

FINANCING FILM DISTRIBUTION

Duncan Reid, Commercial Director at Ingenious, explains why they intend to launch a fund that is dedicated to the financing of film distribution

"Film distribution is one of the most profitable yet underinvested parts of the global film industry." Why has this been the case?

The economics of film distribution are very different to those of production - distribution tends to be at or near the top of the 'waterfall' when it comes to allocating income generated. There is also the scope to enter into distribution agreements for films that are nearer - or post - completion and where the prospects for commercial success of the film can be much clearer. We will partner with one or two distributors in each territory and co-fund a 'slate' of films, thereby further spreading the risk.

Why the decision to launch a fund that is dedicated to the financing of film distribution? Why now? How is the fund structured?

Film distribution represents an attractive investment opportunity with the prospect of good returns which are not correlated with the stock market, thereby providing investors with an interesting opportunity to diversify their portfolio. The new Ingenious fund will focus exclusively on the "tail" of the film cycle, distribution and rights exploitation of films, which provides lower risk investment opportunities. Across all the different stages of film - development, pre-production, production, post-production and distribution - those engaged in the final leg, distribution, are typically in a priority position to recoup their costs and earn income from the first pound of revenue.

The structure we have put in place is loan notes in a securitisation vehicle listed in Ireland.

Who would be competition and how does the fund expect to differentiate itself?

The fund is among the first of its kind, uniquely focusing on film distribution. It is managed by Ingenious Media which has a "peerless" track record sourcing attractive investment opportunities in the media sector; has an extensive network of existing relationships with distributors and to date manages over GBP4 bn in investments.

"Ingenious will take a "slate approach", backing a distributor's entire portfolio of films and financing the acquisition of new film rights and film libraries" - what are the risks associated in pursuing such an approach and how does the fund expect to manage and mitigate them?

We have very high visibility of the early investment opportunities for the fund and of the likely economics of those deals. The slates of films that the distributors will put together will mitigate the risk of failure of any one film, as will our ability to select films that are well developed and where we have a very good view of the likely success.

Please elaborate on the fund's risk/return profile – average annual net returns targeted?

With a minimum investment of EUR1 mn, the fund has a targeted internal rate of return of 25% with a recapitalisation planned for the end of year two and further returns over years three to five. The investment is expected to have a five year profile and funds will only be drawn down when required over a planned two year investment period.

Who is this fund primarily targeted at?

Target investors include hedge funds, family offices and pension funds. We might also see some interest from high net worth individuals.

Isn't the funds capacity a constraint?

We are confident of deploying EUR150 mn in the next two years and already have secured distribution deals worth EUR50 mn.



Duncan Reid,
Commercial Director at Ingenious