

**Arundel Partners: The Sequel Project – Case Questions**

This may be the first finance case you complete. It is meant to be a learning experience. The point of cases is to practice what we have learned from lectures, the textbook, and homework assignments. Until you sit down and actually solve a complicated problem, you won't know if you understand the material. I strongly recommend that you solve this and the remaining cases in groups.

These questions should guide your answer. You do not need to specifically answer each question in sequence. Instead they should guide the way you think about the issues you should consider when answering the question: What is the value of the right to produce a sequel?

- 1) **Sources of Value.** Why do the principals of Arundel Partners think they can make money buying movie sequel rights? You can't make more than your required rate of return purchasing assets in an efficient market. Why do the partners want to buy the portfolio of sequel rights in advance of the movies production? They could instead negotiate for the rights to the sequels film-by-film some time after production has begun or even after the original film has been released.
- 2) **Valuing the rights to produce a sequel.** Estimate the per film value for a portfolio of films produced by the six major film studios (MCA Universal, Paramount Pictures, Sony Pictures Entertainment, Twentieth Century Fox, Warner Brothers, The Walt Disney Company). You do not need to use an option pricing formula such as Black-Scholes. You may want to use the data in Exhibits 6-8. You can download the data in Exhibits 6 and 7 from the course web page. You should consider how the numbers in Exhibits 6 and 7 were constructed. You do not need to be able to generate the numbers in Exhibit 7 from the numbers in Exhibit 6. Use a discount rate of 12 percent.
- 3) **Evaluate your estimate.** What are the strengths and weaknesses of your estimation strategy? Are there reasons to believe that your method will over or underestimate the true value of the sequel's rights? How could you test your estimation method and correct it if necessary?
- 4) **Contractual terms.** What problems or disagreements would you expect to arise between Arundel Partners and the major movie studios once the contract to sell the sequels rights has been signed? Given the potential problems, what provisions should be included in the contract?