

Money not easy for filmmakers

Funding is out there for Hollywood – the trick is finding it

By Georg Szalai and Paul Bond

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Despite a credit crunch that has wealthy investors hiding cash under their mattresses rather than risking it on films and Wall Street retreating from financing studio slates, Hollywood isn't running out of money.

Witness James Janowitz of Pryor Cashman. The attorney is buttoning up a \$250 million structured finance arrangement -- including money from hedge funds -- that will help pay for the production of a dozen films.

"The market isn't as strong as it once was, but there is activity, and the structures make sense as long as they don't unduly favor the studio or producer," Janowitz says.

In short, a film-finance bubble that pumped billions into Hollywood during the first few years of the new millennium has popped, but the show is going on with new -- and a few old -- players.

Foreign investors and government entities, including U.S. states and foreign territories offering incentives, have taken up some of the slack. Plus, finance folks have hit up strategic investors including film distribution partners; rich individuals who might or might not have invested in films before; and relative newcomers to the field among financial investors, such as family foundations and pension funds.

The money, though, comes under more stringent terms these days.

The interest rate banks charge on loans when film is used as collateral has increased 20% compared with five years ago, "when it was all lovely and nice," says Jeanette Buerling, who runs Magnet Media Group with partner Maggie Monteith.

Investors and their interest in staying on budget also are inserting themselves into the filmmaking process more than they used to. During the lensing of one recent indie movie where the budget faced overrun, the creative team had to bargain with the financiers before shooting more.

"We broke it all down by shots and decided, 'this is what we should shoot and this is where the bank closes,'" says former studio exec John Hadity, president and CEO of production finance consultancy Hadity & Associates.

In the post-bubble era, there are only rare new slate deals for big studios and puny pre-sales abroad for indie films. Such notable institutions as Deutsche Bank, Royal Bank of Scotland and Dresdner have pulled the plug on film lending, and hedge funds have been trying to get out of

their film investments -- often at lower prices. So, filmmakers often must chase money far and wide to cobble together deals.

"Even Steven Spielberg had trouble getting a bank to step up," says Janowitz, referring to the recent financing secured by DreamWorks from India's Reliance Big Entertainment.

Buerling says film investing remains popular with rich Europeans seeking tax advantages. Among the movies her company is backing, in part through a \$250 million fund, include "13," starring Mickey Rourke, "The Experiment," with Forest Whitaker, and "Cleo," starring Catherine Zeta-Jones and directed by Steven Soderbergh.

Even amid this tough economic environment, there's enough interest in movies from investors to encourage a second Film Finance Forum next month in New York. The first one, four months ago in Los Angeles, attracted 120 participants.

"The equity players who are left are being very careful and diligent about the investments they are making," says Katherine Winston, managing partner of event organizer Winston/Baker.

Jesse Cohn, who manages hedge fund Elliott Associates' relationship with Relativity Media, highlighted that point last year. After the two struck a slate-financing deal with Universal, Cohn said he liked the "fair and reasonable" investment terms agreed to by the studio.

"These deals have nearly always paired a strong and profitable studio with a poor structure, or a weak and unprofitable studio with a good structure," he said. "This is the first deal we've seen that matches a top-tier studio with a structure that properly aligns the interests of all parties."

While Hollywood routinely has replaced one golden goose with another -- the Japanese in the 1980s, the Germans in the '90s and Wall Street at the turn of the millennium -- this time it appears a hodgepodge of entities from India, Singapore, Switzerland and the Middle East are among those stepping up to the plate.

FOREIGN COIN STILL A TRICKLE

Initially, foreign investors were taking advantage of a weak dollar, then a decline in asset values made film investment more affordable.

Swiss outfit Millbrook Pictures, for example, launched about a year ago with its first U.S. foray, "W.," from director Oliver Stone.

Millbrook has raised millions from private investors who are passionate about movies, managing director Karl Spoerri says. Beyond the usual criteria -- original scripts and a good cast -- Millbrook seeks films that can be made on a "realistic" budget.

Spoerri predicted Swiss interest in film investing might rise because "other forms of investments have turned out riskier than thought, so people would rather put money into something that is declared as a risky investment from the start."

Clearly, the \$825 million raised by DreamWorks that includes \$325 million from Reliance, along with an investment from distribution partner Disney and a loan syndicated by JPMorgan, indicates there's overseas interest in Hollywood.

For now, foreign money is not as big a boon as highflying Wall Street bets were, though, no matter what the buzz might be.

"I do see foreign investors take note, and I think the trend there is going to be positive, but it hasn't hit us in a big way yet," says independent film consultant John Logigian, who works with high-net-worth individuals.

From August 2004-August 2007, Wall Street channeled at least \$11 billion into the production of about 600 films, the money coming from such famous names as Morgan Stanley, Merrill Lynch, Goldman Sachs, JPMorgan and Citibank.

"There is no way to replace all of that money," Film Department CEO Mark Gill says. "The time of easy money is over."

Adds Robert Darwell, who heads the transactional entertainment, media and technology group at law firm Sheppard Mullin Richter & Hampton: "There has been an adjustment in the marketplace, and likely a necessary one. Maybe there were too many movies made. Hopefully a bit of Darwinism will help in that stronger projects survive."

THE STATES STEP UP

Although Hollywood didn't need a bailout, production incentives offered by most U.S. states also quickly have become a key part of budgets, especially for indie films.

"It's a component of nearly every movie," Darwell says. Especially for independent movies with budgets in the \$4 million-\$5 million cost range, \$750,000 or \$1 million in incentives can be "very meaningful," he says.

"I refuse to work on a project if it doesn't include some form of production incentives," Hadity says. "I find that irresponsible."

Some government money also can be tapped overseas, combining the government and international funding trends.

In fall 2007, Time Warner's Warner Bros. studio struck a broad partnership with Abu Dhabi Media, owned by the Abu Dhabi government, that included plans to jointly finance films with a \$500 million fund, even though that fund since has stalled.

Hyde Park Entertainment has struck a seven-year, \$250 million financing partnership with Imagination Abu Dhabi, a unit of Abu Dhabi Media. Plus, it is financing a slate being developed by its Hyde Park Asia arm with backing from Singapore's Media Development Authority.

"Government and state-sponsored groups and private money have become very important because of the pullback from Wall Street," Hyde Park chairman and CEO Ashok Amritraj says.

THE AGENCY ANGLE

Hollywood talent agencies also see opportunity in the brave new film-finance world.

This year, Gersh named producer Jay Cohen as head of a new film-financing and packaging division. "We felt there was a clear need for these services," he says.

Similarly, CAA has worked with Bob Stanley, former head of media and sports finance at Merrill Lynch, to help find funds for the likes of Summit, Marvel and United Artists.

STEADY PLAYERS

Meanwhile, there are the usual high-net-worth individuals who remain unafraid of the movie biz, including FedEx founder Fred Smith of Alcon Entertainment; Jones Apparel founder Sidney Kimmel of Sidney Kimmel Entertainment; and eBay's first president, Jeff Skoll, of Participant Media.

Also, Ryan Kavanaugh's Relativity Media is busy as ever before, perhaps even benefiting from a sudden lack of competition.

Relativity's staying power might owe to its relationship with New York hedge fund Elliott Associates, which provides solid financial backing. Plus, Relativity knows its way around Hollywood.

But when not dealing with the usual suspects, patience is required.

"We're having to educate new investors," says Laura Fazio, who has worked on slate deals for investment banks and now is managing director and global head of telecom, media and technology at Aladdin Capital Management. She has traveled to Asia and Europe lately because, "we all just have to go further afield."

With battered housing and stock markets, she tries to sell film investments with the positive industry trends. "I have a great chart that shows worldwide boxoffice rising against all the major market indices," Fazio says.

So, while things are much more sober in film financing these days compared with a few years ago, the sky isn't falling.

"Everybody's portfolio has taken a hit, so people look for new opportunities," Logigian says. "It's not like the auto industry that has been hurting so much. I do have people coming into the showroom and looking. They may not close the deal, but they are at least looking."

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