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DreamWorks' Deal with Hasbro Falls Through

By John Runkel, J.D. Candidate 2016 | December 4, 2014

On November 14, Hasbro stopped toying with the idea of purchasing DreamWorks Animation, swiftly ending a deal that would have combined the toy giant with the animation studio.

In large part, the deal's demise appears to have originated from the enmity of shareholders and business partners. Hasbro's stock price slipped five percent in the two days since talks began on November 12, which presented a conundrum for the company, which had been considering purchasing the DreamWorks animation with both stock and cash.

Shareholders were not alone in their negative reception to the deal. The Walt Disney Company, one of DreamWorks Animation's chief competitors in the animation business, also reacted negatively to the potential purchase. As one of Hasbro's largest business partners, Disney had little desire to see Hasbro merging with one of its chief competitors. Hasbro's deals with Disney currently comprise around 30% of its earnings.

Moreover, only weeks before, Hasbro won the highly profitable Disney Princess contract, which Mattel had previously held. The new partnership means that Hasbro would have access to information concerning Disney productions before their release in order to market their corresponding toy lines.

Hasbro's attempt to purchase DreamWorks originated from the belief that the toy company could profit from new and stable toy lines such as "G.I. Joe" and "My Little Pony." The union would have also provided a platform for Hasbro to fulfill long-held ambitions to expand its reach as an international entertainment titan. Conversely, the deal would have offered DreamWorks a lifeline at a time when its spinoff DreamWorks Studios had been performing less than optimally by providing DreamWorks with a new outlet to market its films. While several of DreamWorks Studios' projects were successful, including the Shrek and Madagascar franchises, other films such as The Rise of the Guardians have underachieved.

Moreover, when DreamWorks Studios' lucrative contract with Netflix expires, the studio will have a difficult time replacing the rewarding contract. The end of the contract with Netflix will make it difficult for DreamWorks to meet profitability expectations, particularly with its recent disappointments in theatres. As such, DreamWorks Animation is desperate to sell before time runs out.

The collapse of the deal between DreamWorks Animation and Hasbro represents the second failed attempt by DreamWorks Animation to sell the company in as many months. In September, a deal with Japanese telecommunications company Softbank also failed.

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While DreamWorks may understandably be eager to sell, the studio's precarious position, coupled with the company's ongoing internal dissent, seems to have gotten the better of the toy manufacturers desire for expansion for the time being.