

# *The Financial Aspects of Comic Book Self Publishing*

**FIN6416-798 Advanced Financial Analysis**

Prepared for: Dr. Susan Long

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## **Introduction**

### ***Purpose of this Discussion:***

As children most of us are exposed to the exciting modern mythology of superhero comic books, such as Batman, Superman, Spiderman, and the X-Men<sup>i</sup>. The thrill of this entertainment medium over time can prove to be so enthralling as to lead some people to pursue a career in the comic book industry and others to simply dabble in it. Those who attempt to make a foray into comics will do it in one of many ways, one of which is publishing their own comic book. In bringing a book to market, whether they want to make millions, start a full-fledged company, or simply create something of which they can be proud, they will all have to deal with the financial aspects of creating, publishing, and selling a comic book. This analysis takes a close look at the finances associated with publishing comic books; more importantly it takes a closer look at the finances of a small time, usually single-person capitalized effort, rather than the finances of a multi-million dollar corporation like Marvel Enterprises Inc or DC Comics. The audience for this paper is that small publisher who is trying to get a feel for the financial aspects of publishing a comic in volumes much more manageable by a small press than a large one like Marvel. It will get a bit heavy with Financial lingo in a few spots, but readers bored to death by such items can skip ahead to keep the flow at a good pace without getting lost. Those with a Finance background will have access to all the background calculations used in the analysis as well.

The goal is to determine, for a comic book startup, the number of books one has to sell, according to their chosen publishing & distribution situation, and associated expenses in order to be profitable at selling a comic. For the research in this discussion, we have been given financial figures from two existing Independent publishers (as opposed to “large press”, like Marvel), who have existed in the industry for several years now. We’ll use their financial data for most of the discussion, while occasionally referring to figures from Val Staples, a recent industry superstar, who has created a good guide to self-publishing<sup>ii</sup>. Additionally, we’ll have a look at some aspects of Marvel Enterprises’ financial statements from 2004 to see where they are getting most of their income. After this, we’ll summarize the discussion and make some recommendations.

To set the stage for this discussion, we’ll quickly describe the product, the process of getting the book to market, and a present an economic look at the state of the comic book industry. If the reader is already familiar with the details of the aforementioned topics, he or she can skip to the **Financial Analysis** section below.

### ***Product & Process – How a Comic Book is Created, Distributed, and Sold***

#### ***The Product***

For the purposes of this discussion, we will be printing a “standard” industry comic book. This is a 32 page full-color, glossy comic book that is approximately 6.5x10.125 inches with a paper weight of 70 to 80 lbs inside and either 80lbs or a thicker card stock cover. These dimensions and weights are general representations, but they usually change slightly depending on the



preferences of the publisher. If you were to visualize a typical Spiderman comic book at your local comic book store, you would see a book at the right size and quality. The typical, current cover price for a full-color comic ranges from \$2.25 to \$4.00, with the most typical price set at \$2.95 US<sup>iii</sup>. The cover price will also vary depending mainly on paper quality, volume of print run, and sometimes on Creative Team royalties and fees.

### ***The Process***

In order to describe the process and entities involved in creating a comic book, I have created **Figure 1** at the rear of this document<sup>iv</sup>. (Note all figures will be placed at the rear of this report.)

Please refer to that for a visual description of the process. Below I discuss the process on a high level, so that the reader will get introduced to the various creators and others, who get paid to make a comic book a reality. This ties into the Financial Analysis below as part of the Expenses a creator incurs in publishing a comic book. Though there are a large number of ways creative teams go about creating a book, the scenario this report contains one of the most common structures.

A creator, who often times is a writer or artist, comes up with an exciting comic book idea, or even a movie, TV show, or cartoon idea that he/she wants to explore using comics. That creator may perform one or more of the roles of the creative team on the book, and we will assume for the purpose of simplifying this report that the creator gets the profit left over after expenses and taxes.

The idea is written into a per page script (usually 22 pages), much like a movie or a play. That script gets interpreted by the Penciller, who, using traditional pencil and eraser methods, draws it on an 11"x17" piece of cardstock paper. That drawing gets physically handed to the Inker, shipped to the Inker, or scanned in and emailed to the Inker. The Inker applies dark black ink, like water proof India Ink, to the surface of the paper where the pencil is, thereby making it dark enough to be scanned and then printed. Pencil is usually too light or too loose to reproduce well, so it usually gets converted to inks. The Colorist uses a computer to digitally color the scan of the inked image. The Letter then lays letters over that colored page. The Editor is omnipresent throughout the process, approving each stage, before the artwork goes on to the next.

Once the creative team is done, the final 22 pages of art, advertisement pages, and cover art & advertising, usually totaling to 32 pages<sup>ii</sup>, are sent to the Printer. The Printer produces in lots that are typically multiples of 1000 books. The price you pay per book depends on the number of books you order.

The order is then shipped to either the Creator or a Distributor. The three biggest distributors are Diamond Comics, Cold Cut, and FM International. If the creator has solicited his book through a distributor, and retailers have placed orders for it, the Distributor gets a shipment. It then handles the shipping to the Retailers. And finally the Retailers sell to the customers. Other options for distribution are that the Creator (or Publisher) sell the books directly on their



website or they sell them at conventions. Typically, before a distributor will agree to advertise and sell the comic, a small press first has to prove their comic is a sellable item, fits within the target audience of the distributor, and can be reliably delivered on time. They do this by selling it at conventions, maybe publishing a couple of issues (if it is a series) before approaching the distributor. For the purposes of this discussion, the comic will be sold at conventions and through distribution and advertised on a hosted website, which is common practice.

### ***Economic Analysis - A Look at the Industry:***

Suffice it to say there are a huge number of publications that chronicle the history of Comic books. The scope of mapping the history is too large and displaced for this discussion. Instead this is a discussion of the current state of the industry.

#### ***Financials:***

The best way to look at this industry from a Financial perspective is to examine the available financial data from the industry's leaders. DC Comics, creators of Superman, Batman, WonderWoman, etc... would be a publisher worth examination, but they are wholly owned by Time Warner Inc., so the information is unavailable. Image Comics, publishers of Spawn, Savage Dragon, TombRaider, WitchBlade, Vampirella (in correspondence with TopCow Productions), etc... is the third largest publisher, also a noteworthy publisher. It is privately held, though so no SEC filings are available for them either. Fortunately the most widely known Publisher, Marvel Comics, is publicly traded and has not been bought up by a larger corporation.

Marvel Industries, creators of Spiderman, X-MEN, The Hulk, Fantastic Four, etc... declared bankruptcy in 1996. A highly recommended book, that describes the financial aspects leading up to the comic giant's bankruptcy, can be found in Comic Wars by Dan Raviv<sup>v</sup>. Though Marvel has since rebounded as Marvel Enterprises with \$714M in Assets, at least three years of positive cash flows (\$204M in 2004), and two years of positive Net Income (\$124M in 2004) on the books<sup>vi</sup>, the industry is still considered to be at the lowest level of comic book sales since the Industry's beginnings. A closer look at their Gross Profit from their Publishing division reveals only \$39M, a measly **14.5%** out of a \$268M total. **Their other two divisions, Licensing and Toys, raked in \$124M and \$104M respectively**, making Publishing the lowest profit maker in their core businesses.

The industry can be financially difficult and even ruinous, for individuals as well. This was the case for Val Staples,. "I had the #1 selling book for November 2002 (Masters of the Universe #1) in the entire industry. I've had the chance to publish a list of cool titles that were appreciated by fans and professionals alike. Yet I'm up to my eyeballs in debt and sleep in a sleeping bag in my studio because I can't afford a place to live.", said Mr.Staples<sup>ii</sup> after the fall of CrossGen, his Publisher at the time.

"Unless the comic book business goes through some serious transformation, it's not going to be around at all. I really think that it's dangerously close to death. DC, they'll deny this, loses money every year. They've probably lost money every year for 30 years, except for the death of Superman year."<sup>vii</sup>



In an industry where popular Independent and Medium Press companies frequently go bankrupt, such as Chaos Comics in 2002, and CrossGen Entertainment in 2004, and it is widely accepted that “successful” companies like DC Comics actually lose money publishing their tremendously famous characters, how does anyone post a profit? Unlike many, Marvel has actually shown that they can post a profit from publishing, though it is relatively thin. The biggest contributor for profit in the industry seems to come from character licensing for movies, games, toys and other memorabilia like puzzles & T-shirts. The problem faced by publishers, and even more so by small presses, since they don’t have the clout the giants like Marvel have, is that you have to invest in a character’s or team’s popularity by telling stories about their adventures. If you don’t create the elements that make a character, with which target audiences can identify, you can’t expect to sell a licensed T-shirt with the character on it to anyone. Try drawing your new super hero, printing it on lunchbox, and see who buys it. In addition, it is hard to convince already discerning comic buyers to buy your new story instead of their normal purchases. So how does one take an interesting character and get audiences to identify with it? *“Typically, you can gain an existing fan base by purchasing the licensing rights to a well-loved franchise like GI Joe, or you have to put in extensive time and money attending conventions and promoting your new product to build the fan base”*, says Jay Leisten, a well-known industry Inker of Sojourn fame, one of the flagship publications from CrossGen and Tomb Raider fame, published by TopCow.

So even though the industry can be financially difficult and even ruinous, the financial motivation in the effort is that Small Presses are typically willing to invest the money and efforts on the front end, knowing that they may make little profit or even lose money on the immediate sales of comic books, but hoping that they will eventually will cash in on licensing royalties, like Marvel, DC, Image, etc... A few examples of creators who have snagged large Hollywood deals are Todd McFarlane with Spawn, Frank Miller with Sin City, and Mike Mignola with Hellboy, to name a few. It is these stories of financial success, or a drive to become famous, a sheer love for the medium, or for having created something oneself that motivates independents to pursue a business in the rocky comics field.

Since, even after all the scary stories we hear, people still have the drive to pursue comic book creation and publishing, we need to have an understanding of the financial investment necessary to fund the effort. With the groundwork laid, we now will analyze the financial aspects of publishing comics as an independent press.

## **Financial Analysis: Choosing a Business Model**

### ***The Source Data:***

The sources for this study are real sources. A survey was taken of two very courteous Independent Press companies, who have been selling books in the industry for more than the 4 years I’ve known them, which is quite an accomplishment, considering so many comic book entrepreneurs come and go within one year’s time. It also contains two pricing quotes as of April 2005 from two common comic book Printers: Quebecor and Brenner Printing. In



addition to this information, data has been taken from Val Staples's web publication The Poor Man's Guide to Self Publishing. Note the companies used in this study were renamed to **Company A** and **Company B** in order to preserve anonymity. This helped them provide the most accurate numbers possible for the analysis. In this study, information they provided has either been used in whole or combined into an average.

**Company A** represents a successful small press that keeps a very tight lid on expenses, such as negotiating realistic pricing with Creative talent, who are either just entering the Comic book market, or who have been in for a short while and are looking to get published and expand their resumes. Their major funding is from personal contributions, Retained Earnings from previous sales, and leveraging a credit card for printing expenses only. They are continually searching for avenues of licensing, including TV shows, busts, and movie deals. For relative size, they purchase approximately 3,000 books this year.

**Company B** is a successful, mid-range press, that has leveraged some licensed characters in the past and is currently leveraging well-known, successful talent to launch several new series. Their major funding is from personal contributions, Retained Earnings from previous sales, and a small business loan to cover other some expenses. For the purposes of this analysis, that percentage is approximated at 50%. They are also continually pursuing licensing opportunities, including movies, merchandise, etc... They are currently publishing with Image comics. For relative size, they are projecting purchasing approximately 10 to 12,000 books this year.

**Average Comics Company** is a fake company created for this analysis. It's financial data is composed of averaged and weighted averaged data reported by both companies and information from Val Staples' discussion on self-publishing mentioned earlier. It is intended to act as a reference company for readers interested in the middle ground between Company A and Company B. It also acts as the surrogate company in some parts of the financial analysis, where the two business models of A and B are too dissimilar to compare well. As one would expect, this company's relative size is somewhere between 3000 and 10000 books a year, and that will depend on the business model the reader would choose, which is effected by one of several factors: Creative Team pay rates, Printing fees, Distribution fees, and Publishing fees under the label of a big name publisher like Image Comics. More is discussed on this below.

### ***Several Business Models One Can Use***

Comic book companies are presented with a variety of ways to organize their business models. They can be a one-book, one-man show, selling only to convention goers and local retailers, or a huge company like Marvel, with tons of books, a ton of Talent, Distribution, and Retailers all ready to create the next money-maker succeed. For the Entrepreneur, we'll look at the major business models one can setup to create and sell books. **As we progress through the business models, each one contributes more expense, which is why we discuss them briefly here.**



### ***Model 1: Self Publish, Self Distribute***

This model means you don't use a distributor like Diamond Comics or FM. You typically are using talent new to the industry. You give retailers copies, you sell it yourself at conventions, you get your talent to sell it themselves, etc... This is how most Creators get started. They lay their groundwork of knowledge about the industry this way and then, once they have the credentials to get the attention of a well-known distributor, they go onto the next model. The fundamental financial factor here is the cost of **Printing**. Each model shares this cost, so it is our starting point, upon which we will add fees as we add more model features.

### ***Model 2: Self Publish, Distribute through Diamond***

Selling copies through a Distributor like Diamond Comics gives you credibility with Retailers, opens doors with some Retailers who only buy through Diamond, gives you national coverage in their "PREVIEWS" catalogue of all the upcoming releases, usually gets you more sales as a result, and takes a large percentage (**60% of the cover price**) out of you bottom line. It is a trade off and companies have to be sure they know when they are financially ready to make this leap, as it can turn a profitable book into an money-losing book instantly when the profit margin (how much you make after all expenses are taken out) is not high enough. This is discussed further below.

### ***Model 3: Publish Under a Well-Known Label: Image Comics***

Many Creators want to leverage the reputation of well-established publishers to get better sales. Some Publishers are willing to gamble on Creators' books with them. It typically lowers the Creator's individual costs, and in return, the Publisher will take a percentage of profits, and more importantly some or all ownership rights, in return for investing their money into printing the Creator's book. Image is a company that takes no ownership rights and requires only a **flat fee of \$2500** to publish your book, if they like it. This is an exceptional model for the analysis, as retaining ownership appeals to most Creators, and it figures in as a simple additional expense on the Financials.

### ***Comparing Models – The Bare Bones Approach***

Before we look at the longer-term, more thorough financial analysis, let's first decide on the most appropriate model for an entrepreneur in the industry. **Figure 2** shows a "Bare Bones" analysis of the three models just described. By Bare Bones, we mean there is no interest rate being charged on the financing, no initial investments in equipment have been taken into account, no trade show expenses, website creation, etc... This model takes Companies A, B, and Average Comics Company (ACC) through each business model progressively increasing the amount of books printed from left to right (1000 to 15000 books). By progressing through larger print runs, we can see the amount of books that must be sold in order to cover the additional flat expenses of each business model. Our goal is to pick a feasible business model, with a certain volume of sales, whose revenues we can use to cover the flat costs of Creation, Printing & Distribution. Once we have determined that model, we will add the other expenses over an extended period of time (3 years) to see how to make a profit at selling comics as a Small (Independent) press.



### *Assumptions*

In order to simplify this part of the analysis, it is assumed that a Creator will sell all comics through the sales chain associated with each model. For example, in the Distributor model, all 3000 books printed will be sold through the Distributor. Though this isn't 100% true for all models, the amount sold through other avenues, say at conventions, is considered to be enough to be counted as insignificant. For example, if you sell all of your 3000 books at conventions, except for 50 that are ordered through distribution, count yourself as a Self Publish, Self Distribute model. Later we break this out into more realistic numbers.

### *Creative Team Pay Rates*

**Figure 2a** shows the Creative Team pay rates for each company (A, B, and ACC). Where printing fees are, in large part, controlled by the Printer, the Creative Team pay rates are a large variable controllable by the business owner (Creator). This plays a large part in the profitability of a publication. If too much money is spent on the talent, it can cause a potentially profitable book to lose money. If too little is spent, the quality of the book may harm sales. This is very subjective and sensitive to the members of the team chosen. In figure two we have used both companies' surveys (A and B) to average the pay rates of the creative teams. In addition to Companies A&B, we have also incorporated Val Staple's recommended rates, as a conservative reference from someone who is very familiar with typical Industry values. They are combined in a Weighted Average based on book volumes and are used as ACC's pay rates in the Bare Bones analysis. The pay rates for each company are in bold at the bottom of the table.

### *Printing Fees*

For printing costs analysis, we received quotes of Printing fees from Quebecor and Brenner Printing. The original quotes are in Appendix 1 and 2, respectively. **Figure 2b** shows the **average quoted printing costs for 1,000 to 15,000 books** from these to printers. We use these to represent the Printing Expense for the analysis.

### *Model 1: Self Publish, Self Distribute*

In looking at **Figure 2c**, we see the costs for Self Publishing with No official Distributor. As the owner, you get to keep most of the profit for your next book, instead of giving it to a Distributor (which as you recall is typically 60%). We should note that Retailers actually get a 40% to 55% discount off the cover price, so the initial motivation is to show this discount in the model. But the fundamental problem is that for the most part, the bulk of a Creator's sales that come from directly selling to Retailers is significantly low, as compared to direct to customer sales at conventions. Due to this, we do not register the Retailer discount in the model. If you go with Distributors, you open the door to Retailers, but without them, the Retailers are pretty much like any other customer when it comes to sales volumes.

If all books are sold directly to end customers, the company has a chance to pay other expenses like conventions, websites, other advertisements, higher creative team fees. *The trade off is less exposure, and as a result, less sales.* In looking at the figure, we see our Average company is just breaking even at 3000 books. There may not be enough to cover other



expenses. The **recommended starting print size for ACC for this model**, if one can budget it, is to order print runs starting at **5000 units** and find inexpensive advertising methods besides going through distributors like Diamond. In looking at the Creative Team Fees, only Company A's exceptionally low fees are low enough to give them ample money to pay for other expenses when printing 3000 copies. Once Creative Team fees increase, you must also increase production to cover that expanded flat rate. *Also note no one makes a profit at 1000 books, since printing is so expensive.*

### ***Model 2: Self Publish, Distribute through Diamond***

In looking at **Figure 2d**, we see the costs for Self Publishing and Distribution through a company like Diamond. Note Diamond is the biggest distributor for comics and is the only Distributor through which **some** Retailers make their purchases. If all books (or the majority) are sold through distribution, a company can lose money on each book, if it is not watching the budget. For small print runs with high printer fees, distribution through Diamond (for example) is **not recommended**. For Creators interested in using distribution (60% fee), consider starting above **5000 units** to begin breaking even. Note this still doesn't leave much room to cover extra expenses like conventions, etc.... but it may be doable as long as you keep your Creative and other Expenses minimized, like Company A. Average Comics Co. breaks even at the **10,000**unit mark and has a couple thousand left over for the extra headroom we need for conventions and such. Note the Company B value starts to cover its larger Creator fees somewhere before 15,000 books.

### ***Model 3: Publish Under a Well-Known Label: Image Comics***

In looking at **Figure 2e**, we see the costs for Publishing and Distribution using Image's imprint. If all books are sold through Image Publishing, the Creator makes money on each book, when the volumes are high enough to cover their additional flat fee of **\$2500**. **Creators interested in publishing through Image should consider starting around 15000 units. Note the Average Comics Company value will show a significant profit at the 15000 mark.** Company A will be able to make a profit at 10000 units, as long as they keep their talent pool at a manageable fee. One element that attracts Image's attention is big name Talent that already has a fan base in comics, thereby guaranteeing comic sales, so Talent fees may have to increase to get your foot in the door. It makes sense for a large part of that profit to go to the Talent. Note Company B is still profitable enough to cover some expenses at 15000 and is expected to be significantly more comfortable at the next price break.

### ***Choosing the Right Model***

After looking at the right options, an owner has to choose which approach feels the most comfortable and profitable for his risk tolerance. For the purposes of this analysis, we'll use:

- Model 2: Self Publish, Distribute through Diamond
- Use the Average Comic Company's Talent pay rates
- Print a 10,000 unit run, which is the first one to be profitable in that model for ACC

This represents a somewhat reachable goal for a new startup, or a small company ready to go to the next level, as long as they can gather the funds to cover the flat fees. Ideally, we'd be more comfortable with a print run of 5000 units, but we will stick with the level of Creative



Talent that ACC requires (the average) and cough up the extra thousand dollars that gets us from 5000 to 10000 copies.

## ***Financial Analysis: Selling One Comic Book for Three Years***

### ***Capital Budget***

Now that the Owner of Average Comics Co. (ACC) knows the model he wants to use, the number of books he's going to print, and the initial investment costs required to get the book made, he nearly has enough information to run a **Capital Budget** showing the profits (less expenses) that work towards paying back his initial investment in the book. Let's look at all the components required to do the analysis.

### ***Inventory***

In our initial Bare Bones approach, we said all books would sell within one year, in order to simplify the process of picking a business model. More realistically a creator will have stock for a lot longer, some may still be carrying books they published 5 years ago, depending on how well the book sells over the years. We'll use 3 years as a middle-of-the-road value, and **Figure 5b** shows the percentage we sell each year in the left-most column. **At the end of year 3, there are no more books.** Note also, that since the Creative team usually receives some of those books as a courtesy to sell on their own, there is a small amount taken off the top in **Figure 5a**. We start with 9700 books we can actually sell.

### ***How We'll Treat Initial Investments***

Printing is paid up front. The Creative Team fees can be paid up front, but more often than not they are paid after the book goes to market (ideally a month or two after printing). This gives the Creator some protection against someone failing to complete the job, while also allowing the Creator to make some money, with which to pay everyone. Since, in our analysis, we'll assume it takes three years to sell all the books, and look at profits on a yearly (instead of monthly) basis, so we'll just assume the Creative Team fees are paid up front with the Printing fees. The initial "PREVIEWS" advertising fee that comes with distribution through Diamond will also be counted as an up front investment, just like in our Bare Bones analysis.

### ***Sunk Costs***

In deciding to include the costs of purchasing a computer, graphics software, art boards, computer paper, etc..., the Creator may want to add those elements into the initial investment category. Most often though, the owner who wants to publish his own book, already has all these items, or at least the majority of them. If the Creator is a writer or Editor, he usually already has a computer. If the Creator is an Artist, he already has the equipment necessary to sketch the concept characters, such as pencils, a desk or other place to draw, etc... These items, since they are typically already owned by the Creator, are considered **sunk costs**. They do not effect the decision of whether to go forward with publishing a comic book, so we don't count them in our analysis.



### *Other Expenses*

**Figure 3** shows Operating Expenses that will chew into our profits as we sell books. Again the values are taken from info reported by Companies A and B. The expenses we will use are **Convention Space Rental** (Booth Space and Artist's Alley), **Travel Expenses**, and **Web Hosting**, all of which go into the act of actively promoting and selling the book.

**Booth Spaces and Artist's Alley:** For anyone who unfamiliar with comic book conventions, the booth space is a more premium location in the convention hall, anywhere from 5x10ft to 10x10ft, to as large a size as a company wants to rent. ACC will rent a 5x10' with these numbers. Artist's Alley is a special area in the convention typically with long rows of tables for Artists to rent a 4ft wide (half of a table) section and a chair, at which they can meet fans, sell their original art, sell books, and/or do sketches. Sometimes, depending on a company's desired exposure and how many people of the Creative team they have at the show, they'll rent both a booth and some Artist's Alley space, or they'll only get one of the options.

## *Cost of Capital of Average Comic Company's Creator*

### *The Creator*

The typical independent or small press is usually one Creator and a hired staff of creative talent. That Creator is typically using his own money, credit cards, or even a small business loan to fund creation of his/her book. The money is typically funded from personal savings, as the Creator knows if he loses the money, he won't have to still pay someone back, or it can be a combined investment by the whole team. In this model, we're using the Creator and a hired team. In any manner, the Creator is suffering a loss of the use of that invested money known as "opportunity costs". Opportunity costs are applied when you have a separate avenue through which you could be making money. For example, if you work part time in your job, so that you can publish your own comic, your opportunity costs involve that income you would have gotten from working those hours at work instead of drawing your comic. For the purposes of our analysis, the Creator is working full time, and using some personal savings (Equity) and some Debt from a credit card or small business loan as discussed below. He/she is publishing out of the extra space in his/her house, thereby avoiding expenses like rental fees on office space.

### *Equity*

When a Creator chooses to invest his own savings, the opportunity cost can be thought of as having an interest rate associated with it, depending on the creator's financial situation. The Creator (owner) can afford to tie his money up in an inventory of books for at least a year, maybe two or three, depending on sales, that he could just as comfortably put into a Money Market account from E\*Trade for the same time and earn a pretty stable return. BUT, our Creator wants more out of his money than a simple, stable 4% return or he wouldn't be going to all the effort of hammering out a comic book and selling it. This is a risky venture, and more often than not, comic book startups spend money and never see a real return. The best way to measure the risk of losing your own money in a venture is to get a reference that



indicates how risky your investment in that market is going to be. A common financial approach to this is to use an equation called the Capital Asset Pricing Model (CAPM), a risk calculation based on the market activity of whatever business you're in. To keep from boring most readers as to what this is, you can learn more about its origins by typing it into Google.com and reading up on it. For those interested, Appendix 4 shows the general equation components.

In this case, Marvel, the only market access we have to a measurable level of risk in comics, will act as a surrogate through which we can estimate the risk a Creator will take with his savings. A search on E\*Trade and Bloomberg will give you the elements of the CAPM model for Marvel<sup>viii</sup>. An interesting side note is an S&P Outlook on the Leisure Products Market, which is what Marvel is categorized under. **Appendix 3** has this for your reference, and it also contains market risk numbers used in the calculations in **Figure 4**. **Figure 4** shows the calculation of Marvel's cost of Equity, which is **11.78%** for our calculations.

One could argue that a small press is a more risky investment than investing the same money in Marvel's investments, since they're larger, and have more breadth to their products (comics, movies, toys). Though that may be true, in general it's safe to say if the big guys in the comic book industry are doing poorly, which means customers aren't visiting the retail stores and looking for comics or comics-related items, no one everyone else for the most part will have much of a chance either. If they're doing great, which usually brings more interest to the industry as a whole, the little guys will have a better chance to sell their wares as well. A good example of this is the large amount of creator-owned comic book movies (such as Mike Mignola's "HellBoy", Frank Miller's "Sin City", and "Constantine" based on Jamie Delano and Garth Ennis's HellBlazer comic<sup>ix</sup>) that have made it to the big screen lately, as a result of the resurgence in comic book characters brought on by Marvel's recent success with films such as Spiderman I and II, The Hulk, XMEN I and II, etc... So we will not adjust the cost of equity any higher for risk in this case.

### ***Debt***

If the Creator chooses to use a credit card or a small business loan to fund all or part of the effort, he won't have to pay it back immediately, which is the benefit. The tradeoff is that he will not only have to eventually reimburse the lender, but he will have to pay the interest rate charged on that credit card or loan as well. For consistency with the rest of the financial analysis, we'll use the interest rates for Company A's credit card (**12%**) and Company B's business loan (**6.9%**) under the assumption that they will pay it off by the end of 1 year. In **Figure 4**, we combine these in a weighted average (based on sales volumes) to get a cost of debt at **8.08%** that we can use for Average Comics Company's project analysis.

### ***Cost of Capital***

Since the Creator will be using both savings and debt to finance the project, which is shown in the Initial Investment **Figure 5a**, we combine his costs of capital into one figure via a weighted average. Unlike a corporation, that has many other projects going on, many other means of financing, and thus an established sense of cost of capital, the Creator needs to develop an idea



of how much he'll borrow and how much is out of pocket We'll follow **Company A's** approach and setup a standard plan to always borrow the amount for printing, and pay the rest out of personal savings and eventually the retained profits from comic book sales. So, the Cost of Capital calculation in **Figure 4** shows the Weighted Average Cost of Capital (WACC) based on his debt's interest rate, the expected return on his savings invested in such a risky venture, and the relative weights of his intended debt and savings structure. His **WACC is 8.93%**. This means that in order for his investments in these projects to be considered successful ones, considering the risk he is taking with his own money, the Creator must make at least 8.93% net returns after taxes to break even.

### ***Will ACC Make Enough Money?***

Now that the Owner of Average Comics (ACC) knows the cost of his capital, expenses, initial investments, etc... he uses a spreadsheet to generate a Capital Budget scenario showing the profits (minus expenses) that work towards paying back his investment the book. He then uses a few common calculations to measure the success (amount of return on his investment) of the project.

#### ***Cash Flows***

He uses the Cash Flows made off the investment to see if he's made any money at all. In **Figure 5b** he takes the **Incoming Cash** from sales of books, less 60% off Retail the Distributor kept from books *they* sold to get the Net Sales Income. He then subtracts off all the expenses it took to make the sales possible, which are Web Hosting and Convention Costs, leaving him with the yearly **Operating Cash Flows** (the cash left over after paying for operations like conventions and web service).

A Finance point on this analysis: Notice we're not taking out interest calculations and loan payments such, because at this stage, we're just trying to see if ACC can make any money on the investment. If we do still want to go through with the effort, because we see there is money to be made, we can then go talk to Lenders. We did discuss debt and such above, but that was for the general approach to how the Creator plans to treat his whole business. Here we've specified a lot more specific items, like how many conventions, how much we're going to spend on booth spaces, etc... That makes us focus more on this specific book project, not the company over all. Later the Creator may decide to take a different approach on a book, say sell it through Image, at which point, he'll do this analysis again, with the extra fee Image tosses in.

#### ***Measuring Devices***

Well, it looks at least initially like ACC made enough money to cover Operating Expenses each year, but was it enough to cover the initial investment too? Not really. **Figure 5c** has several common calculations used to determine whether the income made off of an investment is enough to pay for it and still make the expected profit margin we wanted. We pulled all the final Cash flows (investment and incomes, since we made money each year) into a handy **Timeline of Cash Flows**, so it's easier to read. Without getting into heavy details on each



measurement's usage (which you can learn about on Google.com), we'll go through each one and explain what they should be in order to consider the project successful.

- **Payback Period:** This simply shows over the next 3 years, what portion of the initial investment (about \$10,000) is left over at the end of each year, once ACC has collected some positive cash, like in year 1 (just over \$6000). We ideally want to see this get to zero as soon as possible. **Note, ACC never even made it to zero!** That means if you simply add up all the positive net cash they made off sales (in green on the right) and subtracted out the initial invested money (in red), **They didn't even make enough to break even.**
- **The Other Measurements:** Let's wait a minute. If they don't even make enough to break even, we definitely know they didn't make a profit. So, let's evaluate some potential problem areas, make some changes, and try to turn this investment into a profitable one. It may or may not be that hard, depending on how far in the red we are.

### ***Recommendations***

We have two ways to make more money, increase the price of our book and lower our spending. Increasing the cover price will be hurtful to sales, so let's look at the things that cause us to spend money, Expenses and Initial Investment. There are some things we can't change easily. Printing fees can't be changed, unless we drop the number of books we'll print, but we've seen that puts our Bare Bones business model in a losing situation right off the bat. Skimping on hiring such an expensive Creative Team could potentially hurt the quality of the book and thusly hurt sales, so let's hold off on that one until it's absolutely necessary. The solicitation fee (PREVIEWS) is almost inconsequential. We could sell less through Distribution, in order to make more profit per book, but we pretty much have to give them what they sell, or that will hurt our relationship with them. The only things left are Website expenses, which are minimal, and Convention Costs.

**Convention Costs** do seem like something that a more cost-conscious owner can manage and not adversely effect sales, if he's careful. **Figure 6** is a copy of Figure 5 with the Convention costs managed a bit more conservatively. The first thing we did was realize the owner only has 15% of his original stack of books left to sell (1455) in his third year. From the sales numbers he's generated so far, he doesn't need to attend three conventions to sell his book. So year three only has him going to two conventions, with  $1455/2 = 728$  books to sell at each one which is just under the  $2425/3 = 808$  books per convention from the first two years. That takes off a little over a thousand dollars for the third year (see Figure 3b) of expense. Another way to look at it, if the Creator plans to generate another book the third year and still attend three conventions, is that it should only take selling  $1455/3 = 485$  copies of that book to cover it's part of the cost to go to each of the three shows. It's a great way to allocate sales goals for different conventions. The same sales allocations can be done for those intending to produce a book per year.

Turns out that is enough to at least make the owner's initial investment back, so the **PayBack Period** discussed above is satisfied - in flat, non-interest paying, non-profit making dollars.



BUT it's not enough to make the required rate of return (or profit margin) we set out to make at a minimum to consider this project successful – **8.93%**. With that change, the owner only got about a 4% rate of return on his investment. What else can be done? Next, the owner has been told to spend 15% less on all conventions for all three years. Whether that's eating less, taking cheaper flights, sleeping in a slightly cheaper hotel room, whatever, clever management of his expenses can really help make the project successful. Is that a revelation? No, just common business sense – keep your expenses low and you make more money. BUT, it does help the owner to set numeric goals for managing those expenses that can be tracked.

Ok, so now we think we've done the necessary things to make this project profitable. Let's back it up with some numbers. In looking back at **Figure 6c**, we see the following evaluations calculated.

- **Payback Period:** According to 6c, the time it takes for the investment to be made back is 2.05 years. As long as the Creator is happy with waiting this long to get back all his money and then start bringing in profits, then it is approved. Remember this is simple dollars, no interest is used here. So, only use this as a filter to keep the bad projects out. NPV is the better choice for measuring the success of a proposed project.
- **Net Present Value (NPV):** This is where we first officially use ACC's minimum required rate of return, for the level of risk the owner took on this venture, which is the WACC of **8.93%**. The NPV is the extra cash we make (or lose) when we pull all those cash flows from years 1, 2 & 3 back through time (and interest accrual) to year 0, where we made the initial investment. We do this by diving each cash flow by 1.0893 for each year we slide it back to zero (called "discounting"). If the NPV is zero (or greater), he makes the required return (and more), and the project is approved. **Since the NPV=\$248.00, the project is approved.**
- **Internal Rate of Return (IRR):** The IRR is used by companies to tell how much return the project actually does make - how much interest, so to speak, the project would yield, if the money were invested in an equally risky stock over the same period of time. If IRR is greater than the company's required rate of return (a "hurdle rate"), which is usually higher than their WACC, they know they're making even more money than they usually require. In this case, **IRR is 11%**. Our minimum required rate of return is conservatively set at our WACC, which is 8.93%, so the project **would be approved** using this measure.
- **Profitability Index (PI):** The PI is simply a measure of the *relative* ability to make money off this project with respect to others of different investment sizes or lives. As long as it is at (or above )1, you're making at least your minimum required return (plus some). You can do this for other projects of other scales, that you are considering, and this measurement can let you compare those investments on equal standing. Since **PI =1.03**, which is above 1, the project is profitable and **would be approved**.

Based mainly on NPV, and then with supporting evidence from the other measurements of project success, the **project is approved**. ACC can go forward with the book.



### **A Note on Actually Financing the Project**

So the project is approved. What next? Average Comics Company would then look into specific financing solutions. Typically a credit card would be the most convenient solution, as long as the owner can manage the payments and keep the interest rate at or below the rate we averaged from Company A and B, which was 8.08%. Company B secured a small business loan instead, maybe to help lock in that even lower rate of 6.9%. The focus on this exercise was to see whether or not a Creator could make enough return on producing a comic book that he could pay for the investment, reimburse himself for the risk he was taking with his own money, and reimburse the lender not only their original money, but also interest he owes them for taking the risk with him. So the exercise already includes the interest you have to make back in the form of the Rd value in Figure 4. Make your desired return on the comic books, and you've also made the profits necessary to pay back the loan interest too. Those interested in small business loans can educate themselves by visiting the United States Small Business Administration website at <http://www.sba.gov/financing/>. It talks financing basics, quotes interest rate ranges that are approximate to the WACC we calculated, and describes how those loans work.

### **For Smaller Print Runs**

For those smaller companies, who would like to see what the projections look like for a smaller print run like 3000 or cheaper Creative Team fees, and therefore a smaller initial investment, or different business model, say no Distribution fees, or whatever, the Excel files used in this analysis are available on [www.ChrisHarden.com](http://www.ChrisHarden.com). If you cannot find them, you can email me at [chris@chrisharden.com](mailto:chris@chrisharden.com) and request them.

### **Wrap-Up Other Recommendations/Practices**

As we've seen in the case of Average Comic Company, comics have a very thin margin that creates a need for clear decision making on what business model an owner wants to follow and maintaining tight management of expenses. Though these measures are necessary in any business, there are other things a comic book company can do to improve the bottom line. They can look towards higher margin products. The licensing we mentioned earlier finally comes into play. The hard-working entrepreneur will keep his eye open for opportunities to leverage the stories and characters in his books for licensing into toys, TV shows, cartoons, movies, etc... These higher margin items provide much higher revenues than the original comics did on a per unit basis and as a result, much greater returns on an overall basis.

One of the more famous basement success stories is the rise to fortune of Kevin Eastman and Peter Laird, the creators of The Teenage Mutant Ninja Turtles, a comic originally printed in black and white for a whopping total of 3,000 books<sup>x</sup>. They, unlike most unfortunately, became essentially an overnight success that over the years has grown into a multi-million dollar licensing machine with branding on video games, toys, clothing, cartoon series, movies, music CD's, etc...<sup>xi</sup> One might think it is a bit outdated to mention the Turtles in 2004, since

**FIN6416-798 Financial Aspects of Comic Book Self Publishing**

Prepared for: Dr. Susan Long

Due: April 26 2005

Written By: Chris Harden

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they hit it big in the late eighties to early nineties, but with the resurgence in interest of “old school” characters, like Scooby-Doo, GI Joe, Thundercats, and Transformers to name a few, licensing for “old” characters is doing better than ever. Just in 2003, the Turtles cartoon were still going strong with a cartoon being shown on FOX.

The main thing the creator has to be aware of is to not start looking too soon. Staying focused on the core business until it is proven and stable, and the characters are fully developed and identifiable, is a good way for comic book entrepreneurs to stay in business. Once they have shown that they can be profitable at making comics, the next step seems to be licensing. Maybe that would be an interesting analysis project.



## Appendix 1 : Quote from Quebecor Printing

Quote from Quebecor Printing :



### **QUOTATION**

Chris Harden  
18001 Richmond Place Dr #316  
Tampa, FL 33647  
Chris@chrisharden.com  
Tel: 813-558-8474  
Fax: 813-558-8474

**Date :** April, 4 2005  
**Reference :** RV-004063  
**Size :** 6 5/8 x 10 3/16  
**Quantity :** 1 000 - 5 000 - 10 000

Dear Client :

We are pleased to submit our quotation for the production of the above title. Listed below are the specifications and price structure.

**No pages :** 32 pages text + 4 pages cover  
**Paper :** Text : #60 Orion Gloss  
Cover : #70 Coated  
**Printing :** Text : Litho'd 4/4 (process / process)  
Cover : Litho'd 4/4 (process / process)  
**Coating :** None  
**Bindery :** Saddle Stitched  
**Packaging :** Bulk in standard boxes  
**Delivery :** F.O.B. Montréal  
**Material :** Text and Cover: QuarkXpress  
**Taxes :** Extra, if applicable  
**Terms :** Net 30 days, subject to credit approval  
**Tolerance :** +/- 5 %

<b>PRICE PER UNIT</b>	<b>1 000</b>	<b>5 000</b>	<b>10 000</b>
<b>Total</b>	2 868.00	3 780.00	4 920.00
<b>Price Unit</b>	2.868	0.756	0.492
<b>Price add unit</b>	0.228	0.228	0.228

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We hope this proposal is to your satisfaction and ensure you of our closest cooperation and service. For all additional information, do not hesitate to contact us.

Patrick Jodoin (514) 494-5443 Fax : 648-9450  
Sales Representative

I acknowledge having read the terms and conditions on this quotation and accept them thereby constituting the printing contract:

\_\_\_\_\_  
Client's Signature

\_\_\_\_\_  
Date

***Please make an X in the appropriate box:***

Films to be returned

Films to be destroyed

Note: Your signature is the approval of the specifications listed on this quotation. Other specifications must be indicated. Otherwise, we will not be held responsible for these omissions.

**Sales department**

Quebecor World Montreal  
8000, Blaise-Pascal Avenue  
Montréal (Quebec) H1E 2S7  
Tel : (514) 494-5443  
Fax : (514) 648-9450

**Plant**

Quebecor World Lebonfon  
1051, l'Echo Street, P.O. Box 40  
Val-d'Or (Québec) J9P 4N9  
Tel : (819) 825-8888  
Fax : (819) 825-4638



## **Appendix 2 : Quote from Brenner Printing**

Hi Chris,

Thanks so much for contacting us. Here is the proof you requested.

Standard Comic Size

6.625 X 10.25

saddlebind on 10.25"

32 interior pages + a single version cover

interior - 60# gloss text, 4/4

cover - 80# gloss text, 4/1

1000 - 3395.00

3000 - 3605.00

5000 - 4135.00

10,000 - 5235.00

4-Color interior covers are an additional \$220 per cover, per version.

Pricing includes original imaging based on correctly assembled digital files from accepted printing industry standard software + one proof to a destination in the contiguous 48 states.

Pricing does not include charges for file manipulations, file corrections, customer alterations, additional imaging, additional proofing, applicable sales tax, applicable over run or freight. Freight is FOB San Antonio, TX.

Over run of up to 5% of print run will be charged at 2/3 original unit cost.

Standard terms are 1/2 down at time of order, balance due in full upon completion prior to shipping. We accept Master Card, Visa, American Express and Discover in addition to preprinted business and personal checks, cashiers checks and money orders. Personal identification may be required. All payments may be subject to verification.



## **Appendix 3: Standard and Poor's Leisure Products Outlook**

### **STANDARD &POOR'S**

Marvel Enterprises Stock Report

Apr 23, 2005

NYSE Symbol:MVL

#### **Sub-Industry Outlook**

Our investment outlook for the S&P Leisure Products Index is neutral, although our opinion varies on individual stocks. **Year to date through March 24, 2005, the index has risen 2.0% versus a 3.1% decline for the S&P 1500 Index. In 2004, the sub-industry index was up 13.9% versus a 10.0% gain for the S&P 1500 Index.**

We think toy companies focused on re-invigorating core brands and developing innovative line extensions to keep "old" toys "new" are likely to achieve top-line growth. We also expect growth from educational toys and toys integrating electronic capabilities. However, we see continued pricing pressures, as discounters such as Wal-Mart likely capture an increasing share of the retail market. We expect toy manufacturers to seek out less-traditional retail channels to support volume growth and higher margins over the longer term.

With our expectations for continued economic growth, we see improved demand for certain leisure activities, including golfing and boating, and a corresponding lift in equipment sales. However, we believe fierce price competition will hurt the profit margins of golf equipment manufacturers. We also see little downside protection in the event of adverse weather patterns.

While we view the longer-term outlook for leisure stocks as generally favorable, we expect to see wide variances among the companies. During the next decade, as the population bubble of baby boomers continues to advance, we believe the outlook for such areas as boating and golf, which tend to be favored by middle-aged and older Americans, should improve, while pursuits that involve more vigorous physical activity, such as skiing and tennis, may see a corresponding decline. Due to factors such as new products, marketing effectiveness, and acquisitions, the pace of sales and/or profit growth for some leisure-time companies could significantly diverge from that of the industry as a whole. We believe that the factors driving long-term leisure spending include demographics, income levels and growth, consumer confidence, and the amount of free time available.

-Gary McDaniel

Stock Performance

GICS Sector:Consumer Discretionary

Sub-Industry:Leisure Products

Based on S&P 1500 Indexes

Month-End Price Performance as of 03/31/05



## **Appendix 4 : WACC and CAPM Equations**

WACC = Weighted Average Cost of Capital =  $K_d(1-T) \cdot (D/(D+E)) + K_e \cdot (E/(E+D))$

Where the components of the equations above can be gathered or calculated from the financial statements and our knowledge of market data. The variables are:

$K_d$  = Market cost of debt – interest rate charged on a loan or credit cards for example

$K_e$  = Market cost of capital (risk adjusted cost of investment)

$T$  = Tax rate for the company

$D$  = Market value of the company's debt

$E$  = Book value of the company's equity \*\*

Note that we must calculate  $K_e$ . Based on the Capital Asset Pricing Model (CAPM), We use the following equation for that:

$K_e = R_f + b \cdot (MRP - R_f)$

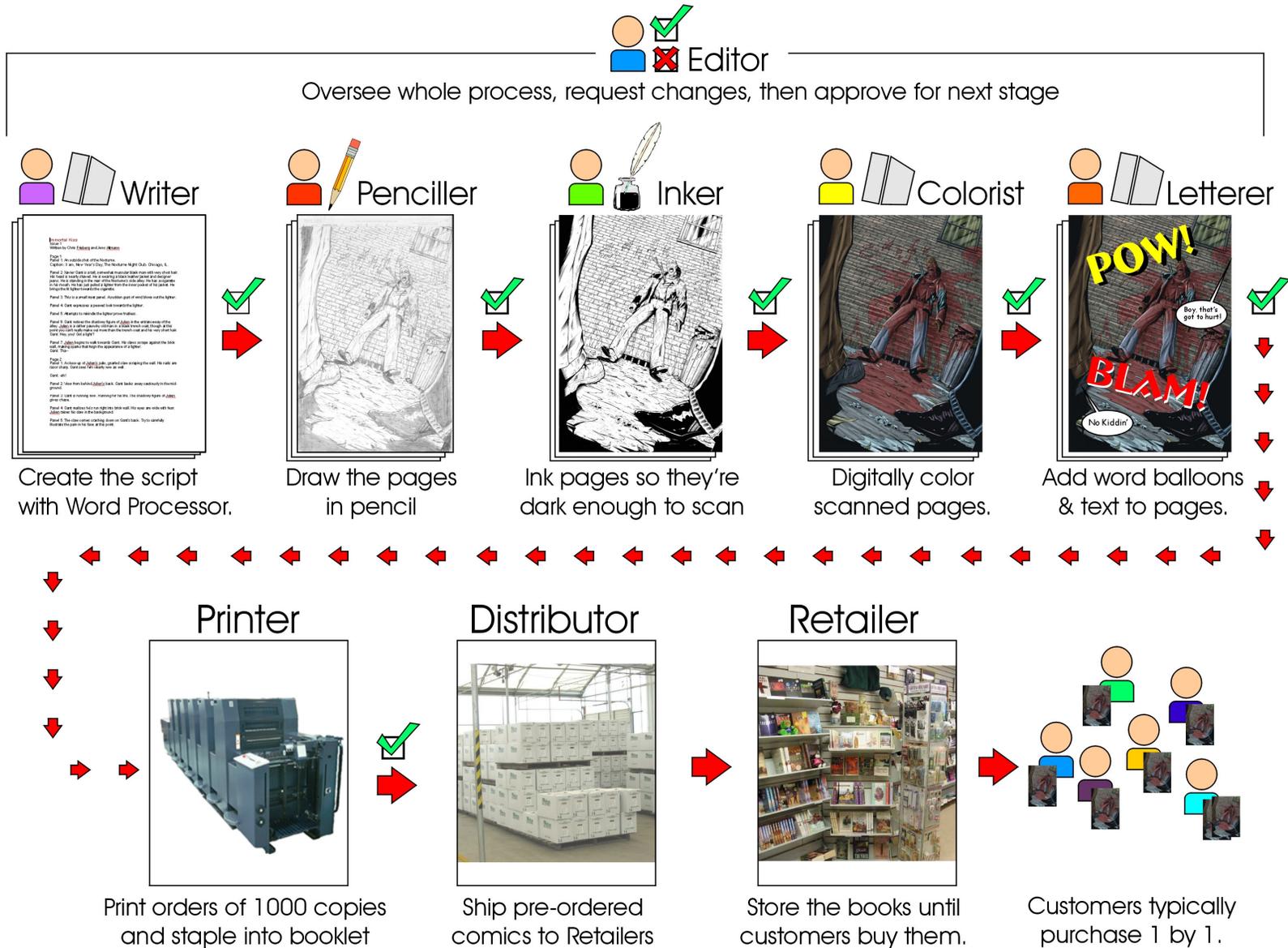
Where the components are:

$R_f$  = Risk Free Interest Rate

$b$  = beta for the company

$MRP$  = Market Risk Premium

**Figure 1**  
**Typical Process of Comic Book Creation, Distribution, and Retail Sales**



## Figure 2: Bare Bones PER BOOK Cost Analysis for Average Company

### Figure 2a: Creative Team Fees per Book

	Company A		Company B		Val Staples		Average Comics Co.	
	Per Book	Per Page	Per Book	Per Page	Per Book	Per Page	Per Book	Per Page
<b>Books/Run</b>	3000	22 pages	5000	22 pages	10000	22 pages	5,000	22 pages
<b>Editor</b>	\$0.00	\$0.00	\$220.00	\$10.00	\$0.00	\$0.00	\$61	\$3.00
<b>Writer</b>	\$0.00	\$0.00	\$660.00	\$30.00	\$702.00	\$32.00	\$573	\$26.00
<b>Penciller</b>	\$330.00	\$15.00	\$4,950.00	\$225.00	\$1,248.00	\$57.00	\$2,123	\$97.00
<b>Inker</b>	\$330.00	\$15.00	\$1,430.00	\$65.00	\$936.00	\$43.00	\$972	\$44.00
<b>Colorist</b>	\$330.00	\$15.00	\$550.00	\$25.00	\$780.00	\$35.00	\$641	\$29.00
<b>Letterer</b>	\$0.00	\$0.00	\$220.00	\$10.00	\$234.00	\$11.00	\$191	\$9.00
<b>Total</b>	<b>\$990.00</b>	\$45.00	<b>\$8,030.00</b>	\$365.00	\$3,900.00	\$177.00	<b>\$4,562</b>	\$207.00

Note that the per page rates have been rounded to the nearest dollar, since payment negotiations are generally spoken of in terms of flat dollars. No one says, "I'll pay you \$33.21 per page".

The Average Creative Team Rate per book is used in Budgeting calculations as the reference Creative Team Expense multiplied by the number of books ordered. Since print runs are typically in multiples of 1000, we will round the print run to the nearest 1000 for our calculations.

### Figure 2b: Print Run Prices

Number of Books: 1,000 3,000 5,000 10,000 15000

Printing Fees used below are based an average of these Quotes:

Quebecor	3,096.00	3,470.40	4,008.00	5,148.00	\$6,000.00
Brenner	3,615.00	3,825.00	4,355.00	5,455.00	\$6,000.00
Average	3,355.50	3,647.70	4,181.50	5,301.50	\$6,000.00
<b>Avg Print fee per Book</b>	<b>\$3.36</b>	<b>\$1.22</b>	<b>\$0.84</b>	<b>\$0.53</b>	<b>\$0.40</b>

\*Note printing costs have each company's premium for inside color cover added (called "4/4" cover). Val Staple's conservative estimation is used for 15000 copies, since the Quebecor and Brenner printing did not have that quantity listed. Quebecor's 3000 unit quote is a weighted average of their 1000 and 5000 quotes. It is also dropped by 10% to make it more consistent with Quebecor/Brenner Print ratios from rest of the quote comparison.

### Figure 2c: Self Publish, Self Distribute Model

Number of Books:	1,000	3,000	5,000	10,000	15000
Retail Price	2.95	2.95	2.95	2.95	2.95
Print Fees	(3.36)	(1.22)	(0.84)	(0.53)	(0.40)
<b>No Distribution Fees</b>	-	-	-	-	-
Profits(losses) after MFG/book	(0.41)	1.73	2.11	2.42	2.55
Profits(losses) after MFG Total	(410.00)	5,190.00	10,550.00	24,200.00	38,250.00
<b>Company A's Creative fees</b>	(990.00)	(990.00)	(990.00)	(990.00)	(990.00)
Profits(losses) after Wages	(1,400.00)	<b>4,200.00</b>	9,560.00	23,210.00	37,260.00
<b>Avg. Comics' Creative fees</b>	\$ (4,562.00)	\$ (4,562.00)	\$ (4,562.00)	\$ (4,562.00)	\$ (4,562.00)
Profits(losses) after Wages	(4,972.00)	<b>628.00</b>	5,988.00	19,638.00	33,688.00
<b>Company B's Creative fees</b>	(8,030.00)	(8,030.00)	(8,030.00)	(8,030.00)	(8,030.00)
Profits(losses) after Wages	(8,440.00)	(2,840.00)	<b>2,520.00</b>	16,170.00	30,220.00

### Figure 2d: Self Publish, Distribute through Diamond

Number of Books:	1,000	3,000	5,000	10,000	15000
Retail Price	2.95	2.95	2.95	2.95	2.95
Print Fees	(3.36)	(1.22)	(0.84)	(0.53)	(0.40)
<b>Distrib. Fees 60%</b>	(1.77)	(1.77)	(1.77)	(1.77)	(1.77)
Profits(losses) after MFG/book	(2.18)	(0.04)	0.34	0.65	0.78
Profits(losses) after MFG Total	(2,180.00)	(120.00)	1,700.00	6,500.00	11,700.00
<b>Company A's Creative fees</b>	(990.00)	(990.00)	(990.00)	(990.00)	(990.00)
Profits(losses) after Wages	(3,170.00)	(1,110.00)	<b>710.00</b>	5,510.00	10,710.00
<b>Avg. Comics' Creative fees</b>	\$ (4,562.00)	\$ (4,562.00)	\$ (4,562.00)	<b>\$ (4,562.00)</b>	\$ (4,562.00)
Profits(losses) after Wages	(6,742.00)	(4,682.00)	(2,862.00)	<b>1,938.00</b>	7,138.00
<b>Company B's Creative fees</b>	(8,030.00)	(8,030.00)	(8,030.00)	(8,030.00)	(8,030.00)
Profits(losses) after Wages	(10,210.00)	(8,150.00)	(6,330.00)	(1,530.00)	<b>3,670.00</b>

### Figure 2e: Publish under Image Comics & Distrib. through Image's Diamond Channels

Number of Books:	1,000	3,000	5,000	10,000	15000
Retail Price	2.95	2.95	2.95	2.95	2.95
Print Fees	(3.36)	(1.22)	(0.84)	(0.53)	(0.40)
<b>Image Flat Fee</b>	(2.50)	(0.83)	(0.50)	(0.25)	(0.17)
Distrib. Fees 60%	(1.77)	(1.77)	(1.77)	(1.77)	(1.77)
Profits(losses) after MFG/book	(4.68)	(0.87)	(0.16)	0.40	0.61
Profits(losses) after MFG Total	(4,680.00)	(2,620.00)	(800.00)	4,000.00	9,200.00
<b>Company A's Creative fees</b>	(990.00)	(990.00)	(990.00)	(990.00)	(990.00)
Profits(losses) after Wages	(5,670.00)	(3,610.00)	(1,790.00)	<b>3,010.00</b>	8,210.00
<b>Avg. Comics' Creative fees</b>	\$ (4,562.00)	\$ (4,562.00)	\$ (4,562.00)	\$ (4,562.00)	<b>\$ (4,562.00)</b>
Profits(losses) after Wages	(9,242.00)	(7,182.00)	(5,362.00)	(562.00)	<b>4,638.00</b>
<b>Company B's Creative fees</b>	(8,030.00)	(8,030.00)	(8,030.00)	(8,030.00)	(8,030.00)
Profits(losses) after Wages	(12,710.00)	(10,650.00)	(8,830.00)	(4,030.00)	<b>1,170.00</b>

### Figure 3: ACC's Averaged Expenses from Companies A and B

These Expense figures are taken from operating costs reported by Company A and Company B. As travel to essentially non-overlapping conventions, we are able to be exposed to a variety of travel costs and convention costs.

#### Figure 3a: Averaged Convention Space Rental Fees

Convention Name	Booth Space	Artist's Alley Table (1/2 table)
Wizard World Chicago	\$600.00	\$125.00
Wizard World Philly	\$750.00	\$125.00
Wizard World Texas	\$850.00	\$125.00
San Diego ComiCon	\$1,200.00	\$125.00
MegaCon Orlando	\$270.00	\$50.00
<b>Average</b>	<b>\$734.00</b>	<b>\$110.00</b>

These values are used in Figure 3b below to represent average costs for attending a convention. Company A, B, and Averaged Comics company budget 3 conventions a year.

#### Figure 3b: Averaged Costs for Travels to 3 Conventions per Year

Item	# of Shows	Expense	Totals
Booth Space	1	\$734.00	\$734.00
Artist's Alley Table (1/2 table)	3	\$110.00	\$330.00
Travel	2.5	\$300.00	\$750.00
Lodging	2.5	\$400.00	\$1,000.00
Dining	3	\$100.00	\$300.00
Parking	3	\$50.00	\$150.00
Giveaways	3	\$30.00	\$90.00
Shipping to/from show	2.5	\$25.00	\$62.50
<b>Average</b>		<b>\$3,416.50</b>	
	per show		\$1,138.83

This value is used to represent the average coast to attend **three** well-known conventions per year. This data is based on values given by Companies A and B. The expenses incurred at every show are multiplied by 3. Usually one show is close enough to home, that expenses like travel can be atleast halved, if not zeroed out. 2.5 is multiplied by those expenses in an effort to be more accurate.

#### Figure 3c: Monthly Expenses Directly Related to Web Sale & Promo

	Company A		Company B		Average Comics Co.	
	monthly	yearly	monthly	yearly	monthly	yearly
Webhosting	\$5.95	\$71.40	\$10.00	\$120.00	\$7.98	\$95.70
URL fee	\$19.95	\$19.95	\$10.00	\$10.00	\$14.98	\$14.98
<b>Total Expenses</b>		\$91.35		\$130.00		<b>\$110.68</b>

This value is used to represent average costs for hosting a website. They assume the business owner knows enough to get a site going. The less hands off you are, the more expensive they can become.

## Figure 4: ACC's Weighted Average Cost of Capital: Calculation of Cost of Personal Equity and Cost of Debt Invested in Comic Book Publication

### Personal Funds: Cost of Equity

$$R_e = R_f + b \cdot (\text{MRP})$$

R <sub>f</sub> =	4.25%*
b =	1.93*
MRP =	3.90%*
<b>Re =</b>	<b>11.78%</b>

### Credit Card or Small Business Loan: Cost of Debt

$$R_d = \text{Cost of Debt}$$

		<u>Books printed</u> <u>yearly</u>
Company A's interest rate from Credit Cards	:	12.00%      3000
Company B's interest rate from Small Business Loan	:	6.90%      10000
<b>Weighted Avg. interest rate</b> based on Books Printed Yearly	:	
	<b>Rd =</b>	<b>8.08%</b>

\*10 year Treasury Bond taken from Bloomberg: <http://www.bloomberg.com/markets/index.html>.  
 beta taken from E\*Trade Financial Quotes on Marvel (stock ID: MVL) - see Bibliography for link.  
 Marvel was listed in the Consumer Discretionary Sector of S&P Leisure Products Index by S&P so  
 MRP = Consumer Discretionary Sector of S&P Leisure Products Index - S&P 1500 index = 13.9% - 10.%

<u>Cost of Capital</u>	<u>units</u>	<u>Totals per</u> <u>Year</u>
Total Investment (Expenses Below)		\$9,913.50 (see figure 5a: Initial Investment)
Financed with Debt (only printing costs)		\$5,301.50
Financed with Equity		\$4,612.00
Weight of debt (wd)		53.48%
Rate of debt (rd)		8.08%
Weight of Equity (wec)		46.52%
Rate of Equity (Re)		11.78%
Taxes (approximated owner's tax bracket)		20.00%
WACC = (wdrd)(1-T) + wcers	<b>WACC</b>	<b>8.93%</b>

## Figure 5: ACC.'s Projected Cash Flows from Publishing 1 Book

Years 0 1 2 3

### Figure 5a: Initial Investment

<b>One Time Costs: Printing &amp; Distrib.</b>	
Creative Team	\$4,562.00
Printing per book (shipping included)	\$5,301.50
Previews/Solicitation (one time fee)	\$50.00
<b>Total Initial Investment</b>	<b>\$9,913.50</b>
Print Run Sizes (books)	10000
3% Less Creative team's complimentary books	-300
Total Books Available for Sale After Comps	<b>9700</b> books are really available for sale
Retail Price per book	\$2.95
<b>Total Available Retail Gross Income</b>	<b>\$28,615.00</b>

### Figure 5b: Cash Flows

#### Incoming Cash Flows Over the Book's Life

<u>% Sold</u>				
<b>35%</b> # of Books Distributed through Diamond 1st year	3395			
Distribution fee (60% of cover price) for those	(\$1.77)			
Profit Returned to Owner	\$1.18	\$4,006.10		
<b>25%</b> # of Books Sold at full Retail at Conventions 1st year	2425	\$7,153.75		
<b>25%</b> # of Books Sold at full Retail at Conventions 2nd year	2425		\$7,153.75	
<b>15%</b> # of Books Sold at full Retail at Conventions 3rd year	1455		\$4,292.25	
<b>100%</b>				
<b>Net Sales Income in Dollars</b>		<b>\$11,159.85</b>	<b>\$7,153.75</b>	<b>\$4,292.25</b>

#### Operating Expenses Over the Book's Life

Web Hosting Comic Sales/Promo		\$110.68	\$110.68	\$110.68
Convention Costs per Year		\$3,416.50	\$3,416.50	\$3,416.50
<b>Total Operating Expenses</b>		<b>\$3,527.18</b>	<b>\$3,527.18</b>	<b>\$3,527.18</b>
Operating Profit before Int. and Tax (EBIT)		\$7,632.68	\$3,626.58	\$765.08
Taxes	20%	\$1,526.54	\$725.32	\$153.02
<b>Operating Cash Flows</b>		<b>\$6,106.14</b>	<b>\$2,901.26</b>	<b>\$612.06</b>

### Figure 5c: Evaluation Methods

<b>Timeline of Cash Flows</b>	<b>(\$9,913.50)</b>	<b>\$6,106.14</b>	<b>\$2,901.26</b>	<b>\$612.06</b>
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<b>Payback Period</b>	-\$3,807.36 left after yr 1	
	-\$906.10 left after yr 2	
	-\$294.04 left after yr 3	initial investment never made back & no books left
<b>NPV</b>	<b>-1,389.81</b>	
<b>IRR</b>	<b>-2%</b>	
PV of inflows	\$8,523.69	
PV of Outflows	\$9,913.50	
<b>Profitability Index</b>	<b>0.86</b>	

## Figure 6: ACC.'s Projected Cash Flows from Publishing 1 Book with Recommended Changes

Years 0 1 2 3

### Figure 6a: Initial Investment

<b>One Time Costs: Printing &amp; Distrib.</b>	
Creative Team	\$4,562.00
Printing per book (shipping included)	\$5,301.50
Previews/Solicitation (one time fee)	\$50.00
<b>Total Initial Investment</b>	<b>\$9,913.50</b>
Print Run Sizes (books)	10000
3% Less Creative team's complimentary books	-300
Total Books Available for Sale After Comps	<b>9700</b> books are really available for sale
Retail Price per book	\$2.95
<b>Total Available Retail Gross Income</b>	<b>\$28,615.00</b>

### Figure 6b: Cash Flows

#### Incoming Cash Flows Over the Book's Life

<b>35%</b> # of Books Distributed through Diamond 1st year	3395			
Distribution fee (60% of cover price) for those	(\$1.77)			
Profit Returned to Owner	\$1.18	\$4,006.10		
<b>25%</b> # of Books Sold at full Retail at Conventions 1st year	2425	\$7,153.75		
<b>25%</b> # of Books Sold at full Retail at Conventions 2nd year	2425		\$7,153.75	
<b>15%</b> # of Books Sold at full Retail at Conventions 3rd year	1455			\$4,292.25
<b>100%</b>				
<b>Net Sales Income in Dollars</b>		<b>\$11,159.85</b>	<b>\$7,153.75</b>	<b>\$4,292.25</b>

#### Operating Expenses Over the Book's Life

Web Hosting Comic Sales/Promo		\$110.68	\$110.68	\$110.68
Convention Costs per Year		\$2,904.03	\$2,904.03	\$1,936.02
<b>Total Operating Expenses</b>		<b>\$3,014.70</b>	<b>\$3,014.70</b>	<b>\$2,046.69</b>
Operating Profit before Int. and Tax (EBIT)		\$8,145.15	\$4,139.05	\$2,245.56
Taxes	20%	\$1,629.03	\$827.81	\$449.11
<b>Operating Cash Flows</b>		<b>\$6,516.12</b>	<b>\$3,311.24</b>	<b>\$1,796.45</b>

### Figure 6c: Evaluation Methods

<b>Timeline of Cash Flows</b>	<b>(\$9,913.50)</b>	<b>\$6,516.12</b>	<b>\$3,311.24</b>	<b>\$1,796.45</b>
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<b>Payback Period</b>	-\$3,397.38 left after yr 1	1 yr
	-\$86.14 left after yr 2	1 yr
	0.00 left in year 3	0.05 yr
		2.05 yr
<b>NPV</b>	248.25	
<b>IRR</b>	11%	
PV of inflows	\$10,161.75	
PV of Outflows	\$9,913.50	
<b>Profitability Index</b>	1.03	

initial investment made back in 2.05 years



## ***Bibliography***

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<sup>i</sup> Batman and Superman are copyrighted by DC Comics;. Spiderman XMen are copyrighted by Marvel Enterprises Inc.

<sup>ii</sup> "The Poor Man's Guide to Self Publishing by Val Staples" By Val Staples. <http://www.mvcreations.com/articles/publish.html#Calculate>

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<sup>iv</sup> The Comic book page images used in Figure 1 are courtesy of "Immortal Kiss" creator, Dion Floyd. Note Immortal Kiss production numbers are not part of this analysis.

<sup>v</sup> "Perelman's Team Nearly Destroyed the Entire World of Comics" By Chuck Rozanski. <http://www.milehighcomics.com/tales/cbg38.html>

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<sup>ix</sup> "An Interview with Keanu Reeves" By Thomas Leupp at JoBlo.com <http://www.joblo.com/index.php?id=6590>

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