn studio chief will ignore it only at his (or her) peril."

-Michael Medved

Nationally syndicated radio host, author, film critic





THE
Dove
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**Moving Hollywood
in a more
family-friendly
direction.**

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