

White Paper

The Case for
JOHN CARTER
Sequels

The John Carter Files

<http://TheJohnCarterFiles.com>

Back to Barsoom Facebook Sequel Group

<http://Facebook.com/Groups/BacktoBarsoom>

BACKGROUND

John Carter was released on March 9, 2012 in US and International markets and in spite of having the highest international (non-US) opening weekend of the year up to that date, was immediately declared an epic flop due to a weak US opening (\$30.1M) and widespread criticism of the film's budget, which as portrayed in the mainstream media had "ballooned" to \$250M as a result of "costly reshoots" that were alleged to have come about as a result of the production chaos relating to the lack live action experience by the film's director, Andrew Stanton, whose previous experience had been in animation (*Finding Nemo* and *Wall-E* in particular). While it would later be determined that the film had been accomplished on budget and on schedule, the narrative of "out-of-control" Hollywood would dominate. On March 19, 2012, Disney Studios Chairman Rich Ross announced that Disney would be taking a \$200M write-down, representing the projected shortfall from John Carter not performing as had been hoped. The announcement completed the storyline of epic failure, and John Carter became synonymous with epic Hollywood fails such as *Mars Needs Moms*, *Cutthroat Island*, *Ishtar*, *Gigli*, and *Days of Heaven*.

A Studio Marketing Failure, a Film Failure, or Both?

The John Carter marketing campaign by Disney Studios was widely criticized as one of the worst in Hollywood history. While the creative content of any marketing campaign is subject to subjective interpretation -- objective evidence of the marketing failure can be found in a number of statistics:

- Tracking numbers for the entire campaign were "shockingly low".
- During the final two weeks prior to the release, tracking figures for awareness rose from the low 50 percentile to the mid sixty percentile, reflecting the impact of Disney's campaign. However, the tracking for "definitely interested" actually regressed in the final two weeks -- meaning the net result of the Disney campaign was diminished interest, the opposite of the intended effect.
- Meanwhile Fan-created marketing materials were received by fans with far greater enthusiasm than the studio created materials. Fan trailers created by The John Carter Files achieved a like/dislike ratio of 90 likes for 1 dislike on Youtube, compared to 13/1 for the studio trailers, and the fan trailers were viewed online with a greater frequency in the final two weeks of the campaign than the official studio trailers. These trailers suggest the path

The film itself received a mixed reaction from critics, achieving a 52% Rating on the popular film review aggregation site Rotten Tomatoes, and a 75% audience rating. The film's detractors point to these figures as evidence that the film itself is fatally flawed. The film's enthusiasts point to the fact that these figures are inline with any number of successful sci-fi/action/adventure franchises, which traditionally meet with less than a warm reception from critics, and the audience acceptance levels are within the range of audience figures for many multi-film franchises.

The Fan Movement

John Carter uniquely has spawned a highly motivated, organized, and committed fan base reminiscent of fan activism that ultimately led to studio reconsideration for TV series and films such as Star Trek and Firefly/Serenity. The fan activists have organized on Facebook where as of this writing they have a membership of 10,500 after three months in existence. The group is growing steadily at approximately 300 per week. (For comparison, the Serenity/Firefly “Browncoats” fan group that successfully achieved studio reconsideration achieved a membership of 50,000 at its peak, after more than three years in existence. The group actively maintains various blogsites, creates fan art, attends and promotes their cause at Conventions and Festivals such as Comic Con, and is engaged a variety of projects, including some with the Edgar Rice Burroughs, Inc, designed to promote their cause. It remains to be seen whether such fan activism will sustain itself, and whether it can materially affect the ultimate status of the film. It is, however, having a gradual and measurable impact on the narrative about the film, transforming it from “dismal flop” to “plucky fans won’t give up” and eventually, if successful, “misunderstood classic” status for the film.

The fan activists believe it is significant that none of the “mega-flop” films with which John Carter was initially compared generated any equivalent fan movement. Moreover, a film that John Carter is frequently compared to – Prince of Persia – produced no such fan movement. The proponents of the fan movement argue that if sequels are undertaken, it is well established that thousands of motivated fans using the full power of social media can have a significant “influencer” effect that will result in a vastly different narrative and “buzz” for sequels than was the case for the original film.

The Pre-Existing Fan Base

John Carter entered the global market with a very small pre-existing fan base, primarily made up of mostly aging fans of Edgar Rice Burroughs, the author of the underlying novels that are the basis for the film. The novels were highly popular in the first half of the 20th century, and enjoyed a renaissance via Ace and Ballantine paperbacks in the 1960’s through which they reached and were influential on the creative growth of, among others, James Cameron who drew heavily on the Burroughs canon for Avatar, George Lucas who drew heavily on it for the Star Wars Movies, and scientists Carl Sagan and Jane Goodall who were inspired by the books which propelled them into their science careers. In spite of these celebrity fans and the fact that the books had been influential on many other writers and film-makers, the bottom line going into the first film in the series was that the total committed fan base is unlikely to have exceeded 250,000 in the US, and an equal number overseas.

The pre-existing fan base for any sequels will be vastly different. The following chart illustrates:

	John Carter 1	John Carter 2	John Carter 3
Estimated Pre-Existing Fan Base			
Theatrical Gross Previous Movie			
US	NA	74,000,000	125,000,000
Overseas	NA	212,000,000	280,000,000
Ticket Purchasers Prev Movie			
US	NA	7,789,474	13,157,895
Overseas	NA	30,285,714	40,000,000
Conversion Rate			
US	NA	50%	50%
Overseas	NA	66%	66%
Total Fans			
US	250,000	3,894,737	6,578,947
Overseas	250,000	19,988,571	26,400,000
Total Fans Pre-Release Campaign	500,000	23,883,308	32,978,947

Audience approval ratings in the US were 75% on average. The figure of 50% conversion is intended to be a conservative assumption of the number of theatre going audience members who could be judged to be “fans” prior to the commencement of the promotional campaign. Thus the starting point for the promotional campaign for subsequent films is vastly different than for the initial movie. It is also important to recognize that the figures that were achieved with the first movie – particularly the U.S. total of 7.8M theatrical viewers, is a number that was achieved in spite of ineffective promotion. It may reasonably be assumed that enough lessons were learned in the handling of the first films’ promotional campaign, that a second campaign would be more surefooted.

The Numbers

While John Carter did not perform well in the United States theatrically, it did achieve strong audience approval numbers in the 75% range and, moreover, ignited a core base of extremely motivated and active fans who represent a strong core base of “digital word of mouth” influencers going forward. It also is doing relatively better in DVD/Blu-ray sales than a film with its theatrical gross figures typically does, and anecdotally based on comments and user reviews posted throughout the web, seems to have converted a substantial number of DVD/Blu-ray viewers of the first film into likely theatrical viewers for subsequent films. Overseas, the film performed better theatrically and may be considered to have a more stable base. The following model proceeds from the actual theatrical gross of the first film with conservative growth assumptions going forward through films two and three. Please see the “notes” section after the financial table for discussions of assumptions and methodology. It is not a “typical P and L” statement because such statements from studios are subject to manipulation that “buries” profits through intercompany charges, etc. Rather, this is intended to offer a realistic appraisal of likely revenue streams and costs, without “Hollywood accounting” being used to obscure underlying results.

WORK-IN-PROGRESS DRAFT AS OF JULY 15, 2012

	John Carter 1	John Carter 2	John Carter 3	Notes
Estimated Pre-Existing Fan Base				
US	250,000	3,894,737	6,578,947	
Overseas	250,000	19,988,571	26,400,000	
Total	500,000	23,883,308	32,978,947	1
Theatrical Gross				
Domestic	74,000,000	125,000,000	150,000,000	
Overseas	212,000,000	280,000,000	350,000,000	
Total Gross	286,000,000	405,000,000	500,000,000	2
Disney Net	114,400,000	162,000,000	200,000,000	3
DVD/Blu-Ray Gross				
Domestic	50,000,000	70,000,000	80,000,000	
Overseas	75,000,000	100,000,000	125,000,000	
Total Gross	125,000,000	170,000,000	205,000,000	4
Disney Net	50,000,000	68,000,000	82,000,000	5
Download/PPV				
Domestic	10,000,000	25,000,000	30,000,000	
Overseas	12,000,000	35,000,000	45,000,000	
Total Gross	22,000,000	60,000,000	75,000,000	6
Disney Net	8,800,000	24,000,000	30,000,000	7
Cable and Broadcast TV				
Domestic	30,000,000	40,000,000	45,000,000	8
Overseas	40,000,000	55,000,000	60,000,000	9
Total Gross	70,000,000	95,000,000	105,000,000	
Disney Net	56,000,000	76,000,000	84,000,000	10
Merchandising/Licensing				
Domestic	0	40,000,000	80,000,000	
Overseas	0	60,000,000	100,000,000	
Total Gross	0	100,000,000	180,000,000	10
Disney Net	0	80,000,000	144,000,000	11
Library Asset Value @ 15% of Disney	34,380,000.00	49,500,000.00	59,400,000.00	12
Theme Park IP Value Add	0	50,000,000	100,000,000	13
Intangible Added Value of IP as Franc	??	??	??	
Total Disney Net From Exploitation	263,580,000.00	379,500,000.00	455,400,000.00	
Less				
Production Investment	250,000,000	175,000,000	175,000,000	14
Marketing Expense	100,000,000	100,000,000	100,000,000	15
	350,000,000	275,000,000	275,000,000	
Final Disney Net	(86,420,000.00)	104,500,000.00	180,400,000.00	
Cum Final Disney Net			198,480,000.00	

Notes

1	See “Estimated Pre-Existing Fan Base” Table for derivation of this figure.
2	For JC1, figures are actuals as of July 2012 with small allowance for additional theatrical revenue from re-release and special releases of JC1 if the sequels are made. Total allowance for additional revenue is less than 1% of the total. In fact, if the full trilogy is produced there is potential for substantially more theatrical income than is projected.
3	A figure of 40% of Theatrical Gross is used to obtain Disney net. This is an average. Studios typically earn in excess of 50% of Theatrical Gross in the US, and somewhat less overseas. In China the US studio take is as low as 20%. The figure of 40% is used as a conservative average for modeling purposes.
4.	US figures are actuals through July 15, 2012 plus projected. The projected additional is conservative given the potential for substantial additional sales if sequels are made, increasing the likely revenue from various repackaged versions and Special Editions. Foreign figures are generally not yet available and thus these are estimates consistent with the US Theatrical vs DVD/Blu-Ray outcome, applied to the international market’s Theatrical vs DVD/Blu-ray.
5.	Studios typically earn 50% of Retail on DVD/Blu-ray. A more conservative figure of 40% has been used.
6.	Download/PPV are conservative figures derived from analysis of Theatrical and Blu-Ray/DVD actuals to date with reasonable assumptions applied. This is the fastest growth area of income and given this, we believe these assumptions are conservative.
7.	A figure of 40% net to Disney has been used for modeling purposes.
8.	Domestic TV is estimated licensing revenue for a film of this profile. In this case, the only figure used is the licensing figure that Walt Disney Studios would receive from, for example, Disney owned ABC or Disney Channel. It does not capture the advertising revenue that ABC or Disney Channel would earn, which would be substantially more but is not typically considered an income to Walt Disney Studios.
9.	Foreign TV is a prudent estimate of licensing revenue for a franchise of this profile.
10.	Merchandising and licensing is a simple conservative estimate. For a popular franchise, this is a very low estimate.
11.	There is an assumption of Disney paying a 20% commission for licensing deals, which in most cases is an overstatement of cost.
12.	Library Value is the residual asset value of the film after exploitation and is placed at 15% of Revenue Earned. This is the amount the studio could expect to earn if the franchise were to be sold, and/or a reasonable assumption for long term (more than 10 year) earnings.
13.	Disney is unique in that its movie IP is – as Disney officials frequently state – a “wave generator” for additional revenue throughout the Disney ecosystem. This is a conservative assessment of the minimum value achieved for Disney through theme park and other mechanisms that would “catch the wave” of a successful

	franchise.
14	Production investment for the first film is \$250m as reported variously. The assumption for subsequent films is that films 2 and 3 would be shot concurrently for a total combined budget of \$350M, or \$175m per film. This assumes some economies are achieved by filming both concurrently, as well as economies achieved because designs and prototypes have all been set. Finally there is an assumption that the film stories themselves will be crafted in such a way as to make this budget figure attainable. This is the most aggressive assumption in the entire model, but it is believed that it is essential to meet these figures for production investment in order to reduce risk to acceptable levels for Disney.
15	Marketing cost is maintained a level 100m per film.

Psychological Factors Inhibiting a Green Light for Sequels

While the foregoing business model shows the benefits of proceeding with sequels, what are the risks for Disney? Clearly any motion picture undertaking carries risks. Sequels and franchises do not always perform as expected. However, it is precisely because sequels and franchises are more reliable than new entries that studios have, for years, relied on them when possible.

In this case there are many factors, most of them psychological rather than economic, weighing against the likelihood of Disney undertaking a fully Disney-funded sequel. The company has already publicly labeled the film a failure; Disney CEO Robert Iger is on record as saying that he felt strongly in advance that the film would not perform and he seems unlikely to easily endorse the idea of sequels; Disney now has Marvel to supply the elusive “boy franchise” films that Disney has lacked and sought unsuccessfully to produce on its own.

On the positive side, Disney remains in a position where “appeasing Pixar” is a consideration, and while John Carter was not officially labeled a Pixar Production due to it having content that was not suitable for all ages, its core senior team of director Andrew Stanton, producers Jim Morris and Lindsey Collins, and writer Mark Andrews are all key Pixar personnel and all of these individuals, plus Pixar’s John Lasseter, are proponents of the franchise and thus the “appease Pixar” component remains in play, albeit at a lower level than was the case when former Disney Studios Chairman Dick Cook approved the project.

Also positive is the fact that Disney Studios has a new Chairman in Alan Horn, a new head of marketing in Ricky Strauss, who are both knowledgeable that mis-handling of the property and campaign resulted in significant revenues being “left on the table”. Since neither are blamed for the marketing debacle, they may reasonably be assumed to be at least somewhat more open-minded than would be the case of Rich Ross and MT Carney, for example, were still in place.

Nevertheless, there can be no doubt that the case for sequels for John Carter faces significant challenges in gaining support within Disney.

Are There Other Options For Financing and/or Distribution?

Because John Carter performed well overseas and in particular did well in two key, large foreign territories – Russia and China – and option to be considered is to arrange coproduction financing from those (or other) territories where the film did well. Marvel, for example, (who provides its own production financing with Disney providing marketing services and advancing marketing costs) has entered into a co-production agreement with DMG Entertainment of Beijing for Iron Man 3. The problem, or challenge with this notion, is that unlike Marvel who has its own studio and own producers who actively develop Marvel properties and seek out and arrange such scenarios, John Carter at present is wholly within Disney and has been shelved, so that it may be presumed that no pro-active efforts to create a financing solution that would make sequels more acceptable to Disney are being pursued.

What Can the Fans and/or Edgar Rice Burroughs, Inc. Do?

The fan base for John Carter includes a number of film professionals, including producers familiar with setting up financing and co-productions. Edgar Rice Burroughs, Inc, has a vested interest in seeing sequels come to fruition, either with Disney or through another studio after Disney's license to the rights expires. There is nothing stopping fans--particularly fans assisted by professional producers—and/or Edgar Rice Burroughs Inc., from reaching out to potential coproduction or financing partners and working proactively to present financing or co-production options to Disney. If Disney's production investment risk is lowered or even eliminated as with Marvel, it clearly becomes much easier for Disney to acquiesce to sequels. Meanwhile the relatively strong performance in key territories makes the possibility of coproduction participation from those territories a realistic one. But such co-production scenarios will be unlikely to materialize without pro-active effort from some quarter – and that quarter is unlikely to be Disney.

Should Edgar Rice Burroughs, Inc, or independent producers identify potential co-production partners, and should Disney reject proposals to proceed under a coproduction scenario, the effort will not have been in vain since those same willing coproduction partners and/or financing resources would be “brought to the table” for discussions with other studios for further John Carter productions after the Disney license expires. Moreover, such relationships could be leveraged favorably toward the production of other Edgar Rice Burroughs Inc properties, such as Carson of Venus, Pellucidar, etc.

Is This All A Pipe Dream, or Is It Real?

There can be no doubt that “never gonna happen” is a reaction that many will have, and is in fact an opinion that many already firmly hold. It is obvious that no amount of analysis will cause all “experts” to change their mind and consider sequels for John Carter to be likely or even viable. But, these proposals are emanating from fans of John Carter – a character who famously responds to adversity with: “We still live!” Those who are committed to eventually seeing more John Carter in theaters have already had an impact on the narrative, and putting forward lucid proposals for how that might be achieved is simply part of the ongoing process that will continue, probably for many years.