



The
**money
maze**



**Gap financing.
Private capital.
Multiple equity partners.
How are prodcos currently navigating an
increasingly convoluted path to production?**

BY GARY RUSAK





Getting from one end to the other on any kids production never involves a straightforward path. In fact, following what looks like a clear-cut approach one day will leave you bumping into walls and other obstacles the next. However, the production community is not often one to cry uncle and call it quits, even if it means retracing steps to embark on the path to completion all over again. Luckily, with international cooperation at a high ebb and expert financiers that see the potential of generating revenue in an industry subject to more exploitation avenues than ever before, deals are getting done and projects are finding the money. While the days of selling to one network, hooking up a distributor and then closing the gap (that piece not covered by the above sales) with advances might be in the past, there are still ways to get a production fully financed, despite myriad obstacles.

More platforms, less money Despite what you might think, putting together financing isn't any easier because of the explosion of digital platforms in need of content—in the kids space, they have yet to play any significant role in the precarious business of putting together the cash to make a production viable.

"There are more and more platforms so there are more places to sell," says Sander Schwartz, EVP and head of children's programming and family entertainment at FremantleMedia Enterprises.

"There are so many platforms and the audience is so fragmented that getting something on air isn't difficult, but figuring out the financing and how to actually turn a profit is more challenging than ever," Schwartz contends.

The notion that "it ain't easy" is widely accepted in the production community.

"There is nothing simple about financing any production," says Malcolm Bird, consultant for traditional and digital media at International Creative License and former SVP of AOL Kids & Teens. "Anyone who is in the production

business at the moment is going to find it incredibly hard to fund their program."

And the current economic uncertainty in the US and Europe especially, has made the process of completing the puzzle challenging, says Tatiana Kober, president of Bejubal Entertainment. The Canadian company specializes in rights management, co-productions, financing, third-party acquisitions, licensing and merchandising, and international program sales. "European broadcasters are purchasing series, but every decision is taking more time," she says. "What we have been finding is that the broadcasters are not making decisions quickly and they are holding off—with the decision-making up in the air, it is hard to sew up other deals."

Juan-Carlos Jeffrey is a partner with Cameron Thomson (See "An alternative route," page 92), a financing company that focuses on slate productions in the entertainment world with a toe in the kids industry. He agrees that money and partners have been harder to find over the last few years.

"Since 2008, there is not enough money out there," Jeffrey says. "The money is hard to find, but it's not as hard to find as you might think. Up to 2008, any production was being funded. There were banks, pension funds and a lot of other equity investors out there. Some of that has disappeared but not all of it. The money got smaller, but you could say it got smarter, too. Investors are now looking for the right production, not just any production."

Bridging the gap When putting together a typical financing structure, the last piece of the deal is referred to as the deficit. As happens with corporate language, the term itself has evolved into something meant to sound more innocuous.

"The term now is 'gap,'" says Mary Bredin, VP of development and acquisitions for Toronto, Canada-based guru Studio. "It's all about the art of terminology and positive spin in a world where there is no money and things are getting harder and harder."

In a typical production, once a commissioning broadcaster has been signed up and a distributor, and perhaps a broadcast license or two have been sold, there is usually a shortfall in financing that needs to be raised by the producer.

"You are always going to need a distributor or a co-production partner and distribution deal, and maybe a DVD deal, and even a licensing deal to close the circle," says Mike Watts, co-founder of UK-based Novel Entertainment. "The thing that producers do—that they don't like to do—to fill that gap is defer their fees until the financing is complete."

Watts says that while it's a last resort, one might be surprised how often it's taken because of the dearth of financial institutions in the UK that are willing to gap-finance.

"TV is hard," Watts says, speaking from a UK perspective. "The financial institutions are not plentiful, and usually it means giving up some equity."

In North America, the financial agents willing to get involved in gap-financing a production seem to be more readily available.



DHX Media (maker of *Monster Math Squad*, seen here) often relies on its distribution arm to trigger production

Aver Partners In the course of interviews for this article, one name kept coming up—Aver Partners, based in Toronto, Canada. Run by well-known media financier Peter Sussman, the firm is one of the recognized private lenders willing to take on the financing of TV productions. Notoriously publicity shy, a partner for the firm did take part in the discussion under the condition that her name not be used. She confirmed that Aver Partners does do deficit-financing for productions. However, she says the firm is much more than a banking institution.

“We are like a bank, but much more entrepreneurial,” she says. “We are able to wrap our heads around the deals. We know the kids business, the broadcasters and the players.”

She says the firm does not just consider backing a production based on whether or not there is a market for it, but instead takes a more discerning financial look at every partner involved.

“A broadcaster is looking at whether the show will get ratings,” she says. “I’m looking at whether the entire production is sellable. Are all the different aspects viable? Do I have sales to people who are bankable? Are all the sales currently attached to it real? Will all the customers pay what they said they would, when they said they would? It’s more about a financial transaction for us than content.”

If these conditions are met, Aver Partners might be interested in fronting the money to close the financing circle. Of course, money isn’t given away, and although it is impossible to give an average on the cost of borrowing (as every deal Aver structures is unique), it’s fair to say it will be significant. It can be assumed that the money made available by this source is going to come with a high premium attached that exceeds average lending rates. In some cases, Aver will play the role of strategic partner. This gives the lender a more flexible position, allowing it to take on a variety of different roles surrounding the production. The company then has the potential to recoup its

investment on the back-end, as well as have a say in further exploitation of rights including digital, distribution and other ancillary revenue streams. Because of the distinct nature of each individual deal, and the many players involved, it would be unfair to break down the percentages absolutely. Suffice it to say, Aver is in the business of gap-financing productions and is creative and innovative in the many avenues it will take to recoup its investment and then some.

Roles redistributed FremantleMedia Enterprises was cited by many as a first-class distributor in the industry. And it is a sign of the growing importance of distributors that Schwartz downplays that single facet of the company’s business. “I’m not really doing distribution deals,” he says. “I’m doing co-production deals. We are investing in the show, and what we bring to the table is proven expertise in the kids space in terms of sales, marketing and creative management.”

Fernando Szew, founding partner and CEO of L.A.-based MarVista Entertainment, a production company and distributor that has recently put co-production *16 Wishes* together with Disney Channel, agrees that distributors are becoming actively involved almost at the outset of a project—and it’s important in triggering additional funds for a production. “Other financiers want to see that distribution plan in place early,” he says, stressing that the days of selling into one territory and calling it a day have long past. “Now success means you have to be outside just one or two territories.”

For Toronto, Canada-based DHX Media, its distribution arm is a key part of the operation. “We are truly integrated,” says SVP Anne Loi. “Traditionally, we have a producer who goes and finds a distributor, but they are often not as invested as the producers themselves. We think this is a better way to do business. Our product will do better because our distributor is as invested as the producer.”

Loi sees the creative input of companies with distribution expertise as a growing factor in the industry and a reaction to the increased pressure on putting together a comprehensive finance plan.

“The trend is that all these guys, who used to be last in, want to get in earlier so they have more of a say when the rights are being divided up,” Loi says.

Of course, having your own distribution arm doesn’t mean that productions are fully financed from the outset. As Loi will testify, there are still a lot of partners to wrangle.

Foremost, a series can have worldwide distribution lined up, but if it doesn’t have the initial backing of a major broadcaster the production is sunk.

“We won’t make a move until the broadcaster orders,” says Loi, who even after securing a broadcaster has to negotiate an equitable deal between the different interests.

“The broadcasters will say ‘If you want to work with us, this is the deal we need,’ and the financier or investor will say ‘If you want to work with us, this is the deal we need.’ These can be diametrically opposed. Sometimes we’ll just go for whoever has the bigger chunk of money and put the deal together from there.”

Strategic navigation While there is no one model that clearly delineates how to finance a production, most experts interviewed agreed that the ideal is to avoid relying on purely financial partners (read venture capitalist and banks) and fill all the gaps by enlisting a slew of strategic partners.

“Strategic financing is a much more attractive source of funding,” says Szew. “That way, you don’t just get capital, but you have the added benefit and bonus of a core competency that can complement your specialty. That is how we do it.”

Take MarVista’s production of *16 Wishes* with Disney Channel, for example. MarVista produced the movie, on budget and with a chunk of its own money. And Disney, in turn, brought to the table its network reach and one member of its stable of teen stars.

Bill Schultz, CEO of new prodco Home Plate Entertainment, agrees with the approach and says that pulling together a wide range of partners is one way smaller producers can compete against larger ones that can completely finance a production. “I think strategic partnerships still represent the most money available,” he says. “It is a way for companies to gain critical mass without adding overhead.”


Schultz says when he was putting together a deal for *Rob Dyrdek’s Wild Grinders*, a new toon featuring the titular MTV personality and skateboarder, he first secured a broadcast commitment from NickToons US, then brought in his former employer Moonscoop as the series’ global distributor. He then had to line up Telegael in Ireland, Copernicus Studios in Canada and Agogo Corporation in China to make the show a reality. Part of the process is aligning with partners that have access to different markets, like China, and also partners that have access to “soft money,” i.e. tax breaks or government grants, which are significant in Canada and France.

Of course, having all these partners from the outset means that cooperation and compromise are part of the production package. “You really have to resist the temptation to go it alone,” Schultz says, adding that creatively it is important for each partner to know exactly what it’s bringing to the table. Being upfront in terms of what is most important to each interest in the final product is the key to avoiding disputes further on down the road, he stresses.

Schwartz at FremantleMedia concurs. “It’s about bringing in more partners in more ways to patch together the finance quilt,” he says. “There are more parties than ever and more options than ever. It’s not new parties, but there are more independent producers, more broadcasting platforms, more merchandising and licensing people, advertisers and sponsors.”

One of the latest FremantleMedia productions is *Mon-suno*, a boys action toon that has Fremantle, advertising firm Dentsu and toyco Jakks Pacific as its key stakeholders. And it is a prime example of tying together financing from different sources.

“It’s about multiple partners bringing together different sources of revenue,” Schwartz says. “Advertisers are becoming more involved, earlier, and changing the world of financing.” And he brings up an interesting wrinkle that illustrates the fine balance that Loi at DHX says producers must maintain when they put together deals.

“If we get a sponsorship, great—if the broadcaster can live with it. If an advertiser comes in early, the broadcaster could turn around and say, ‘Hey, those are my rights,’ and pay us less because they think we have cut off some of their revenue,” Loi says, describing a typical conflict that arises when combining partners with divergent interests. 

Cameron Thomson Group Entertainment Financing

An alternative route?

Juan-Carlos Jeffrey from the firm Cameron Thompson, an entertainment financing firm with offices in Toronto, Milan and London, holds a different perspective on gap-financing, one that turns the traditional model on its head.

“How about thinking of the ‘other bit,’ the deficit, that piece that is left over as the first step, and not the last step,” he posits.

Jeffrey’s firm offers production companies that meet its criteria, a means to raise the gap first and then fill in the rest through the traditional venues of distribution sales, broadcast deals and advances from merchandising and licensing deals.

“We will go out and strategically raise that bit for you and be an investor,” Jeffrey says. “We will deliver that fund from the outset.” He adds that with that chunk of change in its back pocket, a prodco can have more options, leverage and bargaining power when sourcing traditional funding.

“There is a little bit of education that is needed in the production community,” he admits. “They need to stop thinking of it as a gap and think of it as a core instead.”

Of course, Cameron Thompson has to look at each slate using a variety of criteria, including what the distribution and licensing rights are potentially worth, who the partners are and what the company’s track record is like.

Cameron Thompson will not deficit-finance single projects and is chiefly interested in long-term, multiple-property slates.

“We have to look at a whole package, break it down and pull it back together again,” says Jeffrey. “What we look for is a plan that demonstrates that you can make it and know who to sell it to. Also the company should have an ability to execute and a track record of success.”

Jeffrey insists that as more pressure is put on the market, there will be a greater need for the upfront financing Cameron Thompson provides. He can only shake his head at the current economics of creative production and believes that a major sea-change is in the offing.

“If I’m Coca-Cola and I develop a brand of liquid, I’ll go to Walmart and ask it to buy the product, but first I will want 45% of the purchase price upfront,” he begins. “Then I’m going to manufacture it and come back to Walmart in a year and tell them to sell it. Oh, and it might not taste or look exactly like I said it would. Walmart would laugh in my face. But this seems like an accepted practice in this industry. Why does it fly?” –Gary Rusak