

# Investing in Film Production

An asset portfolio management decorrelation opportunity sought after by many asset managers.



By **Peter Hottinger**  
La Compagnie Peter Hottinger SA

The structuring of an uncorrelated asset portfolio is becoming the indispensable basis of efficient portfolio management. Uncorrelated investment methods can be used to neutralize or balance the risk of loss of a traditional stock or bond portfolio. To this end, a manager allocates between 10 and 25% of his portfolios to one or more alternative assets. There are many investments that allow some decorrelation, such as real estate, wine or art investments. In the same way, investing in film production is a real opportunity for many investors looking to protect their assets.

Immersing oneself for a few hours in a dark room for only a few francs is probably the easiest anti-crisis solution one can organize, but also the most affordable choice for millions of viewers. And this is not new. According to Jeanine Basinger, film historian and Chair of the Film Studies Department at Wesleyan University in Connecticut, in 1929 or during the Second World War, the public was keen on going to the cinema, looking for the most accessible and affordable entertainment.

Film production is therefore a good sector for investors, whether private or institutional, looking for performance,

even and especially in times of economic crisis. The segment is healthy and has enjoyed steady growth for many years. As an example, in France, this market has been growing by around 4.5% p.a. for more than 10 years. It is also supervised by an authority (the French National Cinema Center, NCC) necessary for any due diligence by potential investors. In addition, the area is protected by favourable legislation and a range of financing aids.

## What makes a film profitable?

Many films are profitable. As an example, the average return on investment of European films released in cinemas over the last 5 years is around 120% of invested funds. This average includes all films, small- and big-budget ones, whose profitability is often harder to ensure. As with any investment, thorough due diligence is required. Evaluating the potential future success of a film necessitates the study of a number of key success factors:

- Story and author
- Director
- Casting (actors)
- Producer(s)
- Broadcasters and distributors
- Budget and internal rate of return

One must note that to avoid the risk of commercial failure, the choices of distributor and broadcaster are essential, because the investments they realize to achieve maximum awareness by the public are vital to the film's future success. The experience of producers, past results of the director and fame of the actors will also allow to evaluate the potential of the film and give or even estimate visibility on future revenues. However, the spectators' reception will mostly be responsible for the success of the film and will ultimately generate the revenue for the producer and associated investors.

## Film founding sources in France

The producer, legally and financially liable for a film, in particular towards

other investors, is often the project's initiator. He sets the agenda and budget and is also responsible for enforcing them. His financial contribution varies according to the film's allocation, his financial resources and reputation. Most of the time, he finances only 10 to 20% of the film's resources. All additional funding is then provided by a range of investors including:

- The co-producer: He may invest his own funds, reinvest the support funds (NCC) generated by his previous film's entries or raise financing through his network to participate in the production.
- Pre-sales to TV channels: TV channels are highly sought after and therefore selective according to the criteria the program selection management requires. Some channels play a major role, but the pre-sales contractual terms are much less attractive than those available after release, especially if the movie is fairly successful.
- Distributors: They buy the right to distribute the film in cinemas, on DVD or VOD (video on demand) and pay out advances (advance funding).
- National and governmental aids.
- Investment companies: Companies whose sole activity is the financing of cinematographic or audiovisual works, often managed by financial institutions and offering significant tax credits.
- Private funds: These may be invested in the form of loans, cash injection or capital subscription of a SME with open-ended capital.

Today, despite the exceptional performance of market indices, the economic uncertainty leads many investors to turn to these uncorrelated but still very profitable asset classes. Therefore, cinema financing, often considered a defensive investment, offers excellent performance prospects and, for some jurisdictions, significant tax credits.

*peter.hottinger@cph1786.ch*  
*www.cph1786.ch*