JULY NEWSLETTER 2010

ATTRACTING INVESTORS

This month I started writing a newsletter that focused on attracting investors. In my book "So You Wanna Be A Filmmaker" we discuss this in several chapters, because we know this is the number one problems independent filmmakers face. At the last minute I decided to send out an article that my attorney Mark Litwak had written on film funding and attracting prospective investors. The reason why, he has a different perspective on this issue and I thought it would be great information to educate you with. Mark has been my attorney for the past 12 years. I have always appreciated his candid approach and advice on the business of filmmaking.

Here is his article below…

Many filmmakers begin their careers by persuading private investors to back them. Indeed, unless you are a star like Kevin Costner or Barbra Streisand, it is rare for a major studio to finance a beginning filmmaker. Banks will not lend money without substantial collateral. Loans based on pre-sales are difficult to obtain because territory buyers want packages with name actors from an experienced director. That leaves most filmmakers looking to Mom, Dad, and whatever they can scrape up from friends, relatives, and MasterCard. While such resources have financed many films, distributor's expectations have risen over the years. With a glut of independent motion pictures available, many distributors are not interested in acquiring a feature unless it 1) is shot with name actors; or 2) wins an important film festival.

Thus, filmmakers are forced to raise increasingly large sums of money to produce more ambitious movies if they hope to secure distribution. As digitally shot motion pictures gain greater acceptance, some production costs may decline. Nevertheless, numerous producers are chasing a small number of name actors. This competition has driven up the price of talent, even for low-budget indie films.

As a result, the ability to woo investors has become a critical skill-one that is not taught in film school. Perhaps the best preparation for an aspiring filmmaker would be to enroll in business school and learn the intricacies of high finance. Even if you didn't learn much, you would graduate with a class of MBAs who would eventually earn large incomes and become good prospects to invest in your films. Better yet, go to dental school.

Most filmmakers have an aversion to fundraising. Like other "artists," they would prefer that someone else deal with the unsavory task of raising money. But filmmakers without personal wealth or a rich uncle may have no choice but to beat the bushes for cash. Most underestimate the difficulty of raising funds. Joel and Ethan Coen spent a year raising the budget for Blood Simple. First they produced a slick trailer. Then they contacted everyone they knew who could potentially invest. Many of their friends who promised to back them didn't come through. But the Coen brothers were shrewd networkers. Those prospects who were unable or unwilling to invest were asked to suggest other candidates. Whenever they found an interested investor, they would visit them and show their trailer.

The Coen brothers discovered that the motive for people to invest in film has little to do with its financial merits. There are no special tax breaks. As will be discussed later, film is a risky investment. Yet there are many reasons people invest in film. The primary motivation is usually based on their attraction to the glamor of the movie business. Perhaps they think movie making will be exciting and fun. They may be turned on by the enthusiasm and passion of the filmmaker. They might want to rub shoulders with the "stars." They may have a special interest in a topic. They may seek to impress their friends by inviting them to a screening of "their" film. They may desire an "executive producer" credit, a role for their niece, or a role for themselves.

Prime prospects are middle-class professionals: doctors, lawyers, and dentists. Most working-class folks can't afford to invest in a movie. Wealthy individuals are difficult to approach unless you have a pre-existing relationship with them. They have investment advisors who tend to be financially conservative people immune to stardust. They analyze investments according to financial criteria, under which movie proposals fare poorly.

The ideal investor is a doctor who makes several hundred thousand dollars a year and has substantial assets. He can lose his entire investment and the loss will not affect his lifestyle. This year instead of going to Las Vegas for a week and blowing ten grand, he is going to invest in a film in the hope that the experience will be more entertaining it certainly won't be less of a gamble. Investors who will suffer if they lose their investment should always be avoided.

Film investments have a bad reputation, and deservedly so. There are instances where investors were cheated and lost everything. Consequently, investors who have been burned or have heard of such horror stories may be unwilling to consider film-related investments. A filmmaker needs to be persuasive and have done his research if he hopes to raise funds. One needs to convince a prospect that film can be an intelligent investment for a small portion of the potential investor's portfolio. While film investments are risky, the potential return from a hit can be enormous. Not only can the film earn revenue from box office receipts, but there are also ancillary sources of income. These sources include revenue from television, home video, merchandising, music publishing, soundtrack albums, sequels, and remakes.

Mark Litwak

If you really want to learn more about how this works and of course how the whole business operates, pickup a copy of "So You Wanna Be A Filmmaker", you will not regret it.

If you have any questions about this newsletter or the book, send me an email at info@film3001.com and I'll get back to you as soon as I can.

Thanks,
Dennis

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