

## SUMMARY OF 2009 AFM FINANCE CONFERENCE

### Two Panels Cover Effect of Global Financial Crisis, Reduction of Conventional Equity Investment and Studio MGs, Reallocation of Risk and New Financing Sources

The Finance Conference at the annual American Film Market (AFM) in Santa Monica CA is one of the highlights of the year for the film financing community. It's an annual presentation of two panels discussing recent and current trends in the world of film financing, to a sold-out audience consisting of independent producers and production company executives, lawyers, bankers, accountants, and executives from domestic and foreign film funds and film commissions from all over the world. This year's Finance Conference (Nov. 6, 2009) was the best in over a decade, with stellar panelists giving astute analyses and observations about the current fundamental shifts in the global film marketplace, plus helpful advice to the attendees present.



The Finance Conference's first panel, "Current State of the Independent Film Business," featured a particularly stellar panel: moderator P. John Burke (*Akin Gump*), Ryan Kavanaugh (*Founder & CEO, Relativity Media*), Edward Borgerding (*CEO, Abu Dhabi Media Co.*), Roy A. Salter (*The Salter Group*), Morgan Rector (*Comerica Bank*) and Modi Wiczzyk (*Co-CEO, Media Rights Capital*). The key points made by the panelists were:

- Questionable Deals. As in previous business cycles, films were made in recent years that shouldn't have been made, but only got made because of the availability of new financing sources and the appearance of more distributors, which in turn led to competitive bidding on whatever films were available.
- Production Costs Down. Production costs have been coming down, as people realize that films can be produced for less than the bloated budgets of recent years.
- DVD Bubble Burst. In 1996, DVD revenue peaked, as consumers replaced their VHS home libraries. But in 2002-2003, most in the industry thought that 1996's peak level would continue. But with home video libraries already replaced by DVD, the 1996 level couldn't be sustained – and it wasn't. This left the industry unprepared when the DVD bubble broke.
- Fewer Banks. The number of banks participating in syndicated deals (such as J.P. Morgan's) has declined from 30-35 to 10-12.
- Presales. Distributors expect to see producers having presales of 65-75% of their budget (since there's plus adequate soft money).
- Reallocation of Risk. Till now, the party most at risk (the financier) has also been the most disadvantaged (with no control over decision making). Since producers and studios are taking substantial fees before there's revenue to share with financiers, the financiers now want risk to be shared with their partners.
- New "Smart Money." Unlike the new sources of "dumb money" that always surfaced in the past, the new financing sources (especially China) really understand the deals they're entering.

- Ring Out the Old, Ring in the New. The financing sources of recent years (Wall Street, German film funds) have been replaced by such new sources as Abu Dhabi, India and Qatar, with China, Singapore and Russia perhaps the next sources to get into the film financing game on a significant level.

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The Conference's second panel was "Foreign Investment: A Growing Source of Film Financing." Again the panelists were prominent and in different aspects of film financing: moderator Benson Berro (*Managing Director, KPMG*), Ashok Amritraj (*CEO, Hyde Park Entertainment*), Adam Leipzig (*Pres., National Geographic Films*) and Jason Sklar (*V.P., Entertainment Group, J.P. Morgan*). Key points were:

- Obtaining equity is now more of a key than ever to getting a film produced.
- There is more of an infusion of foreign funding than before – but in the form of equity, not as government incentive funding.
- Some emerging markets were not hit as hard by the global financial crisis – e.g., India's growth never went negative, but only slowed from 18% to 5%. So such countries can be a source of film investment.
- The specific sources of this new foreign investment are those mentioned in the first panel: Abu Dhabi, India and Qatar, with China, Singapore, Mexico or Brazil perhaps next to become a significant source of foreign film investment.
- Ashok Amritraj described Hyde Park's recent deal with a Singaporean source: \$75MM for 3-4 films over 5 years. Most important, it's more than just a film financing deal, but is part of an overall cultural exchange program.
- The market and financing have become even tougher than before. The financing model is primarily the same as before, but presales are more difficult to obtain, and distributors want to know exactly how a film is geared for a specific marketing plan.
- The banking community has become more conservative, because of the increased unpredictability and volatility in the industry – especially in the home video market. Consequently, there's more of a pressure for borrowers to show leveraged presales and tax credits.
- Slate financings appear to be dead for now.
- Gap financing is still available (at least for some producers), but has become more expensive.
- With fewer U.S. distributors in business, spots in distributors' slates are harder to get. Consequently, producers need to arrange for a spot early on, so that foreign partners see that a film will have U.S. distribution.
- Also, there is less payment of MGs by U.S. distributors than before.

While the information presented gave a complex and mixed message of today's film financing scene, it also gave a clear roadmap of how producers should proceed in today's market.

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