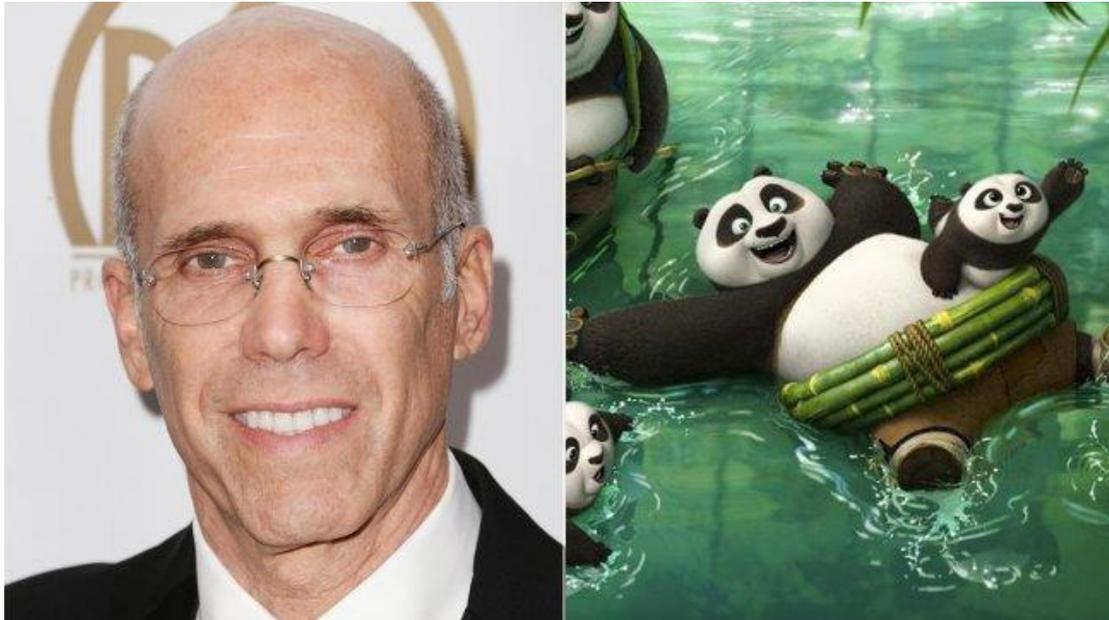


'Kung Fu Panda' Coup? How DreamWorks Could Benefit NBCUniversal in China

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Jeffrey Katzenberg and 'Kung Fu Panda 3'
Getty Images; Dreamworks

Oriental DreamWorks, the Shanghai-based joint venture studio Jeffrey Katzenberg launched in 2012, may have been a particularly appealing piece of the picture for Comcast.

Comcast CEO Brian Roberts is betting big — to the tune of \$3.8 billion — that purchasing DreamWorks Animation will deliver strategic benefits throughout NBCUniversal. In China, the deal's potential upsides and uncertainties are especially pronounced.

DreamWorks Animation's outgoing CEO Jeffrey Katzenberg was among the first in Hollywood to read the tea leaves, planting his flag in the surging Chinese entertainment market back in 2012. Shortly after DWA's *Kung Fu Panda 2* smashed local box office records in 2011, Katzenberg partnered with a consortium of state-backed companies to launch Oriental DreamWorks, a joint venture animation studio based in Shanghai.

Since then, the Chinese box office has tripled in size and it is expected to top North America as the largest theatrical market next year. *Kung Fu Panda 3*, meanwhile, was jointly produced by DWA's U.S. and Chinese studios as the first film fully animated in both English and Mandarin. When it came out in February — with considerable marketing and merchandising support from the ODW team — *KFP3* set a record as China's biggest animated picture ever, grossing \$154.3 million.

If Comcast's deal successfully closes, the Chinese staff and relationships DWA has built at Oriental DreamWorks in Shanghai are expected to be retained and transferred to Universal Filmed Entertainment Group.

Given that Universal had a relatively small presence on the ground in China prior to the agreement, regulatory issues from the Chinese side aren't expected to pose a challenge.

Likewise from the U.S. side, says Peter Schloss, managing partner of CastleHill Partners, a Beijing-based merchant bank specializing in the media and sports industries. "Given that Oriental DreamWorks still represents a very small portion of the parent's overall business, the Chinese subsidiary shouldn't attract much notice from U.S. regulators," Schloss says.

"That said," he adds, "China is a very important market for any foreign studio that's in the children's entertainment space — and that's where a lot of interest must have been for Comcast and NBC Universal here."

Over the past year, animation has emerged as one of the hottest categories at the Chinese box office. According to a report published in China's state press Friday, theatrical revenue from local animations grew 78.6 percent in 2015. Imported animated fare from Hollywood also has been hitting new heights: last month, *Zootopia* grossed \$236 million, topping *Avengers: Age of Ultron* as Disney's biggest title in China to date.

"China's children's entertainment market is going to see the same growth trajectory as the live-action feature film market has," says Schloss, adding, "But the real money will come from derivatives."

Over 80 percent of China's film-related revenue comes from box office. In North America, the theatrical slice is estimated to represent just 30 percent, with the rest made up by derivatives such as merchandising, TV deals, digital and OTT sales, IP licensing to theme parks and other attractions.

China's state-backed film colossus China Film Group, along with state regulators, have set the development of the derivatives market as one of the local industry's top priorities. Owning a localized children's content provider like ODW will only give Universal a leg up when this sector begins to take flight, observers say.

The acquisition could also give Universal a strategic boost on the latest battlefield in its ongoing rivalry with Disney: Chinese theme parks. Walt Disney Co.'s \$5.5 billion Shanghai Disney Resort is set to open in June. Universal is building its own \$8 billion theme park in eastern Beijing to debut in 2020.

As Jeff Shell, chairman of Universal Filmed Entertainment, told *THR* in an interview yesterday: "You can't think about a *Kung Fu Panda* attraction at a Beijing theme park when it opens up and not get excited."

Universal already had a formidable team and track record in China. In 2014, the company hired Jo Yan, who had spent two decades overseeing Disney's theatrical ops in China, to head up its Beijing office. The next year, Universal had the best 2015 of any Hollywood studio in the Middle Kingdom, with *Furious 7* (\$390.9 million) and *Jurassic World* (\$228.7 million) finishing first and third among all imported movies. Universal also has a fresh \$500 million financing deal with Beijing-based Perfect World Pictures, which is expected to be a strategic partner as well as a financier.

A group of Chinese companies, led by the influential state-backed investment firm China Media Capital (CMC), own 55 percent of ODW, with DreamWorks Animation holding the minority 45 percent share. Acquiring that piece puts NBC Universal into bed with some well-connected local operators.

"Universal has several irons in the fire here," says Stanley Rosen, a professor of political science at the University of Southern California who specializes in China's film industry. "They'll need a lot of support for the theme park and it's hard to predict what the political dynamics will be by 2020."

"CMC's good relationships with the government makes this a nice step for NBC Universal and Comcast in terms of enhancing their footprint in China," adds Schloss.