

Show Me the Money!

Financing Strategies for Convergent Media Companies

Keith Clarkson
Executive Producer

Xenophile Media Inc.
Toronto, Canada

Financing

- How to finance your new media projects without using your own money...
- Traditional business models don't work
- New media productions have limited track record of generating significant revenues
- Therefore the “fee for service” business model

Financing

- “Fee for Service” gives no ownership of IP
- Editorial control issue as well as a financial issue
- New Media Financing Model:
 - adapted from models used in Film and TV industries
 - not possible to raise all financing from one source

Types of Financing

EQUITY INVESTMENT

- **Financier expects to recover their investment from the revenues and share of profits**
- **Equity confers proportional ownership of copyright**



xenophile  media™

Types of Financing

LOANS

- Lender expects repayment of funds whether or not the project is successful
- Producer may need to provide collateral and corporate guarantees
- Equity partners recoup their investment only after loans repaid

Types of Financing

GRANTS

- **The best kind of money!**
- No expectations of repayment
- Generally, granting bodies have their own worthy goals or motivations and will have expectations in return for their investment

Types of Financing

INTERIM FINANCING

- Provided by banks who loan funds to help with cash flow while you wait to receive drawdowns
- Drawdowns assigned to bank as collateral
- Considerable legal and bank fees, plus interest charges

Types of Financing

ADVERTISING & SPONSORSHIPS

- No expectation of revenue sharing
- Sponsor or advertiser requires visibility and expect to reach their target audience through distribution of your project

Types of Financing

TAX CREDITS

- Provincial governments only (no Federal tax credit, yet!)
- Production company eligible for tax credit “refunds” based on percentage of labour expenditures
- Received long after production finished
- Generally treated as if they are equity investments made by the producer
- Application is a very time consuming, tedious process

Types of Financing

DEFERRALS

- Fall back when there are no other sources of financing
- Producers or other production team members will postpone receiving all or a portion of their budgeted fees
- Expect to be paid from revenues generated
- Deferrals recoup along with equity investors, but not considered equity for profit participation calculation

Types of Financing

SERVICES & FACILITIES

- Equipment suppliers and service providers may provide facilities or staff at reduced rate or free
- Often done in return for either recognition or share in revenues

Types of Financing

LICENCE FEES

- Broadcasters or ISPs/Portals pay a fee for the right to distribute your project on their service
- Essentially rent your project for a specific term
- Usually demand exclusive access to your material
- Similar to TV license

Types of Financing

SELF-GENERATED REVENUES

- New media property may generate revenues
- Subscription, e-commerce, advertising, sponsorship
- CD/DVD ROMs generate revenue through distribution
- Unless there is a distribution advance, these forecasts cannot be used in financing

Sources of Financing

1. Private Funds
2. Federal Government
3. Provincial Government
4. Private Investment (VCs/Angels)
5. Sponsors and Advertisers
6. Self-financing
7. Other Sources (Banff Centre, CFC h@bitat, Arts Councils, NFB, portals, licenses, distribution advances, etc)

Sources of Financing

BELL BROADCAST & NEW MEDIA FUND

- **Development:**
 - grant of up to 75% of budget, to a maximum of \$50,000
- **Production:**
 - grant of up to 75% of budget, to maximum of \$250,000, plus a bonus grant matching any broadcaster cash contribution to a maximum of \$50,000

Sources of Financing

TELEFILM

- Recoupable advance for market research & prototyping, production, and marketing phases
- Maximum of 50% of approved budget or:
 - \$100,000 for Market Research/Prototyping
 - \$250,000 for Production
 - \$200,000 for Marketing
- Total funding up to \$550,000 for all phases

Sources of Financing

PROVINCES

- Most provinces have labour tax credit programs
- Some also have grants and/or equity investments

Sources of Financing

ONTARIO MEDIA DEVELOPMENT CORP.

- **Pioneering Content Program:**
 - Focus on convergent projects involving two or more collaborating media companies
 - New media, Film, TV, Books, Magazines, Music
 - For prototyping and commercialization
 - Up to \$70,000 grant

Sources of Financing

OTHER SOURCES

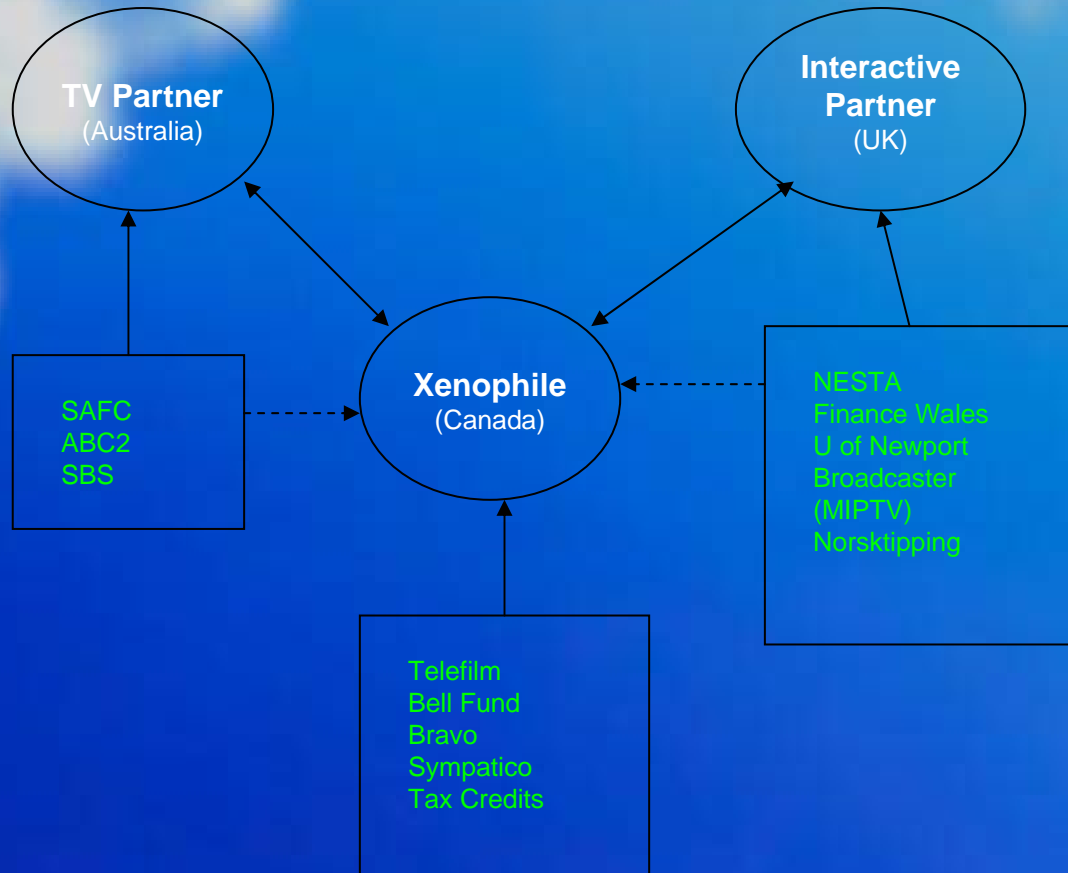
- **Canadian Broadcasters**
 - Pre-sale licenses & services
- **Foreign Broadcasters**
 - Pre-sale licenses
- **National Film Board**
- **Distributors**
 - Advance on sales

Sources of Financing

OTHER SOURCES

- **Sponsorships:**
 - Fee-for-placement
 - General Motors (Cadillac) for “Enhanced Genie Awards”
- **Arts Councils**
- **Banff New Media Institute**
- **CFC Habitat**

PROJECT X



Lessons Learned

- **Start early integrating new media into the development process**
- **Biggest challenge is dealing with program decision-makers**
 - Too often relegated to periphery
- **NM producer should also be the TV producer**
 - Owns all copyright in convergent product
 - self-distributes
- **Need to ensure product is conceptually integrated and promoted everywhere – Marketing plan!**

Lessons Learned

- **Licensing content to national and international broadcasters and portals is proven revenue source**
- **One-offs are of limited value**
- **Choosing the appropriate URL and where site is hosted is an issue**
- **Metatags are important:**
 - **Use a Search Engine Optimization service**
 - **Optimize for keywords that public uses**

Thank You

keith@xenophile.ca