

THE WALL STREET JOURNAL.

February 23, 1998

## 'Titanic' Expected to Net \$200 Million; High Estimates Are Nearly Twice That



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By John Lippman

Staff Reporter Of The Wall Street Journal

LOS ANGELES -- The question is no longer whether "Titanic" will be profitable. It's a matter of just how profitable. Even the most conservative projections in Hollywood and on Wall Street say "Titanic" will net \$200 million, and more aggressive estimates put potential profits at close to double that. Matthew Harrigan, an analyst with J.P. Morgan Securities, estimates the film will ultimately make a \$365 million profit on total revenue of \$1.14 billion from all markets, to be split between its producers Paramount Pictures and Twentieth Century Fox. See Table below.

In nine weeks of release, "Titanic" has taken in about \$850 million at the box office world-wide, and is expected to pass \$1 billion, topping the "Jurassic Park" record of \$930 million in 1993; studios get about half the box office. Production costs alone were more than \$200 million. Paramount, a unit of Viacom Inc. "capped" its investment in the film at \$65 million; Twentieth Century Fox, a News Corp. unit, had to pay that amount, plus pick up the tab when "Titanic" went at least \$80 million over its \$120 million budget.

### Profit-Sharing Formula

But under the complex profit-sharing formula between the two, while Paramount stands to make more of a return on its investment, Fox is now expected to reap a larger share of total profits. According to people familiar with the deal, all revenue from the first dollar is shared equally until Paramount recoups its \$65 million investment. After that, Fox earns two-thirds of the

revenue and Paramount earns one-third until Fox's \$80 million-plus in "overages" is recouped. Both then share revenue equally until marketing expenses are recovered. Once all production, marketing, distribution and finance costs are recouped, Fox gets 60% of all future revenue and Paramount gets 40%.

### Titanic's Smooth Cruise

Projected figures, in millions

#### Costs

Production & interest	235
Prints	27
Worldwide marketing	113
Video marketing & production	245
Residuals & participation	50
Studio interest & distribution	106

**Total 776**

#### Revenues

Domestic theatrical	220
Foreign theatrical	220
Domestic video	358
Foreign video	216
Domestic TV*	60
Foreign TV	67

**Total 1141**

Paramount executives are thrilled with their returns, but the success of "Titanic" is even more of a relief for News Corp. Rupert Murdoch, the company's chief executive, told Wall Street analysts last week that he was "comfortable" with estimates that Fox would make a profit of at least \$100 million. And analysts who feared a debacle are now jubilant. "The entertainment companies I follow are so big that one movie doesn't make a difference," says Jessica Reif Cohen, an analyst at Merrill Lynch. "But in this case it does."

### Television and Video Revenue

Bill Mechanic, chairman of Twentieth Century

Fox, maintains that pinpoint estimates on the profits of "Titanic" are difficult at this point because domestic and international home-video-marketing plans aren't firm, and Fox hasn't yet sold the international television rights. Moreover, while most movies fall sharply at the box office after opening weekend, "Titanic" has actually increased.

Indeed, Paramount may have left some money on the table when it sold five-year domestic -network-TV broadcast rights to NBC for \$30 million the week after "Titanic" opened.

Since the movie runs more than three hours, the video version will have to be released on two cassettes that could be priced at \$25 wholesale. "Given how many people will want to own the movie, Paramount and Fox will be able to charge twice as much, " Mr. Harrigan says. He thinks Paramount could sell at least 15 million units in the U.S. -- numbers usually reached only by Walt Disney Co.'s animated movies -- and Fox could sell nine million units internationally.

"Titanic" writer and director James Cameron gave up his director's fee and "profit participation" as the budget skyrocketed, forfeiting at least \$25 million. Mr. Cameron has said he won't try to renegotiate, but Fox executives privately say they will cut Mr. Cameron in on the film's whale of a payday.

Despite the movie's good performance, Hal Vogel, entertainment industry analyst at Cowen & Co., says, "considering the risk, one can argue [the profit] should even be higher." He notes that Fox will make about \$35 million even before the video release of "The Full Monty, " which cost \$3.5 million and has sold \$200 million of tickets. "That's what you call a big profit, " Mr. Vogel says.

Some worry that the success of "Titanic" will only encourage further wanton spending in Hollywood, where hits that justify huge costs are still rare. "I'm afraid that producers and the studios will now use 'Titanic' as an example to justify spending whatever they want, " says Chris Dixon, an analyst with PaineWebber Group Inc.

## Discussion of the Article

Though the article does not make it clear, assume that Paramount and Fox first invested \$65 million for a total of \$130 million budget. The \$80 million "overages" in budget were completely paid by Fox and the total production costs alone for Titanic was \$210. Also assume the following

#1 The movie is first released in theaters. After one year, the movie will be released in video and one year after that it will be released in TV.

#2 For all the costs except "Video marketing & production", the fixed portion has to be spent before a single ticket is sold.

#3 All the costs except "Video marketing & production", are fixed except "Residuals & participation" which is completely variable with respect to theater revenues. So, Production & Interest, Prints, Worldwide Marketing and Studio Interest & Distribution are all fixed. Assume that these costs are shared equally between Paramount and Fox.

#4 At the projected level of video sales, 75% of "Video marketing & production" costs will be variable and the rest fixed.

#5 In the profit sharing formula between Paramount and Fox use contribution whenever the article refers to revenue.

#6 The following passage (in the first paragraph after the heading "Profit-Sharing Formula) is confusing:

*Both then share revenue equally until marketing expenses are recovered. Once all production, marketing, distribution and finance costs are recouped, Fox gets 60% of all future revenue and Paramount gets 40%.*

Instead use this passage:

*Both then share revenue equally until production, marketing, distribution and finance costs and expenses are recovered. Once all production, marketing, distribution and finance costs are recouped, Fox gets 60% of all future revenue and Paramount gets 40%.*

#7 The theatrical revenues are the same fixed share of the box office takes for every dollar of box office.

## Question 1

1 The profit sharing formula between Paramount and Fox has four sequential layers. The share of Fox in each layer is 50%, 66.67%, 50% and 60% sequentially. Note that in the second layer, even though Paramount did not contribute towards any costs, it still gets 1/3 of the margins. Consider only theatrical revenues for this question. We are talking about an age without TV or VCR. At what level does each layer kick in ?

1b At what level of total theatrical revenues will Titanic break even with theatrical revenue alone?

1d If Titanic the movie, breaks even with theatrical revenues alone, how much earnings before taxes will each studio receive?

1e How much box-office take does Titanic need to break even with theatrical revenue alone?

1f According to projections, by how much theatrical revenue and margins will Titanic fall short, from its break-even point?

1g According to projections, how much of the costs of Titanic will each studio recover from theatrical sales?

1i How much video sales is needed for Titanic to break even? Will Titanic break even based on projections? Assume that theatrical sales will be as projected.

1k According to projections, how much will each studio make from theatrical sales, video and TV revenues combined? In other words what will be projected earnings before taxes for the two studios from Titanic?

1l According to projections, what is the return on the Titanic investment for each studio?

## Question 2

There is a problem in the break-even points calculated in question 1. When the movie is in theatrical release, even though the only revenue is from the box office, the studios can be sure of selling videos and charging the TV companies. Assume that the revenue mix from the three sources: box office, video and TV is exactly as projected. You can assume that for each \$1 of theatrical revenue, a fixed revenue from video and a different fixed revenue from TV are expected. This assumes that if a movie does well in theaters it will also sell more videos and the studios can charge more for TV rights.

2a Ignore the split between the two studios. At what level of theatrical revenues can Titanic the movie "expect" to break even assuming a standard mix of revenues from the three sources.

2b Suppose from theatrical release of Titanic, the domestic and foreign theatrical revenues were \$230 million each instead of \$220. Assume that the standard mix of revenues will hold. What will

be the increase in total earnings before taxes for both studios together?

## Articles

To do this case it you need not have seen Titanic. The movie. But if you have 4 hours to spare check it out. The following two articles may help you to get a feeling of what it was like at the time the movie was released.

**TIME**

The Arts /Cinema December 8,  
1997 Vol. 150 No. 24

## Down, Down To A Watery Grave

**By Richard Corliss**

In 85 years, the Titanic tragedy has spawned a dozen or so film and TV adaptations. A silent one-reeler, *Saved from the Titanic*, was released just one month after the event and starred an actress who had been onboard. There was a Teutonic Titanic, a Nazi-financed epic featuring an imaginary German hero. The 1958 British *A Night to Remember* is still revered for its balance of newsreel realism and humanist pluck. But diving into crowded waters is James Cameron's *M.O.* Except for *The Terminator* and *The Abyss*, all his films have been sequels or remakes, each grander and pricier than the movies that preceded it. What gargantuan retread can be next--*History of the World Part 2?*

Bigness was, of course, an attraction of the actual ship. In the film, the ship company's boss says, "I wanted to convey sheer size." Cameron could be his spiritual heir. The man who made *The Terminator* for \$6 million has become the high priest of Hollywood bloat. He is also the movies' mad toymaster: he keeps falling in love with an imposing machine (a cyborg, an alien, a submarine, a Harrier jet, an ocean liner) that he then spends great amounts of time and energy destroying.

Fine, Jim--build the damned ship, sink the damned ship. But in the 90 or so minutes before the iceberg slices open the starboard side, some compelling romantic fiction is in order. Here the film fails utterly. It imagines an affair between free-spirited artist Jack Dawson (Leonardo DiCaprio) in steerage and Philadelphia blueblood Rose Bukater (Kate Winslet), unhappily engaged

to wealthy Cal Hockley (Billy Zane). DiCaprio has a smooth, winsome beauty, and Winslet, who at first seems bulky beside him, comes to look ravishingly ravaged by the climax. Everyone else is a caricature of class, designed only to illustrate a predictable prejudice: that the first-class passengers are third-class people, and vice versa.

Once the ship starts sinking, people do die becomingly, and the R.M.S. Titanic takes on the personality of a magnificent beast--King Kong or Moby Dick in extremis. The brilliantly realized visual effects are invisible and persuasive. The digitized water looks like real water; the computer blobs look like human beings tumbling down to their deaths from the severed ship's nearly vertical stern. But the narrative events that should add emotional heft are substandard action tropes: kids in jeopardy, bad guys menacing pretty women, Jack manacled to a water pipe. "I'll just wait here," he says gamely, and idiotically, as Rose runs for help.

The film doesn't play to Cameron's strength as a ringmaster of burly metaphorical fantasy. His story of Jack, Rose and Cal isn't half as poignant as the true ones known from books and films of the event. On this vast canvas, the problems of these three little people really don't amount to a hill of beans.

Tales of this film's agonizing gestation and tardy birth, though already the stuff of legend, will mean little to moviegoers, who will pay the same \$7 or \$8 to see Titanic that they spend on films made for a thousandth its cost. Ultimately, Titanic will sail or sink not on its budget but on its merits as drama and spectacle. The regretful verdict here: Dead in the water.

## Trying To Stay Afloat

*After endless crises, delays and cost overruns, the \$200 million titanic finally opens this month. Was all the misery worth it?*

**By Kim Masters**

Bill Mechanic wasn't having much of a honeymoon. When he was named chairman and CEO of Fox Filmed Entertainment a few months earlier, he had been thrust to the front line in the battle to gain control over the making of Titanic, the vastly ambitious epic conceived by director James Cameron. The movie was seriously behind schedule and wildly over budget. July 4, the planned release date, had come and gone. Yet as

the weeks ticked by, the obsessive Cameron showed no sign of completing his editing. Titanic was going to be in dry dock right through summer--the best season for earning back the oceans of money Fox had spent. It was an awkward situation, to say the least, for a guy starting a new job.

Mechanic decided not to hide. He invited his boss, Rupert Murdoch, head of Fox's parent company, News Corp., to see where those millions of dollars were going. Titanic at this point was a four-hour work in progress. But Mechanic thought Murdoch would see that the movie--a tricky blend of action and romance--was "pretty remarkable looking."

So Murdoch took himself to Cameron's state-of-the-art screening room in Santa Monica, Calif., prepared to be dazzled. Instead, disaster struck. An electrical short shut down the projector. For a director whose films often deal with the treachery of technology, the symbolism was painfully apt. For Mechanic, it was another speed bump on the highway to hell. Murdoch left without seeing a frame of film.

The setback, like so many others that plagued Cameron's saga of the legendary ocean liner, did not prove fatal. Murdoch saw the film at Fox the next day. "He said, 'It's a great film,'" Mechanic recalls. "He understood where the money went and that we had a chance to get our money back."

Get our money back? Aren't the studios in business to turn a profit? Normally, yes. But nothing about Titanic is normal. After an arduous shoot during which Mechanic fought bitterly with Cameron and even more bitterly with Paramount Pictures, Fox's partner on the film, Mechanic admits to spending a smidgen less than \$200 million. (That's without the additional millions it will cost to market it.) The picture will have to gross about \$350 million for Fox to break even.

How did Fox end up in water this deep? And even if the picture turns out to be a hit, is it worth it? When Oscar night rolls around, if Cameron bounds to the stage and hoists the golden statuette, will the beleaguered Mechanic feel the agony was justified? Will anyone?

Hard questions. Fox "can't make a justifiable return," Mechanic admits. And he knows the film is bad for an industry whose costs are running so high that profits are all but vanishing. "It's hard to be responsible for it," Mechanic acknowledges. "But I might not ever be near another picture this good. It's not a question of best movie of the year. It's a question of best film of the decade. How many times do you get to do that?"

It was clear from the get-go that Titanic would cost a bundle. Cameron, 43, built a 775-ft. replica of the ship, 10% smaller than the real one, and a 17 million-gal. tank in which to sink it. The film was shot at a 40-acre complex Fox set up in Rosarito, Mexico. And Cameron got the studio to pay for repeated dives to the site of the actual wreck, where he deployed cameras specifically designed for his exploration.

The director had busted budgets before (on *The Abyss*, *Terminator II*, *True Lies*). But his pictures have grossed more than \$1 billion, all told. So Fox was moved at once to green-light his tale of young lovers (Leonardo DiCaprio and Kate Winslet) who meet aboard the ill-fated ship. It's seen through the eyes of an elderly survivor of the 1912 disaster (Gloria Stuart), who recounts her ordeal to treasure hunters (led by Bill Paxton) seeking a jewel believed to be submerged in the wreck.

After saying yes, Fox went looking for a partner to share the risk, and possible reward, of a period piece replete with effects but devoid of major stars. Partnering on big pictures is increasingly common--*Braveheart* and *Starship Troopers* were team efforts--but the pitfalls are dramatically manifest in the feuding over *Titanic*.

As shooting started in July 1996, Fox negotiated with Universal, with which it had very profitably split the cost of *True Lies*. Universal was tantalized but scared. The budget, pegged slightly in excess of \$100 million, seemed unrealistic. And the film was projected to run about three hours. At that length, theaters could get only one solid screening a night, which could hurt profits.

Universal looked for some sort of sweetener--like the promise of a partnership on an upcoming Cameron project. None was offered. In August 1996, Paramount president John Goldwyn called Fox to inquire if Paramount might step in. Paramount had teamed with Fox on *Braveheart*, Mel Gibson's epic, with the happiest of results: good box office, Oscars. Paramount's tough but charming chairman, Sherry Lansing, had concerns. Could a young star like DiCaprio carry a film this big? And the \$100 million budget seemed low. But that Sunday afternoon, Fox executive Tom Rothman eloquently persuaded Lansing that *Titanic* would be an epic on a par with *Doctor Zhivago* or *Gone With the Wind*. The deal was done. Paramount would release the film in the U.S. and Canada; Fox got the rest of the world.

When documentation arrived, Paramount concluded that the budget was as much as \$30 million off. An insider says it allowed only \$300,000 for music and about \$7 million for

special effects. Typically, music in a big movie like *Titanic* can cost more than \$1.5 million. As for effects, *Starship Troopers* or *The Lost World* each required more than \$20 million worth. Using the threat of a lawsuit, Paramount negotiated an agreement that capped its contribution at \$65 million. It was the beginning of what Mechanic describes as "a terrible relationship."

As Cameron fretted over every soggy shot, Mechanic fought to trim scenes. "We tried to get it done for the least amount of money and still allow Jim to get his vision on the screen," he says. But Cameron isn't one to compromise. And firing him wasn't an option. Not only had he written the script; he might be one of the few directors alive who could orchestrate a project of this scope. "We were already in for a lot of money," Mechanic says. "There was only one way to get our money out, which was to make the best possible movie."

The numbers went inexorably up. A source who worked on the film says the effects cost more than \$30 million. Fox tried to hold the overall budget to \$150 million, then to \$175 million. It repeatedly asked Paramount to ante up a little more--to augment, for example, the music budget. Paramount declined. "They never helped the movie," Mechanic says. "Anytime something could have made things better, it was 'That's your problem.'" Stymied, Fox offered to give Paramount its money back and take over. Paramount didn't take the offer seriously. Rather than lose scenes he deemed essential, Cameron gave up his fees in bits. He relinquished some, for example, to pay for Oscar winner Kathy Bates to play the "unsinkable" Molly Brown. Eventually he gave up his profit participation as well (but kept his scriptwriting fee).

Early on, the press scented trouble. Stories began to appear about budget overruns; about the schedule, which eventually stretched from 138 to 160 days; about the arduous working conditions, in which crew members complained of sweatshop-style practices that sometimes had them working as long as two weeks without a break; about Cameron's screaming tirades; and about a still unsolved food-poisoning incident in which chowder served to the cast and crew was laced with the drug PCP. Meanwhile, Fox and Paramount quarreled publicly over the release date. Finally, they settled on Dec. 19--after the early rush of holiday shopping but in time to qualify for the Oscars.

*Titanic* will open against potentially strong competition: the new James Bond movie, *Tomorrow Never Dies*, and the DreamWorks comedy *Mouse Hunt*. But January is a dead zone.

Titanic can play and play and play. And it will have to for both studios to get their money back. It's not an impossible mission. Paramount's Mission: Impossible grossed \$422 million worldwide. Sony's Men in Black grossed \$527 million. Despite Titanic's marathon running time (3 hrs. 14 min.), most industry observers think it has a chance. Paramount, with its cap, should see a profit while Fox is still praying to break even. Mechanic is resigned. "They have a better deal than we do," he says. "That's life."

And when another Cameron project comes along, will Mechanic slam the door? Will Paramount? Both studios say no. In fact, Mechanic says he's sure Fox will do Cameron's next picture. Surely Cameron won't smash the budget the way he did the time before. And the time before that. And the time before that. "It does not have to be this complex," Mechanic insists, with a showman's optimism. "I don't think this will happen again."

### Tallying Up Titanic

Shooting cost-- \$200 million+

Previous record holder: Waterworld, \$175 million

Shooting days-- 160

The also complex Men in Black required 135 days

Computer-generated shots-- 550

It took 80 to create the wonders of Jurassic Park

Lifeguards on set-- 30

No drownings, but three stunt men broke bones

### Settling Accounts

#### Titanic's Director Responds To The Charges About His Film

**By James Cameron**

The Titanic disaster spawned many myths and popular misconceptions in its time, and the film Titanic has done no less. This simple true-or-false guide should help clarify rumors and exaggerations.

The movie cost \$285 million.

FALSE. The total cost is \$200 million.

It is the most expensive film ever made.

TRUE, OR POSSIBLY FALSE. But this is the fourth time in a row that I have made a film that (rightly or wrongly) has been called the most expensive film ever made. In any event, many of

our favorite epics from the '30s, '40s and '50s would cost more than Titanic if made today.

The production went way over budget.

TRUE. I hired the best, most experienced people in the film business to work with me on Titanic. The simple truth is that no one in any department (myself included) really understood the scale of this project going in. We were overwhelmed by the complexity of building a studio from scratch, including the world's largest tank facility, and simultaneously constructing one of the largest and most mechanically complex sets in history (imagine a 75-story building on its side...now move it!). We were all seasoned big-budget veterans, yet none of us had ever experienced anything like Titanic--nor, I daresay, would we care to again.

The water was freezing.

TRUE. Or at least it seemed like it. We froze our butts off. I remember spending many days up to my neck in what felt like ice water. And if there had been any other way to do it, believe me, we would have.

We worked long hours.

TRUE. But no longer than the hours on any other big location film anywhere in the world. We did not, as reported, work 18-hour days. The majority of our shooting was exterior scenes filmed at night, so we clearly couldn't have.

The shooting went many months over schedule.

FALSE. The planned shooting schedule was 138 days. The film was completed in 160 days, a 16% increase.

Many stunt people were seriously injured.

FALSE. Titanic logged 6,029 stunt-man days, probably a movie-industry record (True Lies had 2,202). In all that time there were three injuries requiring hospital treatment: one broken ankle, one cracked rib, one cracked cheekbone--and in the latter two, the stunt players were back at work the next day.

Set conditions were unsafe.

FALSE. As a result of unfounded rumors of unsafe conditions, the Screen Actors Guild investigated the production thoroughly and observed our working methods. They concluded that "the producers have taken extraordinary measures to ensure the health and safety of the cast and crew," and that we had "set a new standard." In fact, during the entire production, there were no on-set injuries requiring hospital treatment among

actors or extras.

I am a "screamer."

FALSE. A yeller, maybe. Working with hundreds of extras day after day for months makes yelling a way of life. Almost never was there anger in it. In the darkest depths of the shoot, when responsibility for the budget overruns was a crushing burden, I was prone to some frustrated outbursts. I think I'm a good director, but I never claimed to have the best personality for directing. It brings out the worst in me, and it's the aspect of the work I hate the most. It should be noted that I am never negative with the actors, absolutely and religiously. In many ways they have the most difficult job on the set, and I make it my mission to be supportive and collaborative.

The extras worked in hellish conditions.

FALSE. Our extras worked hard and put tremendous heart into their performances. They became a community, with a high sense of purpose and camaraderie. They were well fed, had more than ample sanitary facilities (in fact, we all used the same ones) and were provided with large Jacuzzis for warming up between scenes during water work. Reports of mistreatment are bogus.

Titanic is a disaster movie.

FALSE. It is a love story. But don't worry --the ship does sink.

Titanic is an attempt by a very large number of people to do something extraordinary. It was never a "no brainer" piece of pop entertainment. Unlike most of the other big productions of the year, it is neither a sequel nor the launching point of a series of sequels. It is not based on a comic book. It was not designed to spawn a vast array of toys, merchandising, video games and theme-park attractions. It is an earnest and heartfelt work. But the same voices that decry the formulaic commercialism of mainstream Hollywood product do not seem to applaud the studio heads who had the courage to back this unusual film.

Yes, Titanic is an easy target, by the nature of the subject itself, that great monument to the folly of arrogant confidence. But believe me, I have never felt arrogance or certainty on this project. Quite the opposite. It has been a nerve-racking, terrifying ride. The budget overages threatened to consume our very sanity; the scope of the thing was overwhelming. But something kept us going--the studio heads, myself, the crew. We knew we had a chance to do something special, and those chances don't come along often.