

Savings & Moan

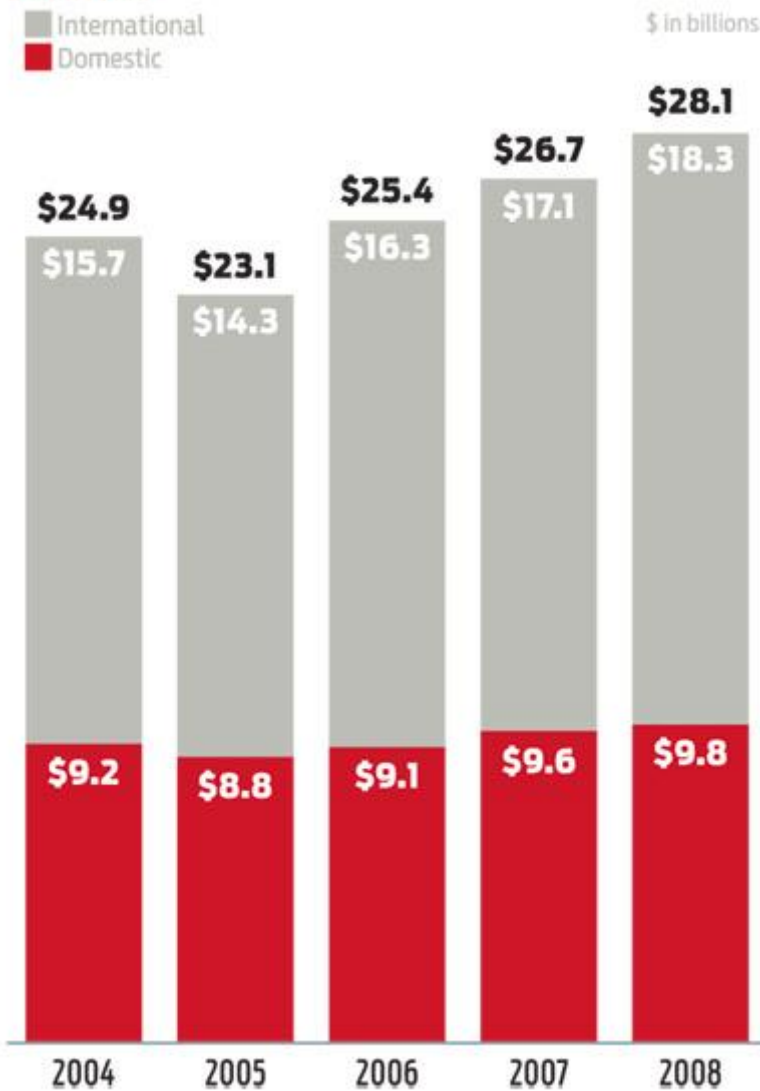
For years, cash-rich TV outlets have been a pillar of the European film business. Those days may be over

By Scott Roxborough

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Boxoffice

International
Domestic



"We should learn from the car industry," says Michael Werner, veteran executive at Sweden's NonStop Sales. "In Germany, they've introduced this Cash for Clunkers program, giving money for old cars to buy new ones. How about the same thing for the film industry? Bring in a flop and get money to invest in a new project."

Werner is kidding. Kind of. As one of the army of front-line sales soldiers heading to the Cannes Marche, he can't find much to laugh about when it comes to the state of the international film market. Boxoffice might be up around the world, but overall, revenue is way down. First it was DVD sales that hit the wall. Now it's television income.

"Attendance at (TV sales market) MIP TV was down 20%," he says. "That's as clear a sign as you can imagine. Prices have gone way down. You now need 10-15 deals to make the revenue you used to get on 1-2."

TV licensing is the poor stepchild of the flashy theatrical pickup. Movie distributors in Cannes hog press coverage with news of their latest three-picture deal, while television pacts tend to be done later, in more low-key markets like MIP and MIPCOM. But alongside

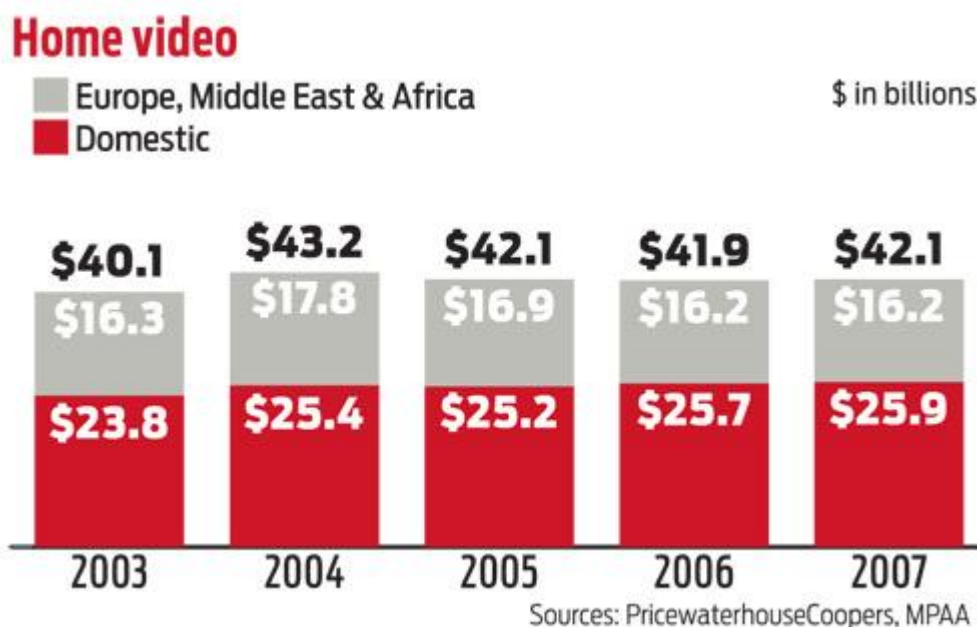
theatrical and video, TV revenue remains the third pillar of the industry, and it's crumbling away.

The economic tsunami that battered U.S. channels has now reached foreign shores, with such European commercial networks as Germany's RTL, Britain's ITV and TF1 in France facing double-digit drops in ad sales.

Public channels, traditionally a fiscal bedrock in troubled times, are also struggling. In the U.K., the BBC wants to chop about \$600 million from its budget. Indie film champion Channel 4 -- whose digital channel Film4 helped finance Oscar champion "Slumdog Millionaire" -- is looking for fat to trim as it faces a \$140 million annual budget shortfall.

It's hard to overstate the impact of the TV downturn on the industry, particularly in Europe, where TV money has always been a key part of the financing puzzle. Just check the closing credits on any European feature and count the number of television channels mentioned. Such crossover hits as Mike Leigh's "Happy-Go-Lucky," Fatih Akin's "The Edge of Heaven" and Ari Folman's "Waltz With Bashir" would not have been made without substantial upfront cash from national broadcasters.

But now, by and large, they're holding onto their money.



So far, the most generous supporters of the indie industry -- such public broadcasters as Film4, ARTE France or Germany's NDR -- have continued to greenlight projects. Film4 just ponied up for Mark Romanek's "Never Let Me Go," starring Keira Knightley, Charlotte Rampling and Sally Hawkins, as well as the in-production title "Womb" from director Benedek Fliegauf, among others. France 2 was a backer on Anne Fontaine's hotly anticipated biopic "Coco avant Chanel," starring Audrey Tautou, and German regional networks WDR and SWR co-produced Maren Ade's Berlin International Film Festival Silver Bear winner "Everyone Else."

But for many channels, film acquisitions are the first budget item to get crossed out. The cuts hit indie sales outfits hardest because the studios typically have volume or output deals with major networks in most territories.

For some indies, television revenues have all but dried up.

"We don't even run television sales in our numbers when it comes to picking up films for distribution," says the Works U.K. distribution chief Mick Southworth. "Any cash we get from a television sale is a bonus these days. It's very tough out there at the moment, probably the toughest I have ever known it."

The U.K., which was hit first and arguably hardest in western Europe by the global economic crisis, has seen the sharpest downturn in TV license deals as every organization squeezes the margins.

"Films are loss leaders for most channels and in this climate it's hard to justify any acquisition that doesn't deliver in terms of audience and advertising," says Jeff Ford, head of acquisitions at U.K. commercial network Channel Five. "What we are all doing is trying to squeeze as much as possible out of a declining asset."

Not even cash-rich satellite operator British Sky Broadcasting is immune. The pay TV giant is moving away from

output deals as the studios aim to recoup on a title-by-title basis so as to offset growing budget costs on individual blockbusters. That has a knock-on effect for indies, with Sky prepared to pay far less for smaller titles.

It's a similar story across Europe. France and Germany are only now starting to feel the pain. But with ad sales down 30% in the first quarter for some of the biggest channels and giants like TF1 announcing to-the-bone budget cuts, it's just a matter of time before the film industry feels the crunch.

"Budgets have been allotted for this year, to a large degree, so we won't see much happen until after the summer," one prominent German producer says. "That's when there'll be a real fall out. A lot of productions won't get approved and a number of these one-production companies who have all their equity tied up in their latest film will go under."

The view to the east is even bleaker. If the markets of old Europe are sick, new Europe is flat-lining.

Alexander van Dulmen, CEO at licenser A Company, which specializes in sales to Russia and Eastern Europe, says license fees have fallen across the board and in Russia by 50% or more.

"In several territories in central Europe or Poland we can usually make up some of the drop with better backup terms (in our deals)," van Dulmen argues. "In Russia and Ukraine, however, you're happy if you sell anything at all. You even have to consider barter deals."

EUROA Company only just escaped bankruptcy this year when private-equity groups Future Capital Partners and Screen Capital International acquired a 25.2% stake in the Berlin-based firm, and fund Aramid Entertainment came through with a AC;10 million (\$13 million) loan to finance operations. Other indie operations might not be so lucky.

"I don't know if we'll make it until Cannes; we could be filing for bankruptcy in a week," the head of one veteran Euro sales operation says. "We are seeing buyers defaulting all over. We have the capital -- on paper -- but people aren't paying."

Boutique operations look to be the hardest hit in this downturn. NonStop's Werner notes that the explosion of new outlets, including digital channels, VOD operations and mobile services, has partially compensated for the drop in per-title revenue. But only for companies with a big back catalog. Smaller firms find their margins pinched on all sides as buyers pay less and wait longer to do so.

"Everyone is taking longer to decide and is being very careful," says Daniel Baur, co-head at K5 International. "Everyone is looking for the same few high-quality titles with big names and real theatrical potential."

"Buyers want a name, either a title that's a best-seller or A-list talent above-the-line," adds Robert Kulzer, head of the L.A. office of German indie giant Constantin Film. "At the same time, we are under enormous pressure to bring down below-the-line production costs. The differential between above- and below-the-line costs is the widest I have ever seen."

Traditionally, European producers have been sheltered from price pressures by the soft cushion of state subsidies. But even here, money is tight. The U.K. Film Council expects a 15% cut in funding from the state lottery -- about \$33 million during the next five years -- as cash is diverted to pay for the London Olympics in 2012. In Germany, the Federal Film Board is in crisis following a lawsuit that declared Germany's film subsidy law illegal. And in Spain, a film incentive that would have helped finance the distribution and promotion of Spanish projects has been put on hold as the government tries to weather the economic crisis. Spain has tried to compensate by expanding its existing Aval program, which secures loans taken out by Spanish production companies.

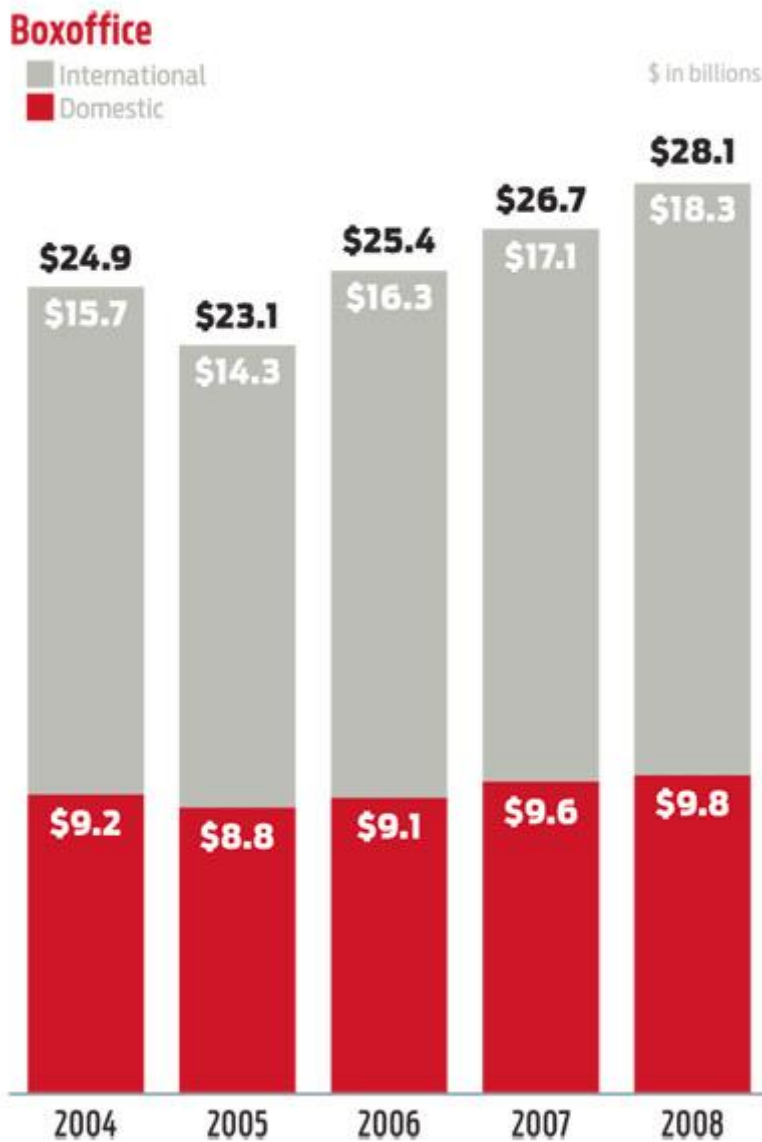
But with banks tightening up credit lines, private equity all but gone and sales companies reducing their minimum guarantees, soft money remains the only game in town.

"Soft money is all-important; it starts back with the selection of material," Kulzer says. "We recently picked up the rights for the best-seller 'A Year in the Merde,' which is about a British guy who spends a horrible year in France. It is ideal for a U.K.-French-German co-production with a bit of shooting in England, the bulk in France, maybe postproduction in Germany and a mainly European cast. That's what I'm looking for, projects that nicely fit the subsidy models and would work as co-productions. The film set in L.A. that couldn't be shot anywhere else is very

hard to get financed."

The U.S. has rushed to copy the European model of tax breaks for film production. New York recently set aside \$350 million to fund an extension of its 30% production credit and California has approved \$500 million in tax breaks over five years, starting in 2011. State film subsidies used to be seen as desperate attempts by backwoods regions to bribe productions away from Hollywood. Now they are seen as essential to keeping the business afloat.

Producers might not be getting a G.M.-style billion-dollar bailout any time soon. But until the economic climate improves, indie filmmakers will remain as dependent on government largesse as your average bank, insurance company or carmaker.



Home video

■ Europe, Middle East & Africa
■ Domestic

\$ in billions



Sources: PricewaterhouseCoopers, MPAA