

Dow Jones Reprints: This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers, use the Order Reprints tool on any article or visit www.djreprints.com

See a sample reprint in PDF format
Order a reprint of this article now

CEO SPOTLIGHT | SATURDAY, JANUARY 11, 2014

Katzenberg: Living the Dream

By DYAN MACHAN

Jeffrey Katzenberg's DreamWorks is the nation's largest animation studio. Will expansion and diversification make it a premier stock?

It's 7:15 a.m. at a table in the cafeteria at **DreamWorks Animation SKG**, and Jeffrey Katzenberg stretches out his arms and makes the sound of a rumbling explosion. It isn't too much coffee. He is re-enacting a moment from the film *Apollo 13*, when thruster rockets are fired. Only bolts restrain the craft as the power builds and convulses the astronaut played by Tom Hanks. "An amazing moment of hyperenergy," says Katzenberg, 63, clutching his breakfast tumbler of Diet Coke.

His point: DreamWorks Animation is at five seconds before blastoff. "Rockets are fired," he says.

In the past few years, Katzenberg's substantial energy has been directed at putting assets and executives in place to launch the nation's largest animation studio (ticker: DWA), known mostly for films such as *Shrek*, the *Madagascar* series, and *Kung Fu Panda*, into related but broader orbits.



Ian White for Barron's

Katzenberg and Shrek have been joined by Casper, Lassie, Bullwinkle.

In the past 18 months he has made a deal with **Netflix** (NFLX) for 300 hours of new kids' programming; sold 1,100 existing and future TV episodes to Super RTL, the German network; and bought a YouTube channel aimed at teens called AwesomenessTV.

In 2012 he bought Classic Media for \$155 million, giving DreamWorks the rights to beloved boomer fare including *Casper*, *Lassie*, and *Rocky & Bullwinkle*. He also invested \$150 million in Oriental DreamWorks, a joint partnership with Chinese investors that grants DreamWorks access to the Chinese film market. Katzenberg expects the Chinese production company to go public within five years, offering more value to his shareholders, as well as himself. The company's single largest individual shareholder, he holds a total of 10 million shares of Class A and Class B shares and has

61% voting control.

He has also hired 30 executives, including Michael Francis, who is known for transforming retailer **Target's** image in the mid-2000s. Francis is the top dog for the *Lassie* revival, and has been charged with squeezing more potential out of DreamWorks' characters for toy and licensing deals. "These next 24-36 months are really the most exciting in the 20-year history of the company," Katzenberg says. "It's not often you get to say that."

In October DreamWorks Animation will mark a decade as an independent company and two decades since its founding as a division of DreamWorks SKG, the film studio founded in 1994 by Steven Spielberg, Katzenberg, and David Geffen. DreamWorks Animation was spun off as an independent public company in 2004; the live-action DreamWorks was sold to **Viacom** (VIA/B) in 2006 and became independent again in 2008.

SINCE ITS INCEPTION, the animation studio under Katzenberg has launched 27 films, which DreamWorks claims were all profitable except for 2012's *Rise of the Guardians*, a story with a more serious tone by a studio better known for silly animals and bathroom humor. "Original and unique equals risky, and risky equals some failure," Katzenberg says.

Feature films accounted for 81% of 2012 revenue. DreamWorks also develops TV programming, and licenses many of its characters for toys, live theater, interactive entertainment, and cruise ships. It is expected to report \$100 million in TV revenue, half from the Classic Media franchise. Television revenue is likely to double by 2015.

At DreamWorks Animation headquarters in Glendale, Calif., Katzenberg plays the grown-up in a playground atmosphere for employees. The company's cafeteria serves free food, including bowl-size cappuccinos, and chef-made specials like spinach frittatas for

breakfast. The silhouette of a messenger delivering a bouquet of balloons for an employee birthday interrupts the view of corporate grounds with fountains, koi ponds, and olive trees coaxed not to spill fruit that would stain the walkway. "To laugh is literally in our mission statement," he says with a grim expression and not a trace of irony.

Lately, the boss has had reason to lighten up. The stock has more than doubled in the past 12 months, to \$35, a possible reaction to Katzenberg's diversification moves and his plans for three and ultimately four film releases a year, up from two films now. This year they include the anticipated sequel *How to Train Your Dragon 2*, *Mr. Peabody & Sherman*, and *Home*, about an alien race led by a Captain Smek.

KATZENBERG GREW UP ON Park Avenue in Manhattan; his father was a stockbroker, and his mother, an artist. "Even as a little kid, I always tried to do whatever task I was taking on as well as or better than anyone else," he says.

At 14, he volunteered for Republican John Lindsay's mayoral campaign, wore a pager, and in the afternoon watched cartoons and B movies at a Times Square theater. After dropping out of New York University, his first job in entertainment was working as a gofer for producer David Picker, the former CEO of United Artists, who helped launch the James Bond franchise, and who became a mentor.



Katzenberg left for Paramount Pictures, where he landed the right assignment—overseeing production for *Star Trek*—and the right mentors—Barry Diller, who had become Paramount's chief, and Michael Eisner, who would run **Walt Disney** (DIS). When Eisner left for Disney in 1984, Katzenberg followed. There he revived the company's once-revered animation department with the creation of *The Little Mermaid*, *Aladdin*, and *The Lion King*. Well known as a perfectionist, Katzenberg personally cut three minutes out of an already completed animated Disney film in 1985, shortly after he joined the company.

After a bitter falling out with Eisner in 1994, Katzenberg left Disney and sued the company for \$250 million over a reneged promise to give him 2% of the profit from the films and TV shows he created during his decade at the company. The suit ultimately was settled in his favor.

"Michael Eisner and I actually had 19 amazing years together, and then it turned bad," Katzenberg says.

Later that year, he joined Spielberg and Geffen in forming DreamWorks—the first studio in decades to be built from the ground up—and took charge of its animation group.

Even amid all the hype, Katzenberg says he knew the trio was never going to meet the expectations it had set in people's minds. "We had to promise the moon, the stars, the sun, the galaxies, and every single thing beyond to get the \$2 billion in backing," he says.

Although it had success with films like *Gladiator* and *American Beauty*, DreamWorks was never able to eclipse or even match studio giants such as Universal and Fox. Reportedly, it even had a brush with a bankruptcy.

Now he maintains he would rather underpromise and overdeliver. "Here we are at a moment and time of greatest opportunity in our history," he says. "We have diversification in a way that we really hoped for two years ago, and [we're] gaining real, meaningful traction. I would rather the results speak for themselves than try to be predictive about what is coming."

Even so, he tends toward the hyperbolic. In 2010, he told anyone who would listen that 3-D was going to energize the movie business, proclaiming it the biggest thing to hit films since color. Henceforth, he declared, all of DreamWorks' films would be released in 3-D.

Movigoers haven't flocked to 3-D films, however, with many parents turned off by the expense. Other filmmakers ruined it, he explains, by producing low-quality 3-D movies while charging a premium. "Customers felt betrayed," he adds.

WITH 40 YEARS IN THE entertainment business, Katzenberg is known for an ability to sign any star and cut any deal, and for his manic work ethic. He can be charming one minute and imperious the next. He publicly cut down an interviewer at a television-association conference in October over her inability to do on-the-spot math. By design and necessity, he is spending less time on the film business, passing much of the responsibility to his chief creative officer Bill Damaschke, who says his boss' role has evolved from quarterback to coach. Katzenberg retains "a fearless way of approaching things," and "sets a high bar for himself," says Damaschke.

Yet, Katzenberg no longer pushes employees to work around the clock. He admits to once telling employees, "If you can't come in Saturday, don't bother coming in Sunday."

He explains, "I only wish I knew then what I know today, which is that balance between work and life is what's needed to be at the top of one's game."

SHARES OF DREAMWORKS Animation have taken investors on a wild ride as earnings have been erratic. The company was split

off at the peak of the market for DVDs, and its business model assumed an almost annuity-like stream of revenue from disks. Today, however, more people watch films online than via DVDs. While total home-entertainment revenue has remained fairly stable at about \$18 billion, online sales are far less profitable than selling disks.

As a result, the stock, sold to the public in 2004 at \$39.50 a share, soon plunged to the mid-\$20s. It topped its initial-public-offering price briefly in 2009-2010 only to plunge again. Katzenberg's recent diversifications, however could bring more stability to earnings and the shares. For 2013, the company is expected to report earnings of \$67.3 million, or 78 cents a share, rising 13% in 2014 to 88 cents, on a 16% increase in revenue, to a record \$859 million.

At a trade conference in October, Katzenberg spoke about how he would be interested in paying as much as \$75 million for three new episodes of the TV series *Breaking Bad*, which could be sliced into six-minute segments for online viewers. While the acquisition doesn't have to be *Breaking Bad*, he says he wanted to call attention to his conviction that people would pay serious money for short, high-quality video.

DreamWorks is creating such content via its AwesomenessTV platform on YouTube, and he believes some of his longer video content will get adapted to the new, shorter forms that consumers view on their smartphones. "It's a place of really tremendous new opportunity," he says, adding, "Now thumbs have a higher purpose."

In other words, content is still king, and the emerging technologies for consuming it will add to—not subtract from—its appeal. In the animation world, at least, that puts Katzenberg on top.

E-mail: editors@barrons.com

Copyright 2013 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our [Subscriber Agreement](#) and by copyright law. For non-personal use or to order multiple copies, please contact Dow Jones Reprints at 1-800-843-0008 or visit www.djreprints.com