

CSFI

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The changing face of film finance: A round-table discussion with Adrian Wootton (Film London), Ian Hutchinson (Bank of Ireland) and Angus Finney (City University). Held on Thursday, October 4, 2007, at the City Club (City Suite Room), 19 Old Broad Street, London EC2N 1DS, from 12:30-2:15pm.

A London backdrop can help a film to sell on both sides of the Atlantic but, when it comes to film financing, the UK is woefully behind the curve compared with its competitors in the US. For all the glamour associated with film, it is an exceptionally tough and risky business. This round-table discussed why the British film industry struggles with film financing, in spite of the raft of tax breaks and subsidies provided, and the type of financial innovation needed to put the industry on a more even footing with the US.

Film London is trying to shake up the UK's film financing industry and break the industry's dependence on public funding by setting up the first Production Finance Market. The first speaker said that the aim was to organise an event that would bring together film producers with private financiers to develop a different kind of climate. He admitted there were considerable hurdles to be overcome: both film-makers and financiers were deeply suspicious of one another. British film-makers are also notoriously bad at coming up with good quality business plans and tend to live hand-to-mouth. He said he hoped the event would be a sophisticated version of financial speed dating. To give it the best chance of success, the financiers would be meeting with film producers with real, ongoing projects so that it could be more than just a talk shop. He added that he found it shocking that such an event had never been held before given that London's reputation as a centre of financial innovation.

The second speaker said that the financiers invited to attend included companies like Paramount and Warner Brothers who would be keen to distribute the product even if they had nothing to do with making the films. There would also be 10 hedge and equity players and around 10 banks including Barclays and Merrill Lynch. The plan is to use seed money from the London Development Agency to get the event off the ground in the hope that it would be a commercial venture in its own right within two to three years.

The third speaker talked about investing in film from a bank's perspective. There are only three or four banks involved in financing film in the UK, and he is involved in funding individual films rather than slates of films. He would prefer to be involved with slates. The majority of film investment comes from funds rather than banks. None of the banks gets involved in films with budgets of less than \$5m while the funds are looking for films with international potential. Typically a bank would provide gap financing based on an estimate of the possible sales and usually advance around 20% of the budget.

This year has been a quiet year, financing only around four or five films, equivalent to less than \$100m. He said this was partly because the funds were becoming more active and

also because the new tax credit was doing a good job although it did not fully replace the benefits provided by the old system. He said financing film was not classic banking as things going wrong all the time which can be tricky to explain to the credit department. Out of every 10 propositions he receives, he only finances one film or less.

One member pointed out one big problem associated with film financing was that there was no standard documentation. Lawyers were trying to remedy this but finding it difficult to make headway. The smaller budget films often run into bigger problems because they often get money from many different sources that make the bureaucratic headaches grow exponentially. The second speaker pointed out that film producers were often squeezed in the middle, having to keep both the financing and the film production on track. If the talent quits then often the financing will also fall apart as well.

Another member said a possible way around the problem would be for a corporate finance to go around and create a slate of films with certain characteristics. They would then sell a slice of that slate to different investors who get a proportion of the profits from each film. The second speaker said that this was precisely the role of some of the top financial bodies in LA and New York - or it had been until the financial markets had its hiccup three months ago; there is now a question mark over how much finance is available. The first speaker said a lack of entrepreneurial spirit among UK film producers compared with the US was partly to blame for why the film financing industry was in such a sorry state.

All hoped the introduction of the Production Finance Market would help to educate both film-makers and financiers to promote a better understanding of financial planning and appreciation of risk. The chairman made the cheeky suggestion that the highly intelligent bankers who would be looking for work in the coming months would do well to devote their efforts to developing a more efficient financial model for film financing.