



***Case studies on the financing and distribution
of recent European films & television series***

July 2015

Acknowledgements

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The Lobster

Director: Jorgos Lanthimos

Production companies: Element Pictures, Faliro House, Haut et Court, Lemming Films, Scarlet Films, in association with Protagonist Films

How producers from five countries came together to support the creative vision of one of Europe's most original film makers

Yorgos Lanthimos' *The Lobster* is one of 11 European films selected for the Main Competition at the 2015 Cannes Film Festival, where it was awarded the coveted Jury Prize. The Cannes selection is one of the most prestigious in the world. Greek-born Lanthimos is widely regarded as one of the most original and talented contemporary film directors in Europe.

With a budget of €4.2 m, the financing requirements of this ambitious sci-fi fantasy film were well above the scale Lanthimos had been accustomed to as a director of low-budget movies. Once Colin Farrell and Rachel Weisz were signed up as the two leads however, the project attracted considerable attention. The **budget was covered through a complex mix of national and European public sector contributions and the pre-selling of territorially exclusive distribution rights** to distributors and TV channels in the European and global marketplace.

The Lobster required an official 5-way co-production between the UK, Ireland, Greece, The Netherlands and France. Whilst Ireland contributed the lion's share (58%) of the overall co-production funding, the UK and France each contributed 11%, with The Netherlands and Greece adding 20% between themselves. A further 11% came from Eurimages, the Council of Europe's film fund.

No creatively ambitious European film made to that commercial scale can hope to be fully financed using public sector funds only (recall EU state aid rules place a ceiling on public funding at 50%). **National distributors, television channels and**

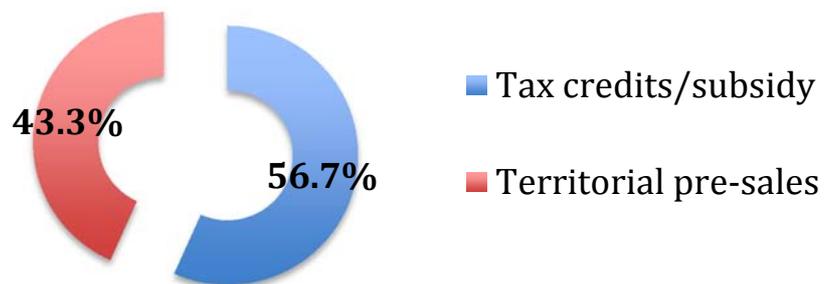
international sales agents play a pivotal role in closing the gap between what the producers can hope to cover out of public funding and/or private equity and the final budget. The intervention of these commercial players is predicated on their ability to secure exclusive distribution rights on an all-rights basis for the EU territory in which they operate.

Fully 36% of *The Lobster's* €4.2m budget was covered from such sales. 20% came from the international film distributor Sony Pictures Worldwide Acquisitions, who put up a minimum guarantee payment against the anticipated value of licensing distribution rights to national distributors in the EU and the world at large. A further 4% came from a contribution by French pay-TV platform Canal+, against exclusive pay-TV broadcasting rights on its French service. A further 12% came from a similar deal with UK free-to-air film channel Film4, against exclusive rights for the UK.

The contribution from operators in the marketplace (e.g. national distributors and TV channels) is key to closing the financing and making a European independent film happen. **Distributors and TV channels are only prepared to take such risks if they know they can protect the speculative investment required to bring a film to local audiences, through contractually secure territorial exclusivity.** The overall cost of acquiring distribution rights for any one territory is often amortised across different distribution channels (cinema/physical carriers/online/television) and splitting the different distribution rights by applying different legal regimes to different types of rights would fundamentally unsettle both the financing and the distribution of films.

The Lobster (2015) Budget: €4.2 m

[Note: This financing diagram has been simplified to highlight key elements - 'pre-sales' may also include some equity investment]





A Royal Affair

Director: Nicolaj Arcel

Production companies: Zentropa Entertainments28, Zentropa International Sweden, Zentropa Entertainments Berlin and Sirena Film

This Danish/Swedish/Czech Republic co-production won two Silver Bear awards (Best Actor and Best Screenplay) at the prestigious Berlinale film festival in 2012 and was nominated for an Academy Award for Best Foreign Language Film in 2013.

A Royal Affair brings to the big screen the true story of an ordinary man, a German doctor, who wins the Danish queen's heart, becomes the King's best friend, and starts a revolution using the King's absolute constitutional power against the opposing ruling political classes in Denmark. The historical events took place in Denmark in 1770-72 and laid the foundations of modern Danish democracy - liberating and empowering the Danish people – against this backcloth, the film weaves a dynamic story of court intrigue, royal insanity, imprisonment and executions and passionate love.

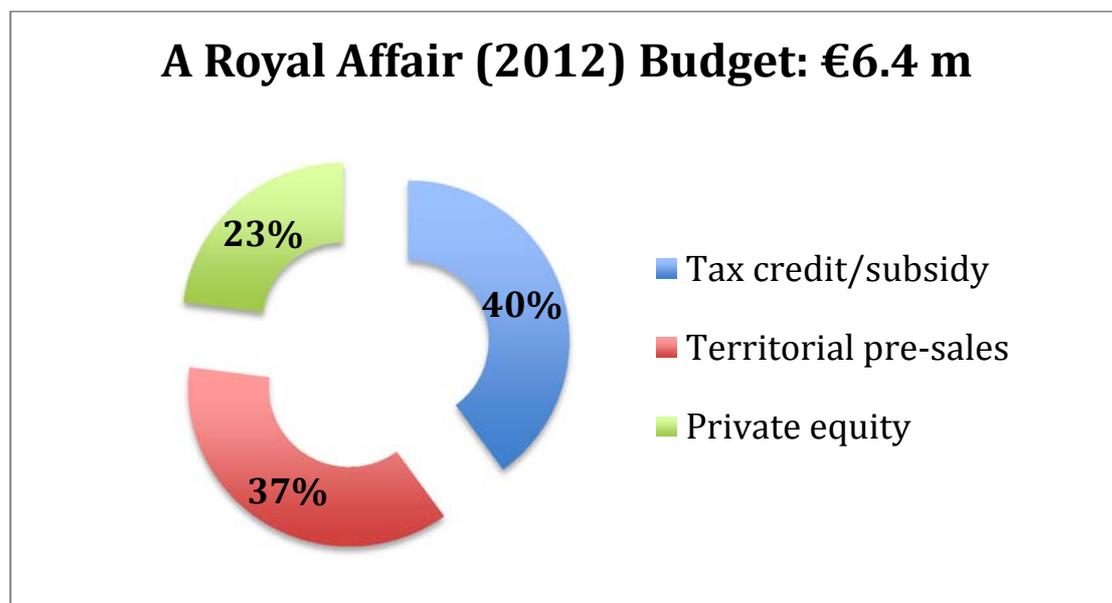
Although the historical episode itself is strongly significant for most Danes, its dramatization on film as a character and ideas' driven historical costume drama, proved extremely challenging to make attractive and relevant to foreign investors and audiences.

The project took approximately 5 years to develop and involved an early script for an English-language film based on a historical novel. The substantial development costs involved in this part of the process were lost and written off by the production company when a decision was made to abandon the English-language project and start all over again from a script in Danish.

The greatest challenge at the scriptwriting stage was to adapt the historical characters and situations in such a way as to ensure that contemporary audiences could identify and understand: How do you modernize the story of a 15 year old English princess who moves to Denmark to marry a mad King? She plays music, reads Voltaire and Rousseau and makes the king's best friend, a German doctor, her lover. Almost a year was spent on character development after the original English-language script was scrapped. The director and co-author of the script, Nicolaj Arcel, played a determining role in this process. The effort paid off, with the script receiving a Silver Bear award at the 2012 Berlinale in recognition of the successful adaption of a compelling historical episode.

At a total of EUR 6.4 million, the resulting film is an expensive production by Danish and average European film budget standards. From the outset, the producers knew raising this budget would be a challenge but were also aware that high-end production values would be indispensable in order to make the film commercially attractive at home and in other EU markets. The full amount was raised from 20 different financing sources, including 8 foreign pre-sales (before the film was shot) for the Scandinavian territories, Poland, Germany, Switzerland, UK, Spain, Benelux and the US.

An attractive package of script, director and cast (Director Nikolaj Arcel and male lead Mads Mikkelsen enjoy international recognition) and a production company, Zentropa with a proven track record working with renowned directors such as Lars von Trier, Thomas Vinterberg, Susanne Bier and collecting multiple international awards - was instrumental in bringing this film about financially. A promotional reel at the 2011 Cannes Film Market helped secure foreign interest in backing the film. Fully 37% of the budget was covered out of pre-selling exclusive territorial rights to distributors in Europe.





Amour

Director: Michael Haneke

Production companies: Les Films Du Losange, X Filme, Wega Films

With a budget of €8m, this Oscar®-winning film by one of Europe's iconic film directors was a challenge to finance and produce in view of its dark subject matter and uncompromising style. Success depended on pan-European cooperation between producers, the availability of public sector funding and, crucially, the pre-selling of distribution rights to national distributors and TV channels.

Casting an unflinching gaze at the mental and emotional ordeal of an elderly Parisian couple devastated by the onset of dementia, *Amour* is a striking example of the kind of creative risks taken by one of Europe's finest and most controversial film directors. Austrian-born, Michael Haneke who has attracted financing for his imposing body of work by developing cross-border relationships with producers in France and Germany over many years and many films. These creative and business partnerships have proven indispensable to raise budgets on Haneke's often dark-themed and profound films.

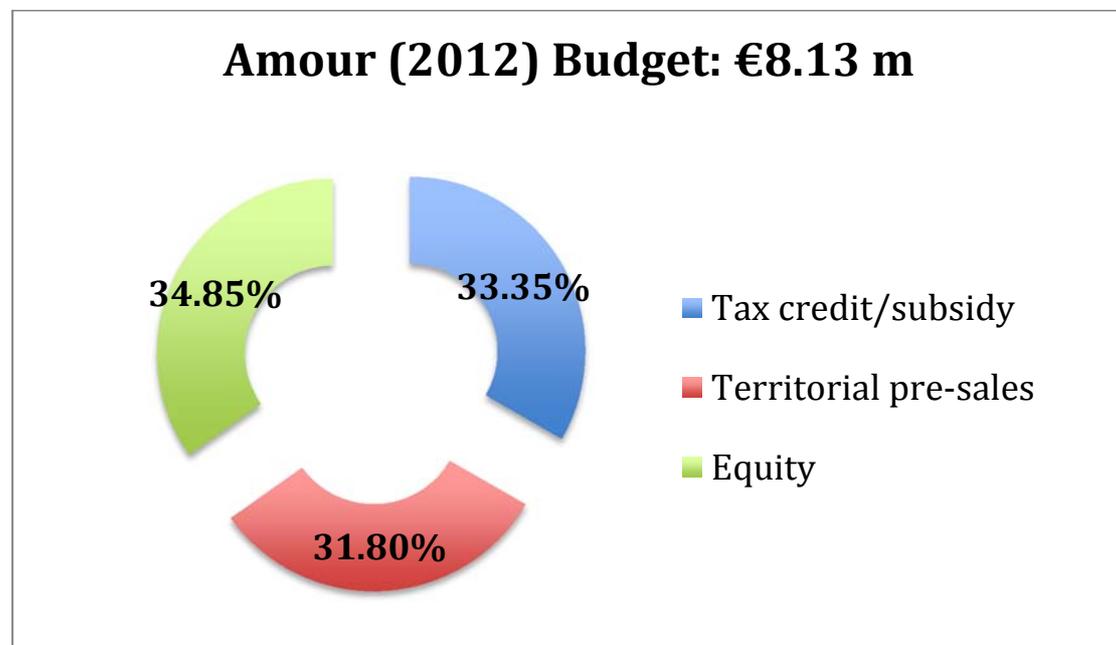
For *Amour*, which cost just over €8m to make, Haneke resorted to the exact same partners who had teamed up to produce his previous film *The White Ribbon*, a winner of many prestigious awards including the Palme d'Or (Cannes Film Festival) and a Golden Globe (US). 70% of the budget was raised by producer Margaret Ménégoz of Les Films du Losange from a variety of sources in France. The balance of 30% came from X-Filme, one of Germany's leading production companies and from Wega Films in Austria.

The producers freely admit that *Amour* was an extremely challenging project to raise funds for. The combination of the two leads being elderly (1960s *Nouvelle Vague* stars Jean Louis Trintignant and Emanuelle Riva are now in their eighties), with a subject matter (illness and old age) which remains a contemporary taboo made it an unlikely commercial project. Ultimately, that it got made at all is a tribute to the single mindedness of Haneke and his producers and a reflection of the director's high status as a European cultural icon: a Haneke film, no matter how dark, is always a media event.

Like other films at the cultural high end, *Amour* was able to attract a substantial amount of public funds from its core co-production partners. There consisted in direct subsidies from national and regional film funds, as well as tax credit. Those combined contributions covered

a third of the film's budget. However, like the majority of European films, *Amour's* private sector contributions made up well over half of its budget in order to be made. In this case, French broadcasters were strategic. The participation of free public channel France 3 and the French pay-TV operator Canal + consisted of a mixture of equity investment recoverable out of sales in other media and the pre-purchase of exclusive rights for the national territory. Pre-sales of TV rights to German broadcasters also helped sustain the risk taken by X Filme for the German market.

Exclusive territorial pre-sales to a large number of countries both inside and outside the EU were concluded in the period of time between the start of production and the film's worldwide premiere at the Cannes Film Festival, thereby ensuring that the film would reach audiences throughout the EU and the world at large. This European success depended largely on the integrity of territorial exclusivities in the licensing of distribution rights, as a mechanism that protects the release risks taken by distributors who commit money upfront before a film is even completed.





The Cut

Director: Fatih Akin

Production companies: Pandora Filmproduktion, Pyramide Productions, Corazón International, Dorje Films, Mars Media Entertainment

Multi-territorial EU-wide distribution was at the forefront of the producers' minds in planning and financing this ambitious European film – an approach which required the active collaboration of national film distributors all over Europe.

Born in Germany of Turkish parents, film director Fatih Akin believes in making films that matter, films that reflect the vitality and the conflicts of contemporary Europe and its complex relationship with the generations risen from immigration.

With *The Cut*, planned and developed over many years, Akin's ambition was to achieve a cinematic rendering of the Armenian genocide, to tell a broader story about the past century as an era of violent dislocation, exile and loss.

The Cut combined two challenges that are familiar to EU-based film companies committed to a culturally meaningful cinema. On the one hand, the film tackled a dark subject matter and its authenticity dictated the need to stay away from known international stars. Both these imperatives would downgrade the mainstream commercial appeal of the project. On the other hand, a significant budget was needed in order to do justice to the epic scale and creative ambition. How to raise a large budget on a project which required steering away from commercial compromises in order to be artistically successful? This was the central dilemma the producers had to address.

Owing to its complexity and scale, the project required a long gestation and the producers had significant costs of creative development, spending over €900.000 before even starting production. Such **development costs are a distinguishing feature of film as an economic good**. Film companies in the EU need to secure considerable working capital in order to

finance creative development as an indispensable prerequisite for attracting production investment in the projects.

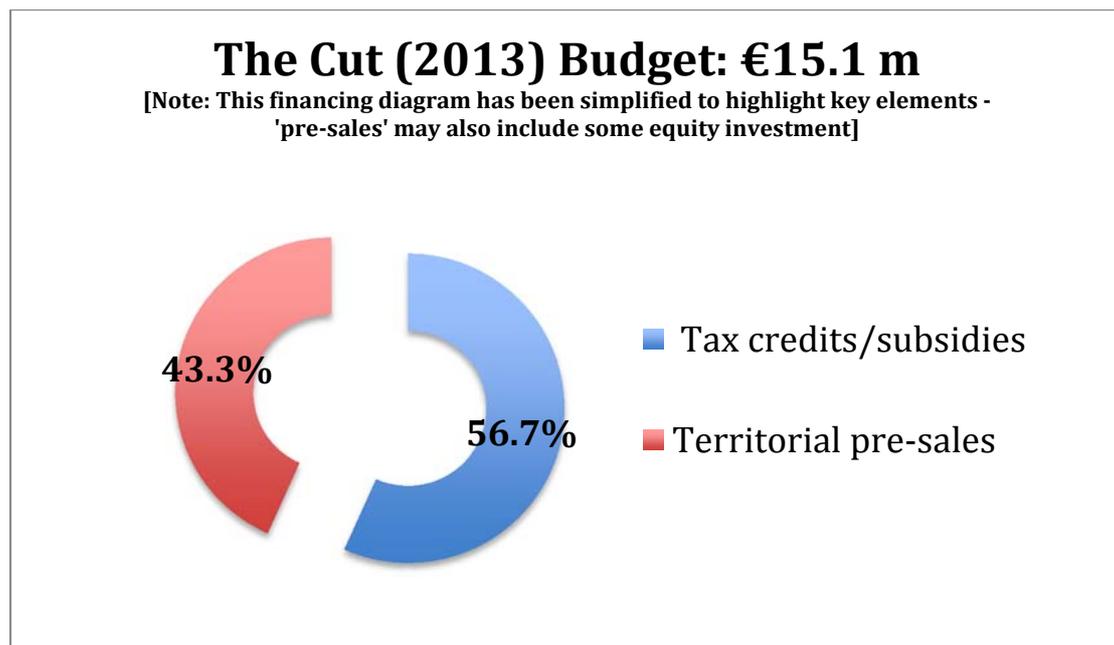
After an intensive two years of creative preparations *The Cut* started production on a final budget of €15.1 million. Whilst this figure may be low by Hollywood standards, it was exceptionally high for a European film, the majority of which are made for well under €5m.

The financing was largely the result of an official co-production agreement between partner companies in Germany and a prominent French film production and distribution outfit. Coproduction status gave *The Cut* both German and French nationality. This meant that State funding for the film was accessible in both countries. At the start of production, the contribution of regional and national funds from the two countries reached 46% of the total Budget, with the Council of Europe film fund Eurimages contributing an additional 5%, with Canadian tax rebate and producers' contribution another 5.7%

The public sector contribution, whilst strategic, left a large proportion of the budget to be covered out of other sources.

In order to cover the significant budget gap, the producers of *The Cut* and its international sales agent secured distribution deals not only in France, in its capacity as co-producer, but also in Italy, Poland, Turkey and the CIS countries. *The Cut* also attracted financial commitments from both pay-TV and free TV broadcasters in Germany and France, their joint contributions alone accounting for 31% of total budget. **All these pre-sales were achieved before filming started, enabling the partners to cover the budget gap and start production.**

In total, contributions made by the pre-selling of exclusive territorial rights on *The Cut*, including TV sales, allowed the production to cover just over 43% of the budget. The making of *The Cut*, a quintessentially high-end EU film, **illustrates how distribution into multiple territories is in fact built-in to the very approach of European film producers** when considering a new project. Thus, *The Cut* had distribution guarantees in a dozen European countries before it was even completed.





The Railway Man

Director: Jonathan Treplinski

Production companies: Archer Street Productions, Lionsgate, in association with Silver Reel

***The Railway Man*, a 1995 best-selling book by former British army officer and WW2 prisoner-of-war Eric Lomax, was made into a major British film in 2012. It has since had a successful commercial career in the UK and overseas.**

After being taken prisoner by the Japanese army whilst in operation in Singapore in 1942, Lomax and his comrades were made – under violent and inhumane conditions – to build the infamous Burma “Death Railway”, featured in David Lean’s epic *The Bridge Over the River Kwai* (1963). Brutally tortured by his captors, Lomax bore the marks of great trauma into his old age. In 1993, after a long search, the author finally met with his main torturer...

Though an intimate drama of trauma, healing and forgiveness, *The Railway Man* also required an epic sweep, not least for the WW2 scenes of imprisonment and forced labour. The rights to the book were first optioned in 1999. It took the experienced film makers until 2011 to develop the project to the point where they were able to attract Colin Firth, a major British star. In spite of this, no big studio seemed prepared to take a risk on a difficult and complex psychological drama aimed squarely at the more mature, high-end market.

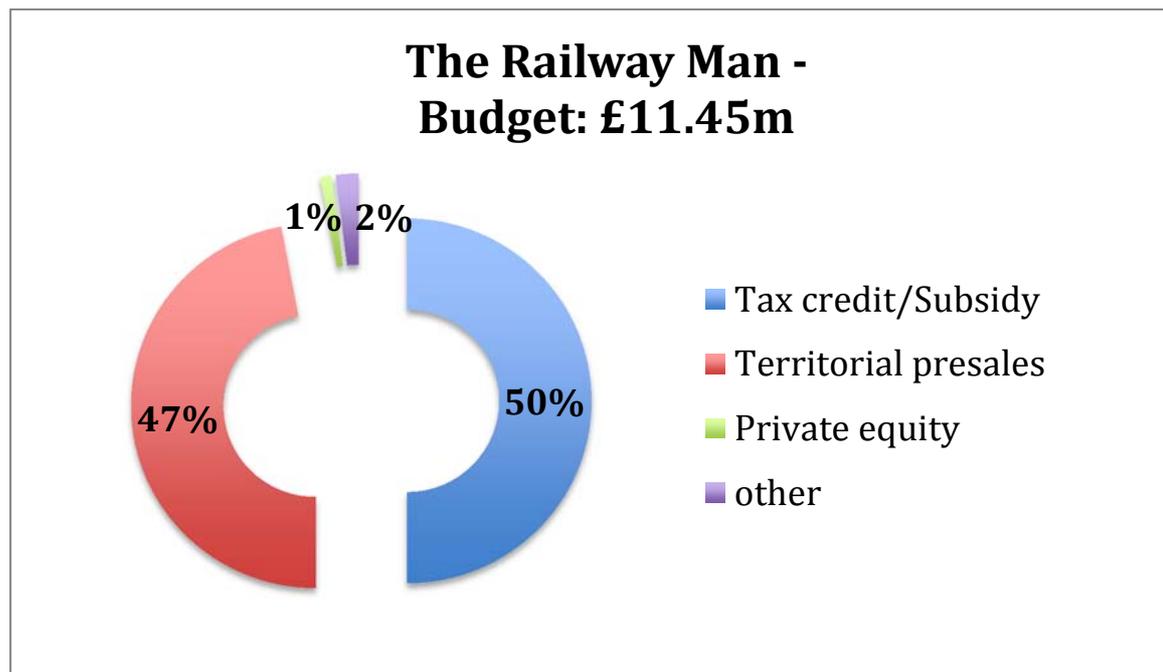
In their efforts to raise the £11,5 m budget, the producers were helped by the fact that the story lent itself naturally to an official co-production between the UK and Australia, whose soldiers had fought shoulder to shoulder in *The Pacific*. Once *The Railway Man* had won its co-production status, the production qualified to attract State subsidy in both countries. A total of £4.9 m was raised by the producers as a mixture of British and Australian tax credit, soft loans from Creative Scotland, Screen Australia and two regional Australian subsidy funds. Modest additional funds came in as equity participation from a post-production company.

In spite of substantial Australian and British public sector financing for this ambitious project, a majority proportion of the budget had to be found from the marketplace. **The success of the producers in raising the balance of the budget hinged on their contractual freedom to pre-sell distribution rights to the project to individual film distributors in a wide range of countries, including EU Member States.**

The high quality of the script, and the high-end cast attached to the project (by then, Nicole Kidman had joined), made it possible for the international sales company, Lionsgate, to pre-sell rights to the finished film before production had started. Territorial pre-sales raised £3.7 m.

Once again, **distributors located in EU Member States contributed the biggest share: rights were pre-sold in this way in France, UK, Greece, Portugal, Scandinavian countries, Benelux countries, Iceland and the CIS.** Local distributors agreed to deposit around 20% of the value of those territorial rights' transactions as a direct contribution to the budget. The balance was cash-flowed through a specialized financing company, Silver Reel, using the pre-sales contracts as collateral. Encouraged by the buoyant pre-sales, Silver Reel also agreed to cover a substantial additional share of the budget, based on estimates of the value of the territories yet unsold. This effectively brought the contribution of pre-sales (realized and anticipated), to just over 47% of the budget.

The making of *The Railway Man* exemplifies the **strategic importance of territorial pre-sales of rights to a film as a means of financing quality British projects through the marketplace and fostering the wide circulation of the resulting films in the EU.** It also demonstrates how territorial pre-sales are a key motivator for equity investors and other financiers to take a risk on also contributing to the budget of a UK independent film.





Poldark

Directors: Edward Bazalgette, William Mc Gregor

Production company: Mammoth Screen

This high-end period drama series made for television relied on pre-selling exclusive territorial TV licenses in the EU to cover its £12m costs.

High-end television production is one of the most conspicuously visible brands in the success story of Europe's creative industries. Many of the high-end drama series developed and produced by producers and broadcasters not only attract large audiences at home but have also been remarkably successful in other EU markets, with virtuous knock-on effects on these Member States' branding as tourist destinations and the contribution of their heritage industry to GDP. The recent wave of so-called 'Nordic noir' procedurals (e.g. *The Bridge*, *The Killing*) and historical dramas (e.g. *1864*) showed how smaller EU countries (Denmark, Sweden, Norway) can exploit local talent to very successful effect. The UK is another Member State with a healthy slate of drama productions which travel to the rest of the EU.

Since its first season launch in 2010, *Downton Abbey* has sold in over 150 countries around the world, where it won unanimous praise and attracted robust viewing figures. *Downton Abbey* is also a leading performer on transactional and subscription-based online platforms throughout the world.

The first season of *Poldark*, a high-end period drama series broadcast on BBC1, had a budget around £12 m. It was premiered through March and April, on BBC1 – the channel which originally committed to the project – to critical acclaim and viewing figures of nearly 7 million.

The vision of Mammoth Screen, the company that developed and produced this series based on popular novels by Winston Graham, is to extend its life over several seasons if the first run proves successful. This potential to develop and produce further runs provides much of the added value of the TV series as compared to independent feature films, most of which enter the marketplace as single creative prototypes, not as part of a potential franchise. It is not untypical for such TV series to be based on a business plan or 5 years or more.

Up until the early 2000s, British television drama series could very often rely on a single British free-to-air broadcaster's license fee to cover the majority proportion of its costs. License fees covering 80 to 95% of budget were common at a time when free-to-air broadcast television had fewer competitors and the online space was a fledgling market place. In this configuration, production companies would have had to cover reasonable gaps

between broadcast license fee and production budget. In those years, the DVD market for local drama series was holding strong and many of those projects could cover their deficit out of pre-selling DVD rights for the UK market. Success in such transactions was all the more likely on returning series that had already achieved branding with audiences.

The consolidation of pay TV's market share, combined with the strong growth in alternatives to linear television – especially OTT VoD platforms – has radically transformed competitive dynamics in this segment of the audiovisual content marketplace in the past decade. As a result of transfer of value from free TV to those new entrants, leading broadcasters are now offering far lowering license fees. Although budget coverage varies, empirical evidence indicates that TV producers in the EU can now expect these license fees to cover between 30 to 60% at the most (though there are significant variations in each EU territory). While local tax credits enable them to cover a further percentage (typically 15 to 20%), gaps between local market financing and total budget are frequently in the 20 to 50% range.

In order to adapt to such structural changes, UK drama series' producers have tightened their business relationships with overseas television stations. In many cases, they have looked to the US as a vast market with a strong demand from a variety of content. The US' public broadcasting system (PBS) has had special editorial and aesthetic affinities with the high-end output of UK drama, owing in particular to its perceived educational value, which is consistent with the remit of the PBS system. Thus, a commitment by a US free-to-air channel to pre-buy US television rights was a significant factor in the decision by UK international sales agent ITV Studios Global Entertainment to take the risk of advancing a large proportion of the budget for *Poldark*, and helped close the gap not covered by the BBC for the UK free TV rights.

In order to fully close the gap and cover its risk, ITVGE needed to close pre-sales of territorial TV rights in other countries. EU Member States would have been considered a priority in this risk management strategy.

Without the ability to attract such territorial rights sales – with most of the high-value territories located in the EU - it is likely that a TV series of the cost, scale and ambition of *Poldark* may not be made altogether. An added challenge regarding territorial sales of rights in such projects with the potential for the commissioning of further runs/seasons is that – unlike with individual independent films – the producers and international sales company will be seeking long term commitments – typically 5 years or more – from the broadcasters putting up license fees for broadcast and other rights in their respective territories. Additionally to the cost of acquiring the exclusive license, those national broadcasters in EU Member States will be making a substantial investment of their own in dubbing or subtitling and marketing to a local audience.



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Disclaimer: some of the financial data included in this compilation of film financing/distribution case studies are based on the films' financing plans, which do not necessarily always reflect with absolute accuracy the actual production spend, owing to changes occurring between project planning and the production process

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