

KEY NOTE ADDRESS: Mark Gill at the FILM LONDON PRODUCTION FINANCE MARKET – 22 October 2007

The Film Department, a new independent movie finance, production and international sales company - founded by former Warner Independent and Miramax Films president Mark Gill and former Miramax executive vice president and Yari Film Group COO Neil Sacker - raised \$200 million in June 2007. MARK GILL talked to Angus Finney about the challenge of raising private finance and what areas of the market his new film company will occupy.

Angus Finney: What inspired you to leave Warners and go to work on founding and building a new independent film company?

Mark Gill: It wasn't so much a matter of inspiration, more like desperation. Every time I tried to do something at Warners Independent Pictures (WIP) I ran into a wall. It was the strangest thing to be offered a new contract after three years, when you have one of only 18 jobs in the world that are like that, and you say "God help me, I can't possibly do that anymore". It also happened to coincide with a moment where there seemed to be a fair amount of money sloshing around in the US which is less true now. In a moment of hubris and ignorance – a perfect combination – we decided to try to raise the money.

Angus Finney: You clearly surrounded yourselves with some first class advisors and between the two of you – as principals, there's an outstanding track record to sell. What was your advisors' opinion of your chances for success?

Mark Gill: We had the Salter Group behind us – including Roy Salter and Patrick Russo; and Allen and Company, one of the leading entertainment bankers, who were a huge plus. The Salter guys said: "Here's what you should expect: The average time it takes to raise significant sums is three to four years, (we explained that we only had 18 months), and there is 90% chance of failure in raising the money: "Good Luck". When we sat down with our bankers later, they said it was a 97% failure rate. The odds are enormously against you. We managed to do it within 11 months, and three weeks after we closed, Wall Street fell over. It makes it a lot harder to get these things done now."

Angus Finney: Every successful fund raising exercise needs a business plan. How did you approach the financial markets, and what defined your strategic plan?

Mark Gill: We were motivated by the idea that we wanted to make movies and tell stories. That's all very nice, but we realised that we should figure out what films have a better chance of actually selling. In the world The Film Department lives in, we're a financier, a producer but we're not a distributor, which is odd for me. In the US it's just about impossible to get a pay-TV deal right now. What that means is that when you have a hit you say goodbye to say 25-35% of your money. It's really hard to run a business that way and it rather eliminated our thinking about becoming a distributor. So we focused on international sales and approaching the market by selling the movies one at a time. If you take that approach, you have to ask yourself where the hole is in the market. It struck us clearly that there was no way of raising money to be in the business of making \$100m to \$200m movies, and also I wouldn't know the first thing about it. But the world that we came out of, where we were making movies at a more reasonable price, say below \$50m – which hilariously in

Hollywood they call 'lower budget movies' – we do know something about. So we talked to a great number of people all around the world – distributors mostly. What they seemed to be saying was, "Please don't give us those little movies that are desperately trying to get into Sundance or that play at the Midlands film festival here"...that you made for around \$2m to \$4m...because they're getting harder and harder". The example they often used was one out of my past, *In The Bedroom*, which was made for around \$1.5m and yet did exceptionally well. But it's viewed as lighting in a bottle. So the advice was to focus on movies that are \$10m and up, and once you get over around \$35m, distributors get scared. But between \$10m-\$35m was interesting to the distributors.

Fascinatingly, the market changed during the time we were fundraising. When we started raising money there were 10 US distributors capable of handling a wide release. Then there were suddenly 15 (Overture, the re-introduction of UA, Summit, the rehabilitation of Paramount Classics, which turned into Paramount Vantage, and Picture House), all of which radically changed the domestic distribution environment. That capability was historically considered the hardest thing to get your hands on. We asked all these folks the same question: "What do you want?" They came back with exactly the same answer: \$10m-\$35m movies. It's a rare confluence, and that's really what drove us to that magic number.

Then we thought how many could we do in a year reasonably? We decided on four to six. You can always do one less than six, and that's okay. But in a Studio, if you do one less, they turn around and say they don't need you anymore because you are not a consistent supplier, and you're screwed. There's much more flexibility in our approach. Now I have to find those six movies a year....which is why I'm in London right now!

Angus Finney: Trying to identify and acquire the right material will be critical to the success of this strategy. What is the company doing about development?

Mark Gill: We're going to have a bottom-up approach, which came from us taking a long look at the market. There are a tremendous number of financiers in the US – largely high net worth individuals – that are in the business to do movies one at a time. The talent agencies will present packages to them, and then they agree to finance. None of those people do development. It used to be that you could find a packaged movie and pay just about the same price as if you put it together yourself. Now you see those prices are going for 20% to 30% to even 40% more. Specifically, we looked at a recent movie that we thought was rightly budgeted at around \$20-\$21m, but it went for \$30m.

So the previous five to seven years has changed radically in the last year. But there's no bidding war if you own the script, and frankly, what all the studios said is that they are dying for material. My experience has been taking books or scripts that are half right and fixing them. I have had luck doing that.

Angus Finney: Can you be more specific about the way you structured the finance in your Business Plan?

Mark Gill: Sure. It was like doing a remedial MBA. We didn't know how much should be equity, how much debt, how much mezzanine, and what the pricing should look like. (In fact, we barely knew what mezzanine was!). The good news about having smart people in your life is that they will tell you. What they told us is that the bank debt is the easy part. Sure enough they were happy enough to line up and do that lending. The mezzanine is somewhat more difficult but manageable

[financing that comes out after the bank, with higher pricing, and is out before the equity]. But when it came to equity we were told: “Maybe we can help, but you are really on your own”. In our case it was an even split of \$30m equity, \$30m mezzanine, and then \$140m of senior bank debt. What that means in practical terms is that for every movie we make, the cost is met by 15% from equity, 15% from mezzanine and 70% from bank debt. The bank debt is covered in a combination of contracts that are to be discounted from foreign sales, with some gap against remaining rights. It’s almost a single picture model, but the difference is that we already have our banking lined up, and they are anxious to put the money to work. From a film makers’ point of view, you don’t have to worry about any of that, which is the key problem with independent financing. There’s always the worry that the money won’t show up or that there are other pre-conditions at the last minute that make it impossible to close and start shooting. The money is our problem, not yours.

Angus Finney: And what happened with the tough part – the equity?

Mark Gill: We initially thought that we’d go out and find 4 x \$7.5m chunks and be done. Well, that was both naive and stupid. We did actually find two to each do that, but the rest of it was in chunks of \$5m, \$1m and the smallest were in chunks of \$250,000. It leaves you realising that there’s as much hand holding to find \$250k as there is as finding \$7.5m. We did 580 some odd meetings, to find 14 people. Almost everyone on Wall Street said, “You Hollywood people, you’re not really business people. How can we trust you? How do we know that anything you say is true? All you do is grab financiers by the ankles and turn them upside down and shake until all the money comes out of our pockets. Why would we ever do business with you?” And then most of them turned out to be far less reputable than even the most venal talent agent I’ve ever met. It’s a truly gruesome process. Had anyone warned me prior to starting, I’d have never done it. The domino effect was very hard, as we had five key elements to hold together, and it fell over three times. On the fourth time we got lucky. But even on the day we were supposed to sign it nearly fell apart. I don’t recommend it to anyone.

Angus Finney: What price did you have to pay for the equity? And what kind of control did you manage to retain over the green lighting process?

Mark Gill: What you tend to find is that people who invest want as much security as possible, which is a reasonable thought. Many said that they didn’t want to invest with no distribution, but we finally found a few who did. Then, how do you figure out how the money can be spent, and what are the requirements, which is the key to it. You’re going to be making one decision on a \$30-\$40m movie which is a big chunk of the money. Specifically, we have GE Capital, our underwriter, on the Board, along with three other investors, Neil and me. Of course the Board has controls. But when we get down to the green light word, what really matters is what we can do fast by ourselves. We agreed that five managers could green light a movie under certain conditions. There is a 6-7 page document on how to do that. If we over time fail in our numbers, then the Board can step in and have authority over that, but as long as we do what we said we were going to do, then we’ll continue to have the authority to green light.

By the way, that approach was also considered a form of Marxism in Hollywood. It was truly terrifying to many investors, who said that we had to be kidding them. But the people who ultimately came in said: “Okay, we’re betting on you, so we should really bet on you rather than half bet on you and then cut you off at the knees.” What it means from a film-maker’s perspective and why we were finally able to sell it was we can move quickly. What the management wanted to achieve was the following:

- Not to worry about going to a studio and getting that committee to approve something before we start.
- Not to have to have made foreign sales and got contracts in, and notices of assignments signed, and the banks say fine and all the rest of it, and,
- Not to have to explain where the other half of the money is.

The above reasons are mainly why two thirds of independent movies collapse. We explained the problem, and sold the ability to move and green light very quickly as a competitive advantage, and the investors saw that. It's already proved to be an enormous advantage.

Angus Finney: What was your approach to potential output deals?

Mark Gill: We were offered a number of output deals, but the problem is that when you're offered that kind of deal, what you are selling on is the net budget of the movie. That means the budget less the subsidies and rebates, and it's pretty hard to think about shooting a movie where you're not taking advantage of those. There are so many places where that works' out beautifully, including of course here in the UK. Most noticeably, the largest change has been in the US where some places are offering up to 30%. When you're doing an output deal, you're essentially giving up the benefit of that. We couldn't figure out past one at a time for a start up.

Buyers are getting a lot smarter about scripts. Distributors have got a lot smarter at doing script analysis. In some cases that's because they're hired well, or they've learnt how to do it themselves. They will pay a premium for a really good script – something that's been so long overdue

Angus Finney: Green lighting successfully is still a very stiff challenge in the current market. You have a huge incentive to try to make the right decisions, but it can always go wrong...

Mark Gill: Yeah. You are trying to get the budget down as much as possible without compromising the movie, and you're trying to get the sales figures up without trying to kid yourself into dreamland.

What we need to do is cover around 2/3rds of our net budget out of international sales, and that is not that difficult to do if you have someone in the movie. Where you struggle frankly is when you have a very fine script and you cast very fine actors who are not very well known. That's a beast, and doesn't seem to work. Obviously the budget will vary based on who's in the movie, but also on the specific genre. So for example, in drama, \$10-\$15m is a lot easier than north unless you have big stars in it. Chemistry in a romantic comedy is okay at \$10m-\$25m, while action and thriller command the highest prices. Cast is slightly less important in those hard core genre movies.

The challenge is of course is that the action movie is the one where you are supposed to spend the most money to make it look great and we can't afford to be in the business of blowing up buildings. But what we say is we're looking to make modern day versions of great character movies.

Angus Finney: And how do you view the UK market as a potential source for your films?

Mark Gill: I came to PFM because I wanted to meet up with UK film-makers. It strikes me that there are a tremendous number of good film-makers, good writers and good stories here. But many are under-employed, or aren't working to their full capacity. I wanted to come over to say hello, we have cash at the Film Department, come and find us. Between me and my colleagues we've read 2000 scripts and we found 11 that we liked. It's beastly hard. I have found that the material in the UK is generally dramatically better. The odds are two to three times as good here. As long as there

is a fertile creative community the long run for the UK should be okay. In the short term it's just awful. We found this to be true just raising money. I didn't raise any money in the UK. There's a huge cash culture in the UK but we and you don't seem to see any of that.

However, things are tilting the UK's way. The only movies that now travel the world are the English language movies. Not French or Italian – only US, UK, Australian and New Zealand...it will be a long term advantage. But what's going to have to happen is that more and more of the money is going to have to come from all over the globe.

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