MEDIAFINANCEGROUP

Bernd Stephan, President & CEO at Media Finance Group, LLC

Bernd Stephan is the president and CEO at Media Finance Group, LLC. He is a seasoned expert in all aspects of film finance, with a long track record of securing large volumes of independent film finance.

MM. Where do you see the future of film funding and investment?

BS. For independent film it is hard to find any institutional money right now. The reason is that institutional money has been burned a lot by the industry, that's number one, so when you look for independent funding you either find it from an independent production company who are willing to take on your picture, or go to some high net worth individuals.

MM. What genre film has the best return for your company?

BS. In the independent film world, because the funding heavily relies on pre-sales, for the companies I have worked with; the best genres are romantic comedies, action, thrillers and love stories. We have worked with companies that would not look at urban, sports or animated movies.

MM. Given the current economy, how do private investors view movies as possible investments?

BS. Movies are not a favorite investment choice, and private investors, most of the time, have an ulterior motive: they are not looking at great returns but because they see it as a sexy investment. My advice is for any business, not just movies: do not try to sell an investor on the fact that it's a home run and he is going to make so much money, because the first thing any investor who looks at an investment is thinking, is how can these guys screw up and lose all my money? You must show the investor that you are responsible with their money, and protect the downside, that's number one, because at least if you get over that hurdle, then you have a chance to continue the conversation.

You must approach it as a business, if you want to get someone to invest heavily in a film, say millions in a film, it's a lot of money, so approach it as a business. It all comes down to revenue minus expenses and profit; then, if you show them that you've done your homework when it comes to the profitability, it will help your cause.

MM. What is the key to success for any film-maker?

BS. The key to any business is revenue generation, and in film the key is in achieving distribution; so getting a top international sales agent lined up and having a strategy in regards to domestic sales, is always the solution. I regularly tell people that it's easier to find the money for a $25M movie than it is for a $2M movie. For instance, say you meet someone for drinks and the producers are sitting there at the next table, doing their calculations as to how much equity they need. They say the movie is $10M; so therefore $5M is needed in pre-sales, $3M in incentives and $2M in equity. Well, that calculation never holds water, because people tend to forget that even if they can get an incentive of $3m, if they need to cash flow it, they either need to bank it and a bank is never going to give 100% on a tax incentive, or you have sell to somebody and they are not going to give you a hundred cents on the dollar either. There is also a discount that people don't take into consideration; consequently the equity requirements go up.

MM. How does it work with pre-sales?

BS. Well, it's the same for pre-sales. If you have $5M international pre-sales, especially if it's $5M total international sales or $5M real hard pre-sales that you have contracts for, it never translates into a $5M production loan. This is because a bank will never give you a dollar for dollar loan contract from a secondary territory, even for primary territories such as the UK, Germany, France, Italy, Canada, Australia and so on, being contingent on the basis that the distribution may discount it. So when people do their calculations, they forget to take that into consideration. That's one of the common mistakes that I see: they don't understand that even if they are entitled to incentives, or if they have pre-sales, that somehow the money needs to be cash flowed.

MM. What percentage does a bank lend against a tax incentive?

BS. I would say that you can raise between 70-90% and sometimes 100% on a tax incentive; it all depends on which territory the incentive is from, as each territory's criteria is different. If it is an incentive in Louisiana, the state of Louisiana buys back the tax incentives at 85 cents on the dollar, so the bank is giving you 85 cents on what you are asking for.

MM. What steps does the bank take to protect its investment?

BS. Well, the bank will hire an external consultant who scrutinizes the numbers, and this gives the banks comfort. We had a $9M incentive for the movie "Law Abiding Citizen" in Pennsylvania, but we had to sell the incentive because it was transferable but not refundable. You need a tax payer who has a liability of $9M, so we sold it for 91 cents on the dollar, but the banks still discounted it by 7% because there was a so-called tax credit risk. This basically means that if you don't spend all the money then the banks won't be able to get all the incentives.

MM. What is the hardest part of raising film finance?

BS. The hardest part is always the equity, because financing a movie is one of the hardest things you will ever do. It is the old dilemma of the chicken and the egg. You want to attach named talent to your project, and to do so you need to Pay or Play, and they (the talent) will want to see the money. However, you can't send a Pay or Play offer without securing the talent with a deposit, and so you need the money, and the investor will want to see talent attached before they give you the money. Therefore, until you make it Pay or Play, the talent is not attached. No talent, no money, no movie.