

# TFE THE FILM ENTREPRENEUR:

A Newsletter for Independent Filmmakers and Investors

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## INDIES HOLD STRONG IN 2016

Indie film is alive and well as always. This market segment of the total domestic market grossed \$2.94 billion compared to \$2.96 in 2015, a difference of less than one percent. This year's total revenues halted last year's slide of 14 percent from 2014. We always will have an abundant number of filmmakers who want to control their own stories and production.

Independent investors have continued to shift from large companies to smaller ones. As the economy improves, those funders will have extra dollars to follow their own passions by investing in film. Technological advances continue to enable filmmakers to produce movies at more efficient costs. *Moonlight* and *La La Land* are among the films that have benefited from 21<sup>st</sup> Century methods. Genres continue to expand to niche audiences who are imminently more reachable. Indie filmmakers, who often don't have the significant dollars for massive publicity spends, keep making better use of the many free social media sites that allow them to bring audiences to their films. *TFE* also feels that the flat audience numbers affecting studios with blockbuster films are not as crucial for independents that tend to attract moviegoers more flexible in taste and time. On the other hand, independents with larger films also continue to thrive. "Twenty years ago I was [considered] weird, and 20 years later, the world has gotten as weird as me," said Luc Besson, President of EuropaCorp, speaking at 2016's Comic-Con.

The less exciting news is that studios continue to merge with or make financing deals with several of the most successful independent distributors making lower-budget films. Despite their desire to make only blockbusters earlier in the decade, since 2014 studios released low-budget horror and other films which have drawn away dollars that used to flow into the Indie market segment. The latest exit from this market was DreamWorks Animation. NBCUniversal acquired the company in August. *Trolls*, which was produced prior to the purchase, is the last DWA film to be included in our Indie total. [For more detailed explanation of the companies that became part of the studio companies recently, please refer to the newest edition of my book, *Filmmakers and Financing: Business Plans for Independents*, Eighth Edition, now available in bookstores and online.]

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Then, we said goodbye to Relativity. (See page 4.) Indie revenues also have suffered from “franchise fatigue,” seemingly from both the audience and the production companies themselves. Last, as usual, the future effect of the Netflix and Amazon remains a big question. Will Netflix continue its model of acquiring finished films that they send immediately to streaming and financing seemingly high budgets for other films? Currently, Amazon is content to give the films they acquire a typical theatrical run. That helps the box office which is our immediate topic. On the other hand, we do not know the deals, if any, that they are making with filmmakers in terms of post-theatrical dollars. In this case, it takes two to tango, but the current dance leaves out the likelihood of finding equity investors.

Being the numbers guru, I can’t leave the year without the usual statistical analysis of the box office. The main contributors to the indie total belong to three revenue groups. Two of those had higher total revenues in 2016 than in 2015. Films earning \$50 million to \$99 million totaled \$672.6 million which was 25 percent more than last year, and films earning \$20-\$49 million totaled \$671.6 million which was a more modest 4 percent more than last year. The big hit came from films earning \$100 million or more. There were three films, including two animations, totaling \$498.6 million which was 42 percent less than 2015 which included five films in that category with only one animation but two major franchise films. The fourth category that we separately track, films earning \$10 million to \$19 million totaled \$339.7 million, was 30 percent more than last year. That leaves thousands of lower budget films which were 26 percent of the total.

The total box office for all domestic films is estimated at \$11.4 billion, an increase of 2.7 percent over 2015. Attendance numbers for moviegoers, however, were flat at best. The increase is credited to be due to higher prices. Final numbers will come from the MPAA at the end of March or early April.

What will happen next? I can’t give a definitive answer. Nor can the numerous psychics that I know. Perhaps that is not a good answer from someone who makes her living forecasting revenues in business plans. Those are estimates, however, not predictions. We take into account current trends, while covering a range of possibilities based on specific, similar films. It is clear there is a new norm, and the \$4 billion box offices of 2012 and 2013 are not in our immediate future. Are there too many independent films out there? If you are a studio, you betcha! As we go to press the “Road to the Oscars” is crowded with awards and nominations for Indie films. In most top ten forecasts for Oscar Best Picture, the majority of films are Indies.

For the immediate future, the saying that “Good things come in small packages” is truer than ever in our business. Whether a high budget or small one, the road to success starts with a film that you love followed by a budget that is workable. From *TFE*’s point of view, independents are poised to increase their strength in the New Year.

*Welcome to 2017. May all your celluloid (and cyberspace) dreams come true!* ■

## HOME ENTERTAINMENT \$18.3 BILLION IN 2016

Home Entertainment Spending rose 1.4 percent in 2016 to \$18.3 billion, according to DEG: The Digital Entertainment Group. This continues last year's increase from 2014's \$17.8 billion, which was the lowest total since 2010's high of \$18.8 billion. Generally, the increase is credited to a continuing increase in purchases for digital movies and on-demand content. In addition, 4K Ultra HD TVs, players and discs all showed strong sales in their first year of launch.

Among DEG's highlights for 2016 are:

- Discs sales (sell-thru packaged goods) were \$5.5 billion down almost 1 percent from \$6.0 billion in 2015. DEG didn't break out Blu-ray sales numbers in its year-end report, but in an earlier report the trade group said sales were up 8 percent in the first nine months of 2016. According to sales data tracked by *Home Media Magazine's* market research department, Blu-ray sales were essentially flat compared with 2015, when Blu-ray had dropped about 5 percent compared with 2014.
- Overall, electronic sell-through (EST) spending rose 5 percent for the year. Theatrical content was especially strong on EST, showing growth of 17 percent year-over-year.
- Video on Demand (VOD) was up 6 percent \$2.1 billion in 2016, with the category returning to growth after falling nearly 3 percent in 2015.
- Subscription VOD (SVOD) was up 26 percent in the fourth quarter of 2016 compared to 2015 and up about 22 percent year-over-year.
- HDTV penetration is now at more than 112 million households of which 16 million are 4K Ultra HD TVs. All Blu-ray playback devices (including set-tops and game consoles) are at 88 million U.S. households.
- First-year sales data shows consumers are enthusiastically embracing 4K Disc content, purchasing films and TV shows at a faster pace than they did in HD-Disc format when it was introduced.
- 4K Ultra HD products debuted strongly in their first year. Some 10 million 4K Ultra HD TVs shipped, representing nearly \$10 billion, and are projected to reach 30 million units by the end of 2017. Approximately 300,000 Ultra HD Blu-ray players shipped accounting for \$66 million. (Source: CTA) The number of 4K Ultra HD titles available to consumers continues to grow. There are now 110 4K Ultra HD titles in the market, with 250 titles projected by the DEG to be available in 2017.

<http://degonline.org/news-releases/deg-news/deg-year-end-2016-home-entertainment-report/>  
<http://degonline.org/resource/deg-year-end-2016-home-entertainment-grid/>  
<http://www.homemediamagazine.com/research/deg-reports-consumer-home-entertainment-spending-rose-2016-39402> 

## **MPAA STATEMENT ON COPYRIGHT**

The following is a statement from Joanna McIntosh, executive vice president for Global Policy & External Affairs of the Motion Picture Association of America, Inc. (MPAA), on the release of the third Joint Strategic Plan on Intellectual Property Enforcement by the Intellectual Property Enforcement Coordinator (IPEC) Daniel Marti. “The MPAA thanks IPEC Daniel Marti and his team for their important work to shine a light on the threat to creativity and the U.S. economy posed by business models engaged in and profiting from large-scale piracy. Copyright is the foundation of the American film and television industry, which employs nearly two million Americans in all 50 states and is comprised of nearly 89,000 businesses – of which 84 percent are small businesses employing fewer than 10 people. It is our hope that this strategic plan will foster government and private sector coordination to reduce theft. We look forward to working with the Administration and all responsible players in the online ecosystem to advance a legal digital marketplace for creative content that benefits consumers, creators, and the national economy.” <http://www.mpa.org/press/statement-from-mpaa-evp-of-global-policy-joanna-mcintosh-on-2016-joint-strategic-plan-on-intellectual-property-enforcement/#.WFAn6FxGSVs> ■

## **FEDERAL FILM INCENTIVE NO MORE**

The federal film tax incentive (Section 181) was established by Congress as part of the American Jobs Creation Act of 2004. Every year that 181 was to “sunset” (expire), we were told it was likely to be extended. The last extension was in 2015 to end December 31, 2016. And it did. Congress then let it quietly pass away. Over the last two years there was heavy lobbying by conservative groups to kill both the federal credit and state incentive which were referred to as “Hollywood handouts.” Last year, when it was lobbying for an extension of the incentive, the MPAA reminded the co-chairs of the Senate Finance Committee that “Congress enacted Section 181 in light of the job-creation, economic growth and other benefits that flow from filmmaking in the United States. ... Recognizing the economic benefit of film production to their local economies, many of our major trading partners, (e.g., Australia, Canada, France and the United Kingdom) offer significant wage credits and other above-the-line incentives to attract film productions and jobs abroad,” *deadline.com* reported. Attorney Hal “Corky” Kessler, one of the industry’s leading experts on the federal tax break, also “lamented its end” to the website. “It was one of the greatest jobs acts we had.” ■

## **FAREWELL ALSO TO RELATIVITY**

After two years of trying to keep his company afloat, and despite new investors, Ryan Kavanaugh has stepped down from leadership of Relativity after 12 years. Presumably, YuuZoo, a social media company based in Singapore, bought a stake in the company last November. At the same time, Relativity announced a \$200 million partnership with Hollywood-based Storyscopic Films to create product for the family-friendly market. Nevertheless, in December Relativity started furloughing workers. One source told *The Hollywood Reporter* that Kavanaugh did not take part in the decision to furlough workers, which may be part of YuuZoo's attempt to integrate the company with its own operations. ■

## OTHER COMINGS AND GOINGS

**Annapurna Interactive** is the new gaming division of Annapurna Pictures, and it plans to publish two games in the spring: Jason Roberts' *Gorogoa* and Giant Sparrow's *What Remains of Edith Finch*. "I've had a great passion for video games for as long as I can remember," Annapurna founder and CEO Megan Ellison told *venturebeat.com*. "Growing up, *The Legend of Zelda: Ocarina of Time* was one of my all-time favorites. My brother and I ran up quite a bill calling the 1-900 numbers for tips on those games, before the internet provided game-guides. The artistry and diversity of interactive storytelling is exciting, and we look forward to exploring the limitless possibilities in gaming. We want to empower artists across this medium to make Annapurna Interactive their home, and I believe we've assembled the perfect team to make that happen." Among Annapurna's film projects are *Zero Dark Thirty*, *Joy*, *20<sup>th</sup> Century Women*, *American Hustle* and *Her*.

In November's *TFE* issue we reported that China's Anhui Xinke New Materials, a provincial copper processing firm, had announced plans to buy an 80 percent stake in Midnight Investments, owner of **Voltage**, the studio behind Kathryn Bigelow's best-picture Oscar winner *The Hurt Locker*. In a statement to the Shanghai Stock Exchange in late December, however, the firm said it had aborted the deal because Midnight Investments had failed to supply necessary documentation required by regulators. Instead, in a separate statement Anhui Xinke said it will invest \$25 million in a 29.9 percent stake in Raymond Wong's Hong Kong production company Pegasus Entertainment, reports *screendaily.com*

Lionsgate has signed a three-film deal with **The Onion** to make films. Under the alliance, Onion Studios will work with Serious Business, which produces "@midnight" for Comedy Central, to develop the movies through 2018 reports *Variety*. Jordan Gilbert, V.P. of Digital Production for Lionsgate, said in a statement: "This deal represents an expansion of Lionsgate's breadth of partnerships with meaningful online publishers, while adhering to our core strategy of utilizing nontraditional marketing techniques to help our product to rise above the noise." Onion Studios V.P. Kyle Ryan said, "We've plotted our takeover of the film industry for some time. With the help of Serious Business and Lionsgate, we'll make room on our award shelf for some Oscars. To the basement you go, Pulitzers."

After building Hyde Park Entertainment Group with an overseas specialization, Chairman and CEO Ashok Amritraj also has formed U.S. theatrical and worldwide digital distribution company, **Hyde Park Global**. According to a *deadline.com* article on the company's website, HPG plans to release four to six films per year and will focus on acquiring festival films and prebuys of films in early stages of development. Hyde Park Entertainment's library consists of such films as *Blue Valentine*, *Ghost Rider: Spirit of Vengeance* and *Walking Tall*. The company also has a long-term partnership with Image Nation Abu to develop, produce and finance feature films. ■

## NUMBERS! NUMBERS! NUMBERS!

### LOW-BUDGET INDEPENDENT FILMS (\$9.5 M and under)

FILM	DISTRIBUTOR	REVENUE	COST
		thous. \$	thous. \$
<i>Believe*</i>	Freestyle	888	5,000
<i>Birth Of A Nation, The</i>	Fox Searchlight	15,862	8,500
<i>Blair Witch</i>	Lionsgate	20,777	5,000
<i>Bleed for This</i>	Open Road	5,084	6,000
<i>Edge of Seventeen, The*</i>	STX Entertainment	14,329	9,000
<i>Incarnate*</i>	BHTilt	4,800	5,000
<i>Lobster, The</i>	A24	9,078	4,500
<i>Love and Friendship</i>	Amazon/Roadside Att.	14,017	3,000
<i>Loving*</i>	Focus Features	7,455	9,000
<i>Manchester by the Sea*</i>	Roadside Attractions	27,053	8,500
<i>Meet the Blacks</i>	Freestyle Releasing	9,096	900
<i>Middle School: The Worst Years of My Life</i>	Lionsgate	20,007	8,500
<i>Moonlight*</i>	A24	12,504	5,000
<i>Race</i>	Sony Pictures Releasing	19,115	5,000
<i>Southside With You</i>	Roadside Attractions	6,304	2,000
<i>Swiss Army Man</i>	A24	4,210	3,000
<i>War Room</i>	Sony Pictures Releasing	67,790	3,000
<i>Witch, The</i>	A24	25,139	3,500

\*Still in North American distribution as of December 31, 2016. Revenues are from boxoffice.com and boxofficemojo.com. Negative costs (production prior to prints and ads) are approximate, based either on industry estimates, and published interviews with filmmakers or personal conversations with filmmakers.

**MORE NUMBERS! NUMBERS! NUMBERS!**  
**HIGH-BUDGET INDEPENDENT FILMS (Over \$9.6M)**

FILM	DISTRIBUTOR	REV.	COST
		thous. \$	thous.
<i>Arrival*</i>	Paramount	91,678	47,000
<i>Assassin's Creed*</i>	20 <sup>th</sup> Century Fox	36,393	125,000
<i>Bad Moms</i>	STX Entertainment	113,257	20,000
<i>Bad Santa 2*</i>	Broad Green	17,710	26,000
<i>Boo! A Madea Halloween</i>	Lionsgate	73,208	20,000
<i>Choice, The</i>	Lionsgate	18,730	10,000
<i>Collateral Beauty*</i>	Warner Bros.	24,321	36,000
<i>Dangal*</i>	UTV	7,124	11,200
<i>Deepwater Horizon</i>	Lionsgate/Summit	61,433	110,000
<i>Don't Breathe</i>	Screen Gems	89,218	9,900
<i>Fences*</i>	Paramount	26,337	24,000
<i>Florence Foster Jenkins</i>	Paramount	27,384	29,000
<i>Girl on the Train, The*</i>	Universal	75,348	40,000
<i>Hacksaw Ridge*</i>	Lionsgate	64,463	53,000
<i>Hell or High Water</i>	Lionsgate	27,008	12,000
<i>Infiltrator, The</i>	Broad Green Pictures	15,437	28,000
<i>Kubo and the Two Strings</i>	Focus Features	48,023	60,000
<i>La La Land*</i>	Lionsgate/Summit	30,965	30,000
<i>Lion*</i>	The Weinstein Co.	5,297	12,000
<i>Mechanic: Resurrection</i>	Lionsgate/Summit	21,218	40,000
<i>Nerve</i>	Lionsgate	38,584	40,000
<i>Risen</i>	Sony Affirm	36,880	20,000
<i>Triple 9</i>	Open Road	12,639	20,000

\*Same references as Low-Budget Table

## LARGE FORMAT FILMS

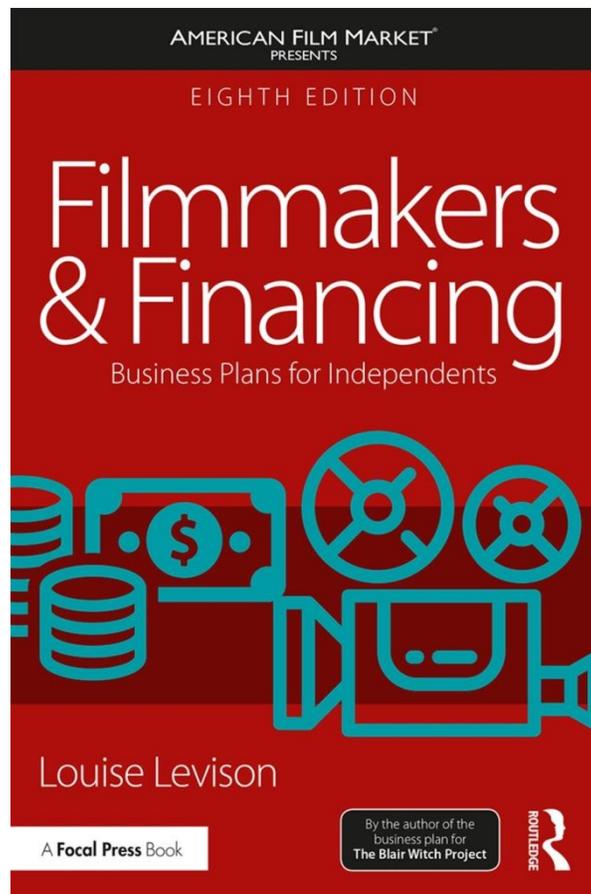
FILM	DISTRIBUTION	REV.	COST
		thous. \$	thous. \$
<i>Apollo 13: The Imax Experience</i>	IMAX	1,737	n/a
<i>Beautiful Planet, A*</i>	IMAX	7,814	n/a
<i>Born To Be Wild 3D*</i>	Warner Bros./IMAX	25,110	n/a
<i>Bugs!</i>	SK Films, Inc.	18,114	9,000
<i>Deep Sea 3D*</i>	Warner Bros.	46,233	1,000
<i>Galapagos: The Enchanted Voyage*</i>	IMAX	18,572	7,000
<i>Ghosts of the Abyss</i>	Buena Vista	17,041	13,000
<i>Haunted Castle</i>	nWave	13,652	n/a
<i>Hubble 3D*</i>	Warner Bros.	51,753	n/a
<i>Island of Lemurs: Madagascar*</i>	Warner Bros.	10,686	n/a
<i>James Cameron's Deepsea Challenge</i>	DisruptiveLA	236	n/a
<i>Jerusalem 3D</i>	National Geographic	7,880	n/a
<i>Journey to the South Pacific</i>	IMAX/MacGillivray	7,144	n/a
<i>Magnificent Desolation</i>	IMAX	34,109	3,000
<i>NASCAR 3D</i>	Warner Bros./IMAX	21,337	10,000
<i>Ocean Wonderland 3D</i>	3D Entertainment	11,035	3,000
<i>Roving Mars</i>	Buena Vista	10,408	1,000
<i>Sea Monsters 3D: A Prehistoric</i>	National Geographic	23,746	n/a
<i>Sea Rex 3D:urney to a Prehistoric</i>	3D Entertainment	6,097	n/a
<i>Space Station 3D</i>	IMAX	93,221	1,000
<i>Thrill Ride</i>	Sony Classics	18,795	9,000
<i>To the Arctic 3D</i>	Warner Bros.	14,445	n/a
<i>T-Rex: Back to the Cretaceous</i>	IMAX	53,347	14,500
<i>U2 3D</i>	National Geographic	10,362	13,000
<i>Under the Sea 3D*</i>	Warner Bros.	35,116	n/a
<i>Wildest Dream: Conquest of Everest</i>	National Geographic	898	n/a
<i>Wild Parrots of Telegraph Hill</i>	Shadow	3,058	n/a
<i>Wild Safari 3D</i>	nWave	16,621	4,500

\* Same references as Low-Budget table. ■

NEW EDITION!

# **Filmmakers and Financing: Business Plans for Independents**

By Louise Levison



<https://www.routledge.com/Filmmakers-and-Financing-Business-Plans-for-Independents/Levison/p/book/9781138947443>

[Routledge.com/American-Film-Market-Presents/book-series/AFMP](https://www.routledge.com/American-Film-Market-Presents/book-series/AFMP)

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**NEED MONEY FOR A MOVIE? DON'T GO IN EMPTY-HANDED. HAVE A BUSINESS PLAN.**

The benefit of using a reliable business plan to raise financing for a film is that it allows the investors and the filmmaker to gauge the potential success of a film. A polished business plan with projections based on the worldwide results of other films and with clear explanations about the industry, markets and production personnel attached to the film is far more effective than an incomplete document that leaves prospective investors wanting more information. Contact Louise Levison at [louisel@earthlink.net](mailto:louisel@earthlink.net) to find out how you can put her 28 years of experience as a Film Business Consultant to work creating a business plan for your film.

Levison, the President of Business Strategies, is a highly respected financial consultant in the entertainment industry, specializing in creation of film business plans. Her clients have raised money for low-budget films including *The Blair Witch Project*, the most profitable independent film in history, and for companies raising as much as \$300 million. She is the author of *Filmmakers & Financing: Business Plans for Independents*, currently in its revised and expanded eighth edition (A Routledge/Taylor&Francis book, 2013). The sixth edition of the book was published in Mandarin. Levison also is editor of the online newsletter *The Film Entrepreneur: A Newsletter for the Independent Filmmaker and Investor*. Among other clients' projects are *The Prophet* (Kahlil Gibran's), *Unlimited* (Nathan Frankowski), *Burning Bodhi, Greater, The Redemption of Henry Miller, Emoticon:*, *Moving Midway, Redemption Road, Haunted* (2012), *The First of May, The Open Road, Aluna, Yak: The Giant King, Visual Acoustics: The Modernism of Julius Shulman, My Father and the Man in Black* and *Michael Winslow Live*. Among her corporate clients are Danny Glover's Louverture Films (2008 nominee for Best Documentary Academy Award *Trouble the Water*), Pamplin Film Company (*Hoover*), Hurricane Film Partners, LLC and Tokuma International Ltd (*Shall We Dance, Princess Mononoke*). Levison was an Instructor in the Extension Program at UCLA for 22 years before moving to Florida. She also has been a Visiting Professor at the Taipei (Taiwan) National University of the Arts, Chapman University (Orange County, CA) and the University of Montana (Missoula). Levison has presented seminars and/or been on panels at festivals and markets around the world. (Additional information is available at <http://www.moviemoney.com>).

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