

Cartoon Finance - Munich

Finding the right business model for your animated series

Munich, 24 & 25 June 2008

On 24 and 25 June 2008 with the support of the MEDIA Programme of the EU and Bayerische Staatsregierung, Cartoon organised the second Master of the year, bringing together more than 100 animation professionals in Munich, South of Germany.

Cartoon Finance “**Finding the right business model for your animated series**” looked at the traditional and alternative ways of funding animation programmes, through broadcaster’s involvement and other public and private financial schemes with particular emphasis on how producers can best manage on and off-screen exploitation of their series.

In the opening speeches **Marc Du Pontavice**, General Director of Xilam, and **Tom van Waveren**, creative Director at Cake Entertainment, presented the current changes and trends in the financing of animated series. Tom van Waveren stressed the phenomenon of fragmentation of the audience and concentration of revenues. He recalled that animated series compete with many other sources of entertainment: books, magazines, radio, games, computers, internet, mobile phones, sports and other hobbies. The revenues are more and more concentrated in fewer titles: 5% of titles generate 90% of the profits. Nevertheless, niche hits are becoming commercially more rewarding than blockbusters. Producers need to increase exploitation windows to succeed on each platform. **Marc Du Pontavice** remarked that producers do not have the capacity to fund series alone anymore. The license fees are not enough to establish a decent budget. At the same time advertising revenues are decreasing as well as government funding and broadcasters’ obligation to finance independent production. The positive new factor is that new platforms and channels want to enter the animation market and are ready to invest and buy programmes as there is more and more competition to conquer audience.

Steve Aranguren, VP, Global Original Programming of Disney Channel Worldwide, presented the Disney Channel’s strategy in Europe. Disney has an ambitious slate of regional production across Europe. Steve presented several case studies and explained Disney’s goal to create entertaining programming with local connection.

In the third session, **Manuel Cristóbal** (Founder of Perro Verde) and **Luis da Matta Almeida** (CEO Zeppelin Filmes) presented respectively the Spanish and Portuguese funding possibilities for animation producers. An audiovisual law was recently voted in Spain, raising the national budget from 60 to 80 millions euros for the next three years. At the same time the Spanish public broadcaster TVE has been restructured and has earmarked €34m for around 70 productions, including features, TV dramas and documentaries, compared to the 80-plus films financed in 2007. Luis da Matta Almeida presented the FICA fund in Portugal (*Fundo de Investimento para o Cinema e Audiovisual* (Investment Fund for Cinema and Audiovisual Works), managed by ESAF – *Espírito Santo Fundos de Investimento Mobiliários, S.A.* (ESAF) and operating since September 2007. Created as an alternative to the Aid for Cinematographic Creation provided by the Institute of Cinema and Audiovisuals (ICA) and with the object of increasing aid for the production of cinematographic, multiplatform, and audiovisual

works, FICA provides aid for feature films, documentaries and television series, including animation. The fund has a capital of 80 millions euros for a duration of 7 years.

The Master has been an occasion to discover Japanese production companies and opportunities to work with Japan. **Mami Toyonaga**, Director of Export Promotion at Jetro, presented the animation market in Japan, the key players, audience shifts and business models. The animation industry is very dynamic, as demonstrated by the animation sales which were evaluated at 239 millions euros in 2007. Between 2004 and 2006 there has been an increase of 30% in the number of animation companies (from 430 to 626), an increase due to the expansion of the market: midnight animation, "pachinko" and mobile phones. Mami Toyonaga stressed the importance of the merchandising sector in Japan: about 1200 companies are working in a market estimated at 1 trillions euros.

Kenji Ebato (Management of International Department) and **Akira Yamaguchi** (Licensing Manager) presented the Japanese animation studio TOEI Animation. With a gross sales of 216 millions USD and 460 employees, TOEI is one of the pioneering Japanese animation companies. In 1958 TOEI produced Japan's first full-length colour animation feature and five years later the first TV animated series. Nowadays TOEI has a catalogue of 8,400 episodes representing some 4,200 hours of animation.

Ross Bentley, CEO of Rights Tracker, presented a very useful tool for distributors and content owners: the Production Tracker software. Management of rights is becoming more and more complex, and the margins are tighter. Production Tracker helps content owners to capture, control, manage, and monetize the universe of rights across a proliferation of channels and platforms, reducing back-office administration.

Cartoon Finance is always presenting new financing formulas and private financing opportunities. **Jean-Baptiste Babin**, Head of Co-production at Backup Films, presented the Cofanim Fund, a Sofica dedicated entirely to financing animation series, features and new media productions. A Sofica is a company that acts as an intermediary between a private investor, who is the bank's client, and the producer. The bank's client who buys a share in a Sofica for say 100 EUR, is allowed to deduct the same amount from his taxable income. The role of the intermediary is to spread the investment risk over several productions. Soficas are a much cheaper source of funding for producers than borrowing from a bank.

Léon Perahia, Managing Director of Dupuis Audiovisuel explained the Belgian tax shelter. This scheme is different from the classic tax shelter schemes which allow a producer to receive a government subsidy if work is carried out in that country. In Belgium the system has been conceived to encourage investors, who do not normally invest in the media, to put money into production (e.g. Kellogg's, Procter & Gamble). The investment may be made in the form of a loan of up to 40% and 60% as co-producer (risk investment). As long as the producer is financially viable, the investor may recoup 40% of his investment. The compatibilities between the Belgian and French tax shelters have been presented by **Eric Jacquot**, President of Blue Spirit. With a reduced staff based entirely in France and Belgium, Blue Spirit is able to finance low budget series assembling broadcasters, public national funds, regional subsidies, tax shelter and minima guarantees for international and video sales.

Licensing and merchandising are becoming a very important aspect of brand building and can help finance a series. **Bernd Conrad**, Head of Licensing and Merchandising at TV Loonland, presented the opportunities to licence properties in the digital media. He recalled that different markets and age groups need different approaches. The pre-schoolers are toy-driven, TV and publishing oriented. Teenagers are fashion-driven and more addicted to multimedia consumption. Through different case studies, Bernd explained how Websites can help build and support the brand. More and more people are using different media at the same time and the integration of TV and digital media will be more important in the next years.

Together with the licensing and merchandising aspect of the business, the management of Intellectual Properties becomes an important alternative source of financing for independent producers. **Julian Scott**, Head of Children's Programming at Coolabi Productions, presented his company strategy with respect to Intellectual Property management. Coolabi specialises in the ownership, development, creative management and exploitation of children's and family intellectual property assets. The company's current properties include *Purple Ronnie*, *The Large Family*, *King Arthur's Disasters*, *The Worst Witch*, *Fungus The Bogeyman* and *Scarlett & Crimson*. In addition Coolabi also licenses rights to selected properties that include *Hammer Film Productions* and *Caillou*. Coolabi's strategy is to build a diversified portfolio of cash-generative intellectual property assets that have international potential across a broad range of media platforms. This is expected to be achieved through the development of the existing portfolio complemented by ongoing strategy of focused acquisitions.

The legal aspects of production have been presented by **Florence Watrin**, barrister at WB Associés law firm. Florence gave an analysis of the French rights of authorship law and its developments under European law and proposed clear legal definitions of the producer's rights and producer's obligations.

Ken Dearsley has been invited to the Cartoon Master to give a speech about new funding opportunities in the Middle East. Ken has been recently re-located to DLP Piper's Middle East office in Abu Dhabi, which together with the firm's main office in Dubai, is very heavily involved in all aspects of the rapidly expanding media, sport, entertainment and leisure sectors in the region.

In the final session **Arne Lohmann**, Director of Acquisition and Co-productions at ZDF Enterprises presented the ZDF policy towards independent producers. ZDF Enterprises weighs up the market opportunities and risks in order to forge new, profitable roles for the ZDF Group. The Group achieves this strategy with targeted investment in a wide variety of programmes, involvement in co-productions and co-financing in the sectors of fiction, documentaries and children's programs, utilisation of the rights and with the development of new commercial activities and implementation of innovative projects.