

## **Cartoon Finance**

### ***FINANCING AND REVENUE MODELS OF EUROPEAN ANIMATED SERIES***

**Málaga (Spain), 22 & 23 June 2010**

Over 120 people attended this Master, co-financed by the MEDIA Programme of the European Union and by the Consejería de Cultura of the Junta de Andalusia.

#### **Day 1**

The seminar started with a survey on the Global Animation Business, by Screen Digest's Senior analyst **Tim Wescott**, author of "The Global Animation Industry", a report covering up to 2009 the production of animated features, television series, DVD and Internet markets in several key territories (US, Canada, Australia and the big 5 European countries). Japan was not included in the study. The report looked into two areas: business-to-business – production budgets of TV, film and DVD – and consumer behaviour – box office and DVD retail and rental. In 2007 Canada became the first country in terms of hours of animation produced (more than 350 hours produced in 2008), closely followed by the US and France, and then the UK, Italy, Spain, Australia and Germany. It is interesting to notice the increase of the number of hours produced in Italy, due to RAI's pro-active strategy, compared to the slow decline of animation in Germany.

In terms of global animation production value the US is ahead of Canada. Screen Digest estimates the value of the US market in 2008 in the range of 200M€, followed by Canada (around 175M€), France (160M€) and the UK (125M€).

Not surprisingly the cost per hour of an animation work is considerably higher in the US than in all the other countries. In 2008 an hour of animation cost around 800,000€ in the US, compared to the UK (700,000€), France (600,000€) or Germany (500,000€). This difference is even bigger if we look at the global movie production value. In 2008 the value of the US market accounted for almost 500M€, followed by France with 100M€.

The first world animation studio is the Canadian company Nelvana, followed by Walt Disney and Nickelodeon Animation Studios. The first European studio is Moonscoop/Moonscoop IP, in the 9th position.

The Screen Digest report highlighted some major trends that possibly will be occurring in the next few years: a move from traditional 2D to digital 2D and CG techniques; the decline of broadcasting funding; the rise of co-productions with Asia; and the shift from fee-based business towards a royalties-based model.

In the second session of the first day, **Charlotte Appelgren**, General Secretary of Cine-Regio, presented the network of 32 European regional film funds from 15

countries. The cumulated yearly budget of the 32 regional funds is around 147M€. The level of funding varies from fund to fund. The biggest fund is the Ile-de France Film Fund, with a total of 14M€, followed by Catalonia (13M€) and Vienna (8M€). The smallest fund is the Finnish's Poem Film Fund, counting 1M€.

Charlotte recalled that the sub national funds (regions, communities and cities) count for 23% of the total financial intervention by public authorities. The national level counts for 68% and the supra national level counts for 9% (Eurimages, MEDIA, NFTV...).

The support from the regional funds cover all the different sectors of the audiovisual chain: feature films, TV fiction, documentaries, short film, animation (features, shorts, TV-series), games and multimedia works.

The selection criteria are a combination of artistic and cultural values with an economic assessment (the so-called regional effect).

In the third session of the day, **Emmanuèle Pétry** and **Marc Dhrami** explained what producers need to bear in mind when choosing the partnering company and country for their co-production works. They explained how producers can set up a co-production project from an artistic, financial and legal perspective. The advantages of co-productions are many. On the one hand it is possible to get more subsidies for the project and share the financial and artistic risks. Co-productions allow getting a wider reach of international sales and a wider recognition and credibility on the international market.

But co-productions have negative aspects. The over costs due to co-productions are estimated at 10%. Producers have to share net receipts and copyrights and find compromises on editorial and content issues. Pipelines and software are not always compatible; sometimes there are languages or cultural barriers that take time to overcome.

Emmanuèle presented several national and supra national funds and illustrated a number of practical co-production case studies. In all cases it is important to discuss how to share the distribution countries in order to maximise contacts and revenues. Producers should never forget to create communication at all levels.

**Marc Dhrami** detailed co-production budgets and budget management. Marc advised producers to draft their own budget as if they had to do everything on their own. In a second step, producers should add all the additional costs due to the co-production and finally compare the producer's budget with the one from the co-producer. The agreed pipeline, worksplit, schedule and budget must be added as appendix to the co-production agreement.

During the production, the most important tool is the cash flow plan. The cash flow allows to follow up on expenses, comparison between the production

achievements and the definition of the interim financing needed during the overall production process.

In the fourth session of the first day, **Natalie Altmann**, CEO of Media Valley, presented the new, evolving relationship between the producer and the broadcaster in time of crisis. The financing models with broadcasters have evolved in the past 4 years. From a content provider the producer is becoming a brand creator. On the other hand the broadcaster is more a partner than a client.

Natalie presented the new children's programmes audiovisual landscape. Viewership of linear television (non-time-shifted viewing of broadcast, cable and satellite television) grew over the last years both in numbers of viewers and time spent per viewer. This growth occurred in spite of the fact that time-shifted television viewing, Internet video viewing and mobile video viewing all grew as well. According to Natalie, television's audience problem is fragmentation. More people may be watching more TV, but they are watching many more channels and more programmes than they used to. The pie may be bigger, but the slices of that pie are much smaller. This phenomenon has bad consequences for television broadcasters, networks and programmers, since they are so dependent on advertising to support their animation shows. Thus, the television industry has shifted from a world of scarce distribution to scarce attention, and most expect much of the economic value to follow. Value in the future will be less about securing distribution of programming and more about attracting and retaining audiences for programming, probably on a case-by-case basis.

In the following session **Cecilia Persson**, Vice President of Acquisition at EMEA - Cartoon Network / Turner Broadcasting illustrated the editorial policy of the company. Turner Broadcasting delivers some of the world's most successful and well-known news and entertainment brands - Boomerang, Cartoon Network, Toonami - across almost 100 countries in Europe, Africa and the Middle East. Alongside its TV channels TBS is at the forefront of developing its brands through the Internet, broadband, wireless, DVD, e-commerce, merchandising, cinema, publishing and every other available platform. Turner EMEA buys exclusive pay TV rights for Europe, Middle East and Africa, as well as exclusive free-to-air rights in Italy, Turkey, Spain, France, Germany and the Middle East. The company holds all the free to air kid's channels and long form blocks, longer than 4 hours, exclusive SVoD and non-exclusive VoD.

In the last session of the first day **Julie Fox**, Managing Director of Awol Animation, illustrated different distribution deals, giving an overview of the European and Asian distribution markets.

In 2009 in Europe there were two major negative trends. On the one hand, because of the crisis, most large and small distributors saw their turnover figures drop by 40-60%. On the other hand terrestrial channels kids programming are moving over to digital channels. The problem is that digital landscape is not yet mature as budgets are not yet on a level with terrestrial channels.

The good news is that terrestrial and cable channels are now looking for catch-up, streaming and VoD rights. Mobile phone opportunities are improving but investments in Europe are not yet sufficient to compensate for reduced TV channel budgets. Finally there is an increasing demand for multi-platform properties.

In Asia the situation is quite different. The audiovisual operators have not been hit by the crisis as operators have in Europe. Sales turnover from the region are stable. The good news is that certain « dead » markets like DVD are compensated by the development of IPTV and VoD markets.

According to Julie, the deals with Asian companies are more segmented than in Europe. There are for example several companies specialised in acquisitions of IPTV/VoD rights only. The downside of this acquisition method is that the publishing deals often include « free DVD ». On the other hand, Asian cultures are not as focused on classic TV programming and re-runs as we are in Europe. Therefore there is a continual demand for new titles.

## **Day 2**

In the first speech of the second day, **Neil Court**, International Consultant, spoke about the Canadian audiovisual landscape and funds. The most important fund is the Canadian Media Fund, with an annual budget of 350M\$. Only about 19M\$ of that budget goes to English language children's production and another 7.5M\$ goes to French children's production.

The next big source of funding is tax credits, which is a rebate on the amount spent on Canadian labour. The system is so well established in Canada that Canadian banks will lend against 80-90% of the value of the tax credit so Canadian producers can cash flow this funding during production.

In addition to the Media Fund and the tax credits, there are six main animation broadcasters in English Canada and five in French Canada. All of these broadcasters commission co-productions from Canadian producers.

As far as co-productions are concerned, in theory the whole co-production process should work very well because Canada has co-production treaties with many countries. In reality co-productions don't rate very well. The programmers think the creative process can get too compromised with European co-productions, since the production is also serving the needs of a European broadcaster. Because of the different Canadian supports, Canadian producers can raise 100% of the budget they need to finance their show in Canada, without having to compromise with European co-productions.

In the second session of the second day, **François Deplanck**, Head of Children Programmes and Channels at Canal+, illustrated the French kids TV market and Canal+'s strategy towards animation.

More than 27 millions homes have a TV in France. More than 28% have pay TV packages. Kids TV in France is a very competitive market. There are 6 terrestrial and national networks with kids blocks, 20 children channels for less than 8 million multichannel homes (plus 5 million subscriptions to CANAL+), 3 US Majors and 2 French TV groups.

Canal+ is a Pay TV operator offering different subscription-based offers. With the basic subscription, viewers can get Piwi Channel (3-5 year old kids) and TéléTOON Channel (6-10 year old kids). With the premium subscription viewers can get CANAL+ Family (7-14 year old kids).

Canal+ shows 90% of animation on Piwi, 85% on TéléTOON and 25% on Canal+ Family. Sixty percent of the programmes are European.

Canal+ buys, pre-buys and co-produces. The price for a commission ranges from 500€ to 10,000€ per half hour per year.

In the third session of the second day, **Miles Bullough**, Head of Broadcast and Development at Aardman Animation, illustrated the components producers should include in their business plans. According to Miles the investors of a business plan will have the same two questions: what are the benefits to them of investing in the project? And what are the risks of investing in the project?

The business plan should include at least 11 key elements. 1. An executive summary of maximum 2 pages, re-written to suit the specific audience; 2. The Project, with key elements about the audience; 3. The Team, giving track records of the managing staff; 4. Existing Partners, including statements from them and explaining who the lead broadcaster is; 5. The Market. Producers must show that they understand the environment in which they work; 6. Revenue Streams: producers must explain the pre-sales strategy, MG's, subsidy and public money obtained, the merchandising strategy and multi-platform revenues; 7. The Financing Structure, leaving discussions for net profit shares to a face-to-face meeting; 8. P&L & Cash Flow, giving element to evaluate when the business model will generate cash; 9. R.O.I. (return on investment). Producers should suggest some ROI outcomes based on forecasts and examples of profit shares; 10. A S.W.O.T analysis (strengths, weaknesses, opportunities, threats). 11. Appendices (that will be read only by people with too much time on their hands...).

**Mike Vieyra**, CEO of Skyler Technologies Europe, completed Miles' speech with some practical advice on how to attract investors. The first advice for producers is to grow their business organically.

When looking for investors, producers should always ask “what does the investor want to know”. Producers must be able to answer to these five basic questions: 1. How much money does the producer want? 2. What is the money for? 3. How much return will the investor make? 4. When and how will the investor get his return? 5. How guaranteed is his return?

According to Mike, the most important graph to present to an investor is the cash flow. Producers should show until when they need funds to get a positive cash flow.

**Fernando de Miguel**, Managing Director and CEO at Zinkia Entertainment presented the way his company successfully achieved to create a new brand: *Pocoyo*. To build a strong brand, producers must start with a quality product that delivers superior performance. All strong brands absolutely demand a superior product or service. It is important to identify the brand’s distinction, define the message, and position the brand thoughtfully.

Branding needs a very good marketing strategy. This means that the name, the logo, the advertising, and all marketing communications materials should communicate about your show and consistently communicate your brand’s message. For *Pocoyo*, Zinkia spread the product among as many platforms as possible. On YouTube *Pocoyo*’s episodes were viewed more than 200 million times. The *Pocoyo*’s Internet page receives some 275,000 unique visitors monthly. On Facebook there are 67 fan groups.

The Master ended with the presentation of **Arne Lohmann**, Director of Co-production and Development at ZDF Enterprises. ZDF was founded as public broadcaster in 1961. The channel is one of the biggest and the most favoured television broadcaster in Europe, with about 3600 employees working in Mainz and Studios all over the world. There are 10 hours of children’s programme per week on Saturday and Sunday mornings.

ZDF Enterprises was founded in 1993 as a 100% private subsidiary of ZDF. ZDF Enterprises is responsible for worldwide programme sales, implementation of international co-productions, license and purchasing for quality programmes, marketing online rights and merchandising ZDF programme brands.

The Group achieves this strategy through targeted investment in a wide variety of programmes, including co-productions and co-financing in fiction, documentaries and children’s programmes.

The overall strategy is completed by the development of new commercial activities and the implementation of innovative projects.