

Swiss Finance Partners Group

Your Preferred Financial Service Provider



Swiss Finance Partners Group Ltd.
Tailor Made Financial Services

London
Geneva
New York
Hong Kong



Investing in the Film Industry

2022





Investing in the Film Industry

Film Investment Decision Process

This document tries to offer a step-by-step introduction to the financial mechanics of an independent feature film project.

Its aim is to provide—especially for those contemplating a first-time experience in film investment—a user-friendly guide to assist in making decision-

The pages

above all designed

shed light

business side of our film while furnishing data-rich and methodologically lucid context to the many questions:

Is supporting this project the right choice for you ?

Ultimately we seek to identify partners whose interests, evaluations, and intuition align with our own. Film production is a collaborative undertaking, even at the level of financing, is this for you?



following prioritize transparency else. We've this presentation to on the

Swiss Finance Partners Group

The best filmmakers and smartest producers bring on-board not merely investors, but allies. When a filmmaking structure is built with this degree of common cause among all its participants, the odds are maximized for fully realizing the vision on screen (and consequent success at the box office) that inspired everyone to sign up in the first place.

And while it remains the case that film investment, as a key ingredient in the peculiarly complex recipe of cinema, carries with it a greater degree of inherent risk than is found in many other fields and endeavors, it's also fair to say that film investment is not a purely hope-based proposition. There are facts, figures, and predictive techniques to bring to bear on the analysis of a film's prospects, so long as you know the right questions to ask. One of the fruits of our team's combined experience in film production is having learned the right set of questions, which we now respectfully share for your consideration.

The foundational paradox of our industry, taught in film schools on day one, is that moviemaking is both a business and an art. It's a contradiction in terms that reminds the science nerds and philosophy fans among us of the very paradox of wave-particle duality at the heart of quantum physics, underlying the nature of absolutely everything in our world. Apropos light itself being both particle and wave—and let it be lost on no one that light is the sine qua non of capturing images on film—that famous film buff, Albert Einstein, wrote:



We have two contradictory pictures of reality; separately neither of them fully explains the phenomena of light, but together they do.

The phenomena of making movies might best be explained in the same way: by looking at—and folding together in your mind—both pictures: the art and the business, the business and the art.

Or you could simply think of making “Soul of Darkness” as a thrilling act of creation with a really strict accountant.

Creative Content

We advise going through the following checklist as you consider partnering on any film, ours included:

1. First and foremost, explore the creative content of the planned film.

In the case of “Soul of Darkness,” the best and most concise way to do so is through the project’s “Lookbook” (which also includes bios on our team).

After spending time with the Lookbook, ask yourself:

- Is the storyline of this film something you connect to? Is it something you’d like to watch?
- Do its themes and concepts resonate for you? Does its message (if any) reflect your values?
- Picture the finished film on movie screens, laptops, phones, TV’s, and aircraft seats around the world. Imagine it being written about in the press, impacting audiences, and even contending for honors during awards season. Will you derive satisfaction from having been instrumental in making this particular film a reality?

If you have answered yes to the above, move along to the next item on the checklist.

If you have answered no, **proceed no further** and thank you for your time.

The Filmmaker

2. Review the skill level of the filmmaker, as the person who’ll be responsible for bringing the film to life.

You can make an efficient assessment by reading what relevant and credible sources have said about the filmmaker’s previous work.

You can also form your own opinion of a filmmaker’s work of course.

It’s not necessary, by the way, that you fall in love with a filmmaker’s last film. What is the story he or she will direct—in our case, that next story being “.....”

(Which, per #1 on your checklist, you will already have decided if this is a story that holds your interest.)

Once you feel good about a filmmaker's skill set, proceed to #3 on the checklist. If you don't feel good about him or her, **stop here**.

A key database for identifying comps is www.boxofficemojo.com

Comparable Films

3. Start to assess the business side of the equation, begin by looking at films that are comparable in the marketplace and how does the current film you are considering compare with them.

This is usually the first criterion to be addressed when considering a proposed film. The essential question is: Will the marketplace be receptive?

How do you work this out?

You begin by looking at the recent performance in the marketplace of comparable films ("comps"), specifically those films that are comparable to the one you're considering in genre and budget. ("Genre" simply means a category of subject matter: comedy, drama, action, horror, sci-fi, LGBT-themed, animation, documentary, rom-com, superhero, fantasy, etc.).

Film professionals track the systemized box-office revenues of movies—and secondarily it's used to find films grouped by genre. (Box office mojo is owned by IMDB.com, which is another indispensable film-industry database and is owned by Amazon.)

Of course, the best films build on the past by taking us into the future, with either a fresh storyline or innovative cinematic style, or both. ("Soul of Darkness" aims to deliver both.)

4. Examine the Financials.

This is found in the "Waterfall," a spreadsheet that includes:

A film's finance plan (in the vocabulary of film finance, a "finance plan" is a simple, short list that itemizes where the various pieces of a film's budget will come from); and * an itemization of how profits from the film will flow.

5. Have a look at our estimated sales by territory.

These estimates would of course no longer be relevant if, as previously described, we were to sell our film in its entirety to a major studio (e.g. Fox Searchlight or Sony Pictures Classics) or to a streaming platform like Netflix or Amazon (ideally with a theatrical release as part of the deal).

6. Consider the risks and rewards.

Please note that sales estimates, like all sales estimates on all films, are just that: estimates, not guarantees, based on a variety of data, experience, and intuition.

Indeed, some people find sales estimates to be an imperfect guide to performance (estimates remain the standard industry tool on which to base an analysis).

Is it possible that our estimates will not be realized? Could investors do less than the 40% ROI indicated in our waterfall on the low end— and instead only recoup their original investment, breaking even but no better? Could you do even worse than that?



that our investors do 40% ROI on our waterfall and instead their original breaking even. Could you do

The answer is: there is always an element of risk in film investment, no matter how well-conceived, well-produced, or well-distributed a given film is, and regardless of whether it's a big-budgeted studio project or an efficiently budgeted independent one. However, this is also the challenge.

Parting Thoughts

So back to the initial question: Is supporting this project the right choice for you?

Recap:

1. Do you feel good about it creatively?
2. Does the story of the film hold meaning for you?
3. Would it be fulfilling to you to back a movie that aims to enthrall audiences, leave teary eyes at the end and inspire kids born with a beautiful difference?

4. Do you feel confident in the filmmaking team?
5. Re-read our bios in the Lookbook, then meet with us or skype with us.
6. Do you understand the business side, per our overview in the preceding pages?
7. Does what we've explained about the process make sense to you (given that filmmaking is an art as well as a business)?

On the other hand, if you feel as we do (and frankly as the evidence supports) that “Soul of Darkness” represents an opportunity in the marketplace as a powerfully conceived piece of entertainment, in a genre of film that audiences are currently rewarding and where there is continuing demand for high-quality product, then do consider joining us.

The Financial Aspect

Anyone who has produced an independent film will tell you the most difficult task is raising money to pay for the production (although the rest is not easy either).

Raising money is the key to any independent film, regardless of your position, experience, and past credits, and there are only a few ways to actually accomplish that.

Those ways are as follows:

Equity

Equity based financing is simply having investors contribute money—actual cash—to the production in exchange for an ownership interest in the film and the profits derived from the exploitation of the film. While there are many ways to structure these types of deals with many different ways for the investors to re-coup their investments and turn a profit, they all revolve around the same questions that must be answered: (i) How much ownership does the investor receive for the investment? (ii) How will the investor re-coup their investment? (iii) How will the investor's see a profit?

The main thing to remember when dealing with investors is to be up front with them regarding the production. Investing in film is an inherently risky game, especially considering that independent films rarely make money for their investors, and you must disclose this risk as well as all other investment risks or you could be held liable for misrepresentation and/or violating other securities regulations.

Therefore, it is imperative that you spend the money to consult with an attorney on any equity structure.

Pre-Sales

Pre-sales agreements are pre-arranged and executed contracts made with distributors before the film is produced, and are based on the perceived strength of the project as assessed by each distributor after reviewing numerous factors, including the script, the attached talent, and the marketing strategy. Once you enter the pre-sales agreements, there are two ways to go: (i) you can take out a bank loan using the pre-sales as collateral; or (ii) receive a direct payment at a discount from the distributors themselves.



This financing strategies requires the filmmaker to either repay the loan based on the pre-sales or a direct payment from the distributors before profiting on the film, and the filmmaker will likely have to personally guarantee the loan or advance payment in the event the film cannot be completed. Because of the complexity of these pre-sales deals, it is wise to consult with counsel before entering into one.

Loans/Gap or Bridge Financing

Many filmmakers obtain loans for their films, although loans are usually only given once other financing is in place. Usually, filmmakers only use loans to fill in the “gap” or as “bridge” financing between what they have raised and the total cost of the film. Again, a filmmaker will likely have to personally guarantee a loan and put up the film and related intellectual property as collateral. If the film does not earn sufficient return to repay this loan, the filmmaker will be on the hook for the total unpaid loan amount. Another area to make sure that you are protected.

Tax Credits

Like bridge loans, tax credits can be helpful in filling in the gap between the money a filmmaker raises and the budget of the film. Individual states and countries allow film producers to subsidize the money spent on production through tax benefits.

Typically, this requires the filmmaker to film a significant portion of the production in a local area, hire a certain number of local crew employees, rent from local vendors, and run payroll through local services. Tax credits are based on a lengthy application process and are often difficult to procure. But, depending on the state or country, the benefits can be significant. For example, a \$1 million movie can end up actually costing \$750,000. This means that the filmmaker only needs to raise 75% of the film's budget. Moreover, certain credits are sellable, transferable, and even tradeable, which means that if the filmmaker does not use the full amount of the granted credit, they can sell those credits for hard cash. As with the other forms of financing, due to the complexity of these transactions, it's important for a filmmaker to know the rights regarding tax credits.

Crowdfunding

Crowdfunding is a relatively recent phenomenon with a lot of hype. In reality it is expensive to do a full campaign and, unless a filmmaker has intellectual property rights with a cult following or a major attachment to the film, they likely will not be able to raise significant money via crowdfunding. However, it is an easy way to tap friends and family for small dollar donations through social media websites like Facebook FB +0%, twitter and Instagram to raise money for films. A filmmaker with 500 people donating \$100 raises \$50,000, which is a good start. Moreover, crowdfunding can be done through donations or equity—when using donations, the filmmaker does not have to repay that money to the donor.

Deferred Payments

Most filmmakers in the independent film world likely have to defer their producer fees and, if other talent will agree to defer their fees, then that much less money has to be raised to make the film. The problem with this method is that the “risk takers” are working for free and relying on the film's success for payment. Certainly a gamble especially since all deferred fees will likely be paid only after the loans and investors have recouped.

Whether a first time or experienced filmmaker/producer, you will probably have to use a combination of the above financing options to make a film. Under any of the above options, the key is to present as complete a package as possible with all

relevant, legally airtight attachments, a fleshed out budget and, at least, one experienced person to lend gravitas to the film. You might give financiers some assurance that the film will be made if all of these requirements are met.

Now, let's begin with worldwide sales estimates, broken down into three standard categories: low, medium, high. Think of these as gross profits.

What are sales estimates and how are they distinct from a film's box-office revenue? First let's point out that, unlike "studio" movies (i.e. bigger-budgeted films from the major studios—Disney, Warner Bros., Viacom/Paramount, Sony, Fox, or NBC/Universal distributed worldwide through a studio's own distribution network and according to its own set of accounting procedures), independent films approach the matter of finance and distribution somewhat differently.



In the standard independent scenario, before you make your film, you request a "sales agent" to provide you with estimates (low, medium, and high), representing the amounts that said agent believes your film can be sold for once completed, country by country. These estimates are based on the sales agent's experience, their analysis of demand in the current marketplace for

your genre and the creative elements of your project, and sometimes their conversations about your project with "buyers" around the world (i.e. distributors in various territories internationally).

After your film's completion, it's then the job of the sales agent to take your film to buyers (usually on the circuit of film markets, many but not all of which occur in conjunction with major international film festivals), where deals are struck to sell your film for distribution on a territory by territory basis (i.e. one country at a time).

As an example: let's say your sales agent strikes a deal on your behalf with a UK film distributor who wishes to acquire the exclusive rights to distribute your film in the UK.

And let's say the price settled on for these rights is US\$1,200,000. The \$1,200,000 is paid up front—and generally speaking, that's that. The UK distributor is then responsible for marketing your film in the UK; and the net profits generated by the film in the UK now belong to the UK distributor.

If your film underperforms expectations in the UK (whether at the box office or streaming), you are not penalized. No portion of your \$1,200,000 can be clawed back.

On the other hand, if your film OVERPERFORMS expectations in the UK (as defined in your contract with the UK distributor), additional profits WILL flow to you, called "overages."

This example is repeated for all territories around the world in which your sales agent strikes deals for your film.

An entirely separate scenario for recoupment, one that could well be relevant to "Soul of Darkness" due to its particular appeal in the current marketplace, would be the following:

Once our film is finished and we screen it for film-industry executives and buyers (whether privately or at a major film festival such as Tribeca, Cannes, Toronto, Sundance, Berlin, or Venice), we might be offered a "buyout" from a Fox Searchlight or a Focus Features or a Sony Pictures Classics (the top independent-film divisions of the major studios) or from Netflix or Amazon (the top streaming platforms—which also have the capacity for theatrical distribution, i.e. placing films in movie theatres, just like the classic studios).

Such an offer, if we accept it, would take the film's distribution and monetization out of our hands entirely and run it through the studio's larger apparatus. In exchange, we might get something along the lines of the amount of our budget + 30% or 40%, up front. This would mean instant recoupment for our investors, plus their 20% premium, plus an additional 5% to 10% on their money (i.e. half of the remaining 10% to 20%, the other half going to producers).

We might strike a better deal with a studio than this, but in any case we would have to look seriously at such an offer, since it would mean success for us and our investors in a single stroke—with no further work or risk on our part.

And we would aim to negotiate a bonus financial participation for ourselves and our investors once the film reached certain benchmarks at the worldwide box office.

Swiss Finance Partners Group

But back to our waterfall: now that you know what “Worldwide Sales Estimates” means (i.e. estimates for all territories worldwide added up into a single figure each for the low, medium, and high columns) ...

First we subtract 1%, which goes to the third-party company that collects, accounts for, and disburses all revenue generated by the film. In other words: revenue does not go to the film production company; it goes directly to a third-party company called a collection account manager (“CAM”), which is then responsible for paying monies out to all stakeholders according to contract.

Employing a collection account manager assures complete accountability in the disbursement of profits. Examples of third-party collection companies:

<http://www.fintagehouse.com> and <https://www.freeway-entertainment.com>



Next we subtract 15% for the sales agent that sells our film to distributors around the world. (The percentage paid to a sales agent is negotiable. 15% is well within normal parameters.)

Then we subtract marketing/sales expenses: this is a cost negotiated with our sales agent in advance of their work. To be clear, this is not the cost of marketing the film to the public (i.e. “P&A” costs, for “Prints & Advertising”); rather the cost noted here represents expenses incurred by our sales agent in marketing the film to distributors around the world. Distributors then spend P&A monies of their own, at their discretion, in their individual territories.

Next we pay residuals of 5% (estimated), to unions for actors et al. These are contractual. Since the actual percentage depends on which unions participate in our production when all is said and done, this figure will only be finalized going forward.

Then we pay back the interest on the bank loan that advanced us the value of the tax credit/rebate. At an interest rate of 20%, this means we're paying \$200,000 on a rebate of \$1M. (Debt is of course always paid back before equity.) FYI: we might be able to do better than 20% interest on the loan—or even find a lender who will only take a token amount for this service.

(Sometimes equity investors in a film also make a low-interest loan to the production as an advance against the tax credit/rebate, which itself is guaranteed by a governmental institution.)

Equity investors are now compensated. They receive, pro rata and pari passu, 100% of all net profits generated by the film going forward until they've not only fully recouped their investment, but received an additional 20% premium.

Once equity investors have received their 120% ...we pay a deferred fee to our visual effects house. (Visual effects, or “VFX,” form a critical component of the “Soul of Darkness” story. It's likely that we'll want more from our VFX house than we can afford up front—and this is a way to strike a deal with them that puts maximum visual magic on the screen.)



Next the production company is paid its deferred fee. (Typically a production company is paid its fee as part of the film's budget. In our case the production company will voluntarily defer a significant portion of the standard fee until after equity investors have received their 120%—as a way to contain the budget.)

Swiss Finance Partners Group

At this point, we begin a 50/50 split on remaining net profits (and on any and all ongoing net profits in perpetuity): 50% to the investors as a group and 50% to the producers of the film as a group. (This is the standard, time-honored formula.)

Equity investors (who will have put up \$4M, equaling 80% of the film's budget of \$5M), therefore receive 80% of the investors' share of net profits going forward, in perpetuity.

Bear in mind that investors sharing in net profits "in perpetuity" is an important point.

Sales estimates may be exceeded over time, and additional revenue may be generated for years, revenue that investors will continue to share with producers per the above-referenced 50/50 formula: 50% to the investors as a group, 50% to the producers as a group.



Contact Us

London Office (Head Office)

71-75 Shelton Street
Covent Garden
London
WC2H 9JQ
United Kingdom

Tel. +44-203 693 3938
Tel. +44-203 514 7595
london@swissfinpartners.com
www.swissfinpartners.com

Geneva Office

Rue du Marché 30,
1201 Geneva
Switzerland

Tel. +41-22-539 1694
Tel. +41-22-539 1695
geneva@swissfinpartners.com
www.swissfinpartners.com

New -York Office

Madison Avenue, 151 East, 80th
9th Floor,
New York, NY, US

Tel. +1-646-453 4986
Tel. +1-646-453 4987
new-york@swissfinpartners.com
www.swissfinpartners.com

Honk Kong Office

Admiralty Tower
18, Hardcourt Road, (8th Floor)
Central Hong Kong (HK)

Tel. +1-852 580 814 05
Tel. +1-852 580 814 08
hong-kong@swissfinpartners.com
www.swissfinpartners.com

Swiss Finance Partners Group

Disclaimer: The contents of Swiss Finance Partners Brochure are protected by applicable copyright laws. No permission is granted to copy, distribute, modify, post or frame any text, graphics, video, audio, software code, or user interface design or logos.

This Brochure is solely intended to provide thorough and reliable information for clients and prospective clients interested in the services profiled herein in the spirit of providing maximum timely disclosure for all interested parties. The information in this Brochure is for general information purposes only. It does not constitute professional advice, whether legal or otherwise, and does not purport to be comprehensive.

All intellectual property rights, including copyright and database rights, in this site and its contents (including but not limited to text, images, software, illustrations, artwork, high resolution photography, video clips, audio clips and any after-sales material, hereinafter referred to as “the materials”) are owned by or licensed by the Owner or otherwise used by the Owner as permitted by applicable law.

The names, images and logos identifying the Owner or third parties and their products and services are subject to copyright, design rights and trademarks of the Owner and/or third parties. Nothing contained in these Terms and Conditions shall be construed as conferring by implication, estoppel or otherwise, any license or right to use any trademark, patent, design right or copyright of the Owner or any third party.

Links available in the Brochure will allow you to link to websites not maintained or controlled by the Owner. The Owner provides these links for your convenience and is not responsible for the contents of any linked websites. The Owner cannot and does not warrant the accuracy, completeness, non-infringement, merchantability or fitness for a particular purpose of any information available through these links and makes no representation or endorsement whatsoever about any other website which you may access through the Site. It is your responsibility to ensure that any website you choose to use is free of potentially destructive items such as viruses.



Copyright Statement

This presentation is copyright © 2019 by Swiss Finance Partners Group Ltd. and is protected by copyright as a privately owned work and/or compilation, pursuant to Swiss copyright laws, international conventions, and all other relevant copyright laws.